

Introduction

The International Cricket Council [ICC] is the governing body of cricket for 105 member nations. It is responsible for the growth of cricket mainly through creating new opportunities to enjoy cricket around the globe and for the organisation of major cricket tournaments, most notably the World Cup [WC] organised recently in 2011 and 2015 and the Twenty20 [T20] organised in 2010, 2012, 2014 and 2016. The ICC relocated from the United Kingdom to Dubai in 2005 reflecting a desire to be located in a tax-efficient environment but also to globalise the sport (BBC 2005, Hoyer et al. 2005: 73).

The ICC promotes cricket by increasing the amount of competitive international cricket events at all levels. The ICC has signed several partners such as commercial, broadcast and digital rights partners to reach their goal in becoming the world's favourite sport. Figure 1 shows a sneak preview of the financial performance of the ICC.

The aim of this report is to discuss the evolution in sources of revenue and to provide a financial analysis that gives the reader a clear overview of ICC's financial performance. It is difficult to look at the financial statements alone and gain insight into the operation of the ICC. Benchmarking with the Fédération Internationale de Football Association [FIFA] and Union Cycliste Internationale [UCI] should provide us with more reliable recommendations.

It is important to note that the financial reports of ICC, FIFA and UCI from the period of time between 2010 and 2016 have been used to carry out the development and analysis of this study.

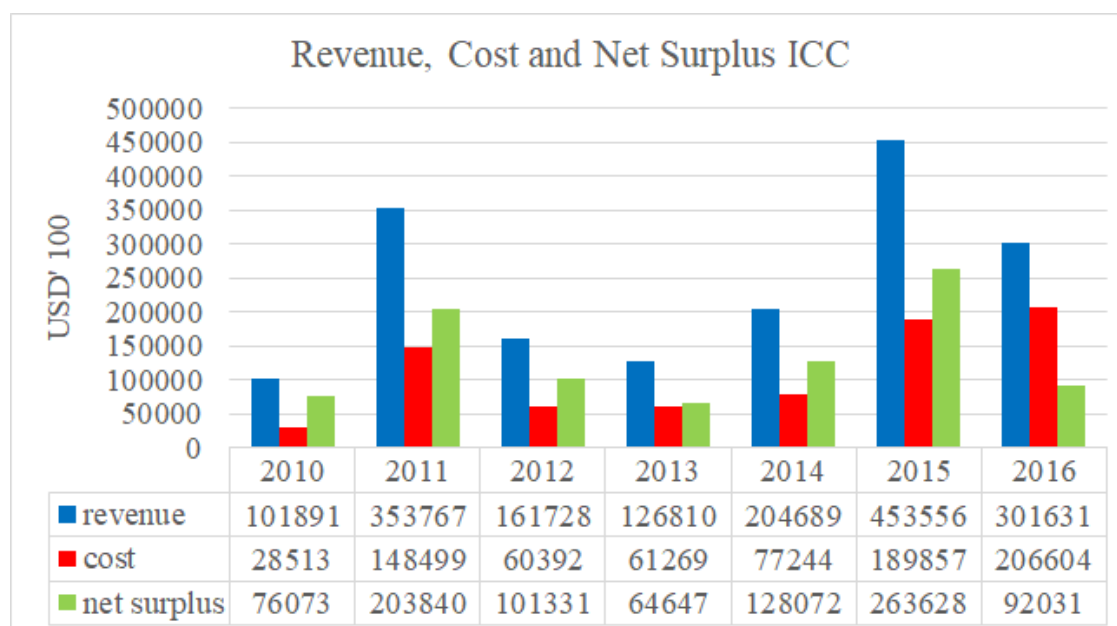


Figure 1. Revenue, Cost and Net Surplus ICC

1 Revenue and Fundings ICC

1.1 Revenue

Revenue is a measure of the inflow of economic benefits arising from the ordinary operations of an organisation (Atrill and McLaney 2013: 67). The increase in popularity of cricket should be linked to an increase in revenue and fundings.

The 2011 WC was held in India with an average attendance of 25,098. This average amount of attendance decreased to 20,743 during the 2015 WC that was hosted by Australia and New Zealand. Although, the same number of matches were played in both editions, revenue increased by **37.12%** (cost increased 27.23%). A similar trend occurred for the T20, as revenue increased by 120.15% (cost increased by 242.10%).

Figure 2 illustrates that the ICC also generates revenues from other sources such as commercial revenue, match fines, fees and excess provisions. After 2013, the organisation stopped charging fees to members, leading to a **43.66%** decline in other revenues on the balance sheet. Instead of charging fees to members the ICC group agreed to pay all full members to support them in developing the game of cricket on a global scale. Furthermore, there are some other streams of revenue such as interest and investment income through short term deposits, loans to members and available-for-sale investments.

Overall, total revenue between both WC's increased by **22.16%** and revenues from ICC T20's increased by **88.43%**. This may indicate that the ICC performed better but further financial analysis are necessary in order to confirm this.

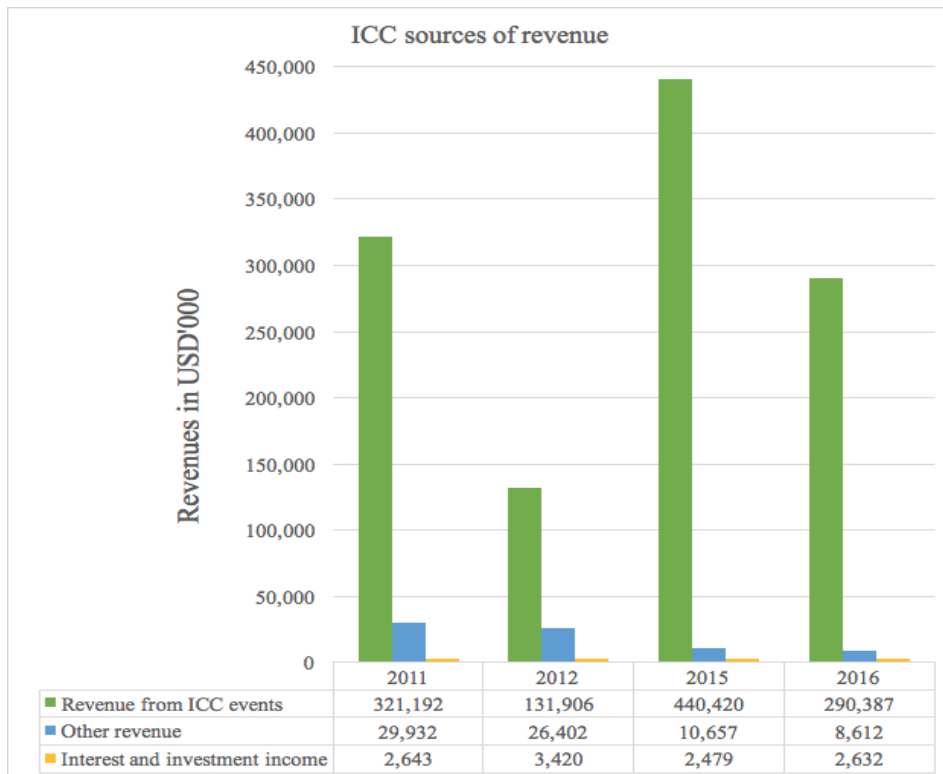


Figure 2. ICC sources of revenue

1.2 Funding

The funding model of the ICC has seen major changes. When the profitability of the organisation was not guaranteed, it was funded through subscriptions of members, received from full and associate members, contributing 75 % and 25 % respectively (Woolf 2012: 38). This model made the organisation too financially dependent on its members: for instance, in 2004 member subscriptions provided 76 % of the total revenue of the organisation. A change occurred in 2013 when they stopped charging annual subscription to ICC members, possibly because the organisation became more economically independent. Moving to a self-funding mechanism was therefore essential to ensure the independence of the governing body of cricket from its members.

1.3 Use of resources

The ICC distributes dividends for the years in which the WC is celebrated possibly because they generate more revenue in those years. In 2011, the organisation distributed 180.00 USD in concept of dividends for the development of that year's ICC Cricket WC. In 2015, the governing body distributed its dividends between full and associate members, paying 257.099 USD and 85.700 USD respectively. Different strategies could be identified in these two years, as in 2011 financial support to members was directed to development of the tournament whereas in 2016 it was directed to develop the sport internationally.

THE ICC'S NEW REVENUE SHARING PROPOSAL
● India: \$405 million (22.8%)
● England: \$139 million (7.8%)
● Australia, Pakistan, West Indies, New Zealand, Sri Lanka and Bangladesh: \$128 million each (7.2%).
● Zimbabwe: \$94 million
● ICC's Associate Members: \$240 million
● Full members: More than 86% million.
● ICC's Associate Members: 14%

Figure 3. 2016-2023 dividend payout proposal (Shriniwas Rao 2017)

ICC recently changed the way in which it distributes share of profits by reducing mainly the amount granted to Board of Control for Cricket in India in order to redistribute revenue more equally (BBC 2017). However, the distribution of profits is still unbalanced towards full members. A comparable organisation like FIFA distributes profits for development of football and education more equally to all members (FIFA 2016: 24,26,70).

2 Financial analysis

This chapter will provide a deeper analysis of the financial performance of the ICC through the calculation of ratios to identify trends over time and to measure the overall financial performance of the organisation. A financial ratio is “a relative magnitude of two selected numerical values taken from an enterprise’s financial statements” (Groppelli and Nikbakht 2000: 433). The ratios that are used in this report can be grouped into profitability, efficiency, liquidity and financial gearing ratios.

2.1 Profitability ratios

A profitability ratio expresses the surplus made in relation to other key figures in the financial statements. This report has used the following profitability ratios to analyse the ICC: return on capital employed [ROCE] and operating profit margin.

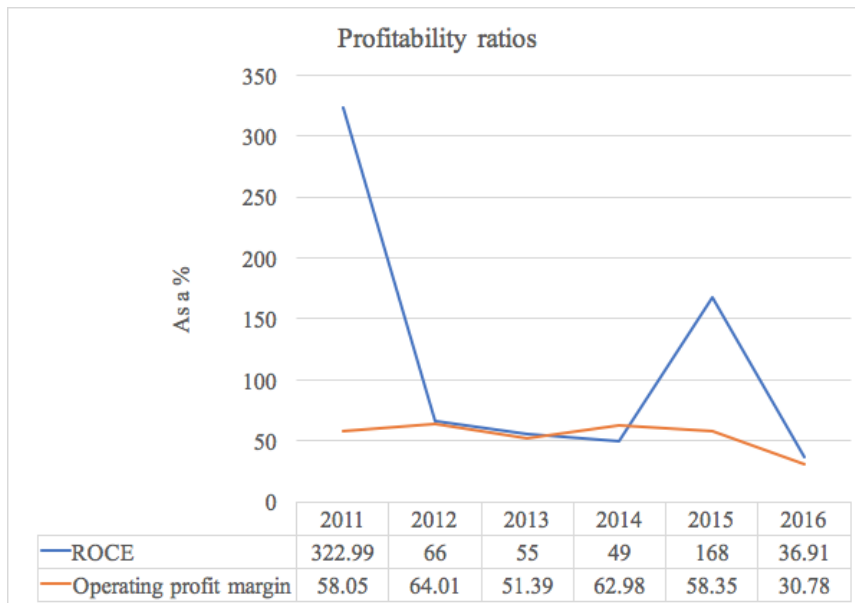


Figure 4. Comparative graphic of profitability of ICC

2.1.1 Return on capital employed

ROCE is a fundamental measure of performance since it expresses the relationship between the operating profit and long-term capital invested (Atrill and McLaney 2013:).

Comparison between World Cup and Twenty20

The main reasons for a lower ROCE ratio in the years after the WC is because of a lower operating profit and significant increase in member funds from a surplus that was generated from WC.

2.1.2 Operating Profit Margin Ratio

This ratio is used to get a deeper insight in the profitability of the ICC by comparing the total sales revenue with the operating profit while taking into account the importance of the cost to measure the efficiency of the organisation.

Cost relating to ICC events

The ICC operating profit margin plateaued between both WC's because the revenue increased equally with the operating cost. Comparing the T20's, revenue increased but the total cost increased tremendously (**91.4%**) because of extra expenses on the ICC Twenty20 and a remarkable increase on allocation to contribution cost (\$90,67m in 2016), namely a payment to members to fulfil the objectives of the ICC Group in developing the game of cricket worldwide and to secure their participation in ICC events.

2.2 Efficiency ratios

The profitability of the ICC decreased over time so it is relevant to look at the efficiency of the organisation. Efficiency ratios are used to assess how successfully the various resources of the ICC are utilised (Atrill and McLaney 2013: 250). The objective of the ICC is not to generate profit but to develop the sport and to create opportunities for more people to participate in it (International Cricket Council 2017a). Therefore, it is reasonable to assume that the organisation will try to use its resources as efficiently as possible to do so.

The ICC seems to be taking a rather prudent approach when it comes to its credit policy, limiting its exposure to any financial institution and only selling on credit to counterparties with an appropriate credit history (International Cricket Council 2012: 23).

2.2.1 Return on Assets

A useful ratio to assess how productively the assets are being used is the return on assets [ROA]. A higher ROA means that the ICC can generate more revenue with fewer assets, that the organisation is using its assets efficiently. Figure 5 shows that the ICC achieves a higher ROA during WC years, possibly because the organisation is under more pressure to use its assets effectively when organising its most important event. Indeed, every dollar that ICC invested in assets during WC 2015 generated \$1.10 of net income while every dollar invested in 2014 generated \$27p. Seemingly, the ICC could be overtrading on its assets during WC years.

Return on Assets (ROA)

$$= \text{Net income} / \text{Total assets}$$

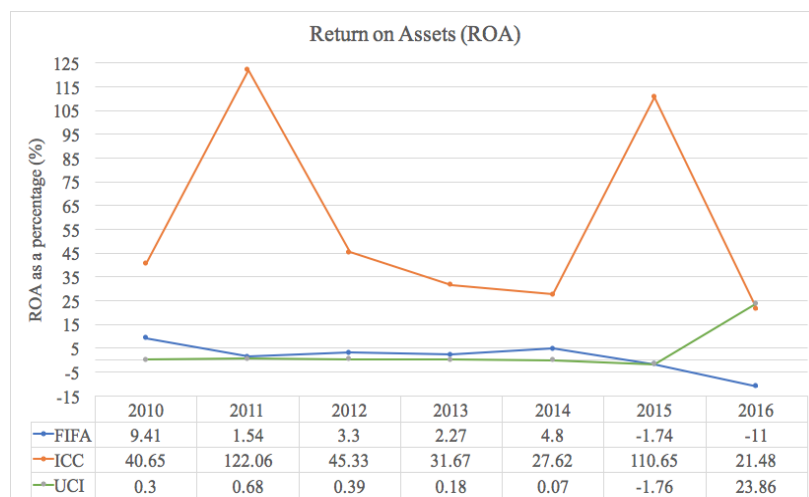


Figure 5. Comparative graphic of return of assets ration of FIFA, ICC and UCI

Although revenue decreased dramatically during years after the WC, the ROA is still much higher than for FIFA and UCI over the last 6 years. It is important to note that a high level of return on assets is not a priority for non profit organisation. For example, FIFA generates huge amounts of revenue and invests this money in assets to grow as an organisation, preparing for the next WC but also investing in (see comparison current ratio)

Higher investment in assets such as infrastructure, education and development around the world is recommended to fulfill their mission in becoming a global sport.

Comparison with FIFA and UCI

Figure 5 illustrates that ICC is not as consistent as FIFA and UCI. ICC's financial performance depends strongly on the success of the WC's whereas the UCI organises major tournaments (e.g. Tour de France, Giro D'italia) every year. However, FIFA's ROA is also higher during the 2010 WC, somehow signifying that organising a WC necessitates achieving higher return on assets. To maintain a level of stability regarding the ratio, FIFA's strategy after a huge increase in cash gained from the 2010 WC consists in starting to prepare the next WC and to invest in different financial assets (see current ratio). Notwithstanding, it can be stated that ICC is a rapid growing organisation that uses its assets more efficient than FIFA but that FIFA's level of efficiency is steadier. It is highly recommended that the ICC promotes several tournaments globally, integrating other countries to the game and eventually leading to a steadier growth in efficiency, similar to what FIFA already does.

2.2.2 Sales revenue to capital employed ratio

This ratio is used to measure how effectively the assets of the business are being used to generate sales revenue. The trend shows that the ICC is growing in size; however, sales revenue to capital employed ratio decreased mainly because revenue does not increase as much as the increase in total assets.

Sales revenue to capital employed ratio

$$= \text{Sales revenue} / (\text{total assets} - \text{current liabilities})$$

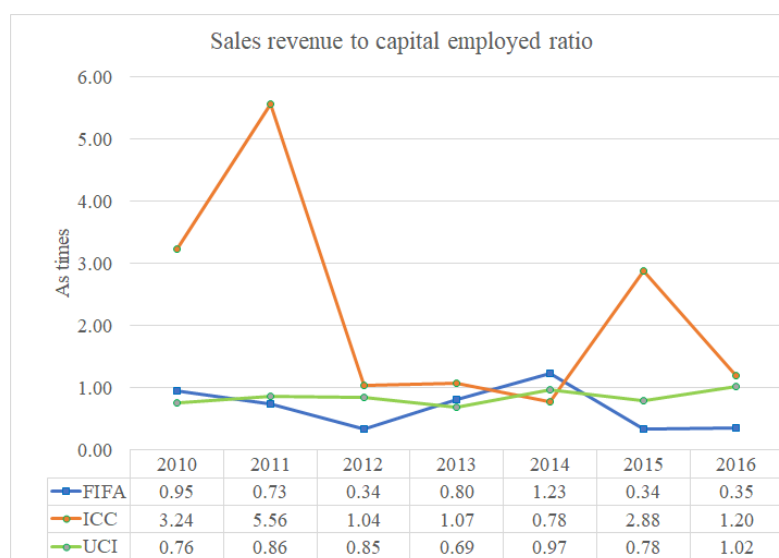


Figure 6. Comparative graphic of sales revenue to capital employed ratio of FIFA, ICC and UCI

Whereas revenue increased immensely between the WC, the ratio of sales revenue to capital employed decreased significantly because of an increase in available-for-sale investments, non-current assets which are mainly debt and equity instruments. This indicates the organisation's strategy to finance itself through different means apart from its usual activities.

2014 had a miraculously low ratio because of a debt that increased the current liabilities. In the next year, the current liabilities decreased because of a significant decline in advance receivables. This may signify that the ICC effectively paid-off its debts to the commercial bank who loaned money to the ICC that was necessary to provide financial support to their member. After 2015, current assets and current liabilities increased enormously mainly because of advance paid to members (\$95m) and the amount that was spend on fundraising objectives (\$115m). Cricket is growing globally so it seems that fundraising has positive influences to reach the objectives of ICC.

Comparison with FIFA and UCI

ICC and FIFA show both peaks in the graph. This is explainable because they use assets to be more productively in generation revenue during WC. In contrast, UCI has a steady graphline over a period of six years simply because in contrast to football and cricket, major cycling tournaments are organised annually. In conclusion, figure 6 illustrates that the ICC has to improve the efficiency of the organisation in non WC years. This finding links perfectly to the objectives of the ICC Group to increase the amount of competitive international cricket events at all levels around the globe.

2.3

Liquidity

ratios

The liquidity ratios are used to analyze ICC's position to pay off its short-term debts (Johal and Vickerstaff 2012: 168). Current ratio and the Cash Ratio have been selected.

2.3.1 Current Ratio

Current ratio indicates the organization’s ability to pay off its short term liabilities out of its current assets. The ideal ratio considered by many authors is 2:1 (Johal and Vickerstaff 2012: 168); however, this is not applicable for all organisations, as non profit organisation such as the ICC differs from a sports brand retailer.

Current ratio

$$= \text{Current assets} / \text{Current liabilities}$$

ICC

The ICC’s current liabilities and current assets show the same trend; yet the ratio has been generally above 1.0, meaning that the ICC has always been able to pay off its current liabilities with its current assets. The years 2012 and 2016 stand out for different reasons. The ratio in 2012 is above 2.0 because current liabilities were at a minimum, as the ICC was able to pay a majority of its debts towards full and associate members. In 2016, current assets are at a historical high due to a hike in receivables for sale of media and commercial rights coming from a valuable broadcasting deal with Star India and Star Middle east (International Cricket Council 2014b), reflecting a growing media coverage on a global scale (International Cricket Council 2017b: 35, Tharoor 2016). The ICC’s strategy to distribute prepayments to members in the form of prospective dividends linked to the forecasted surplus before the events accounts are finalised is also responsible for higher current assets.

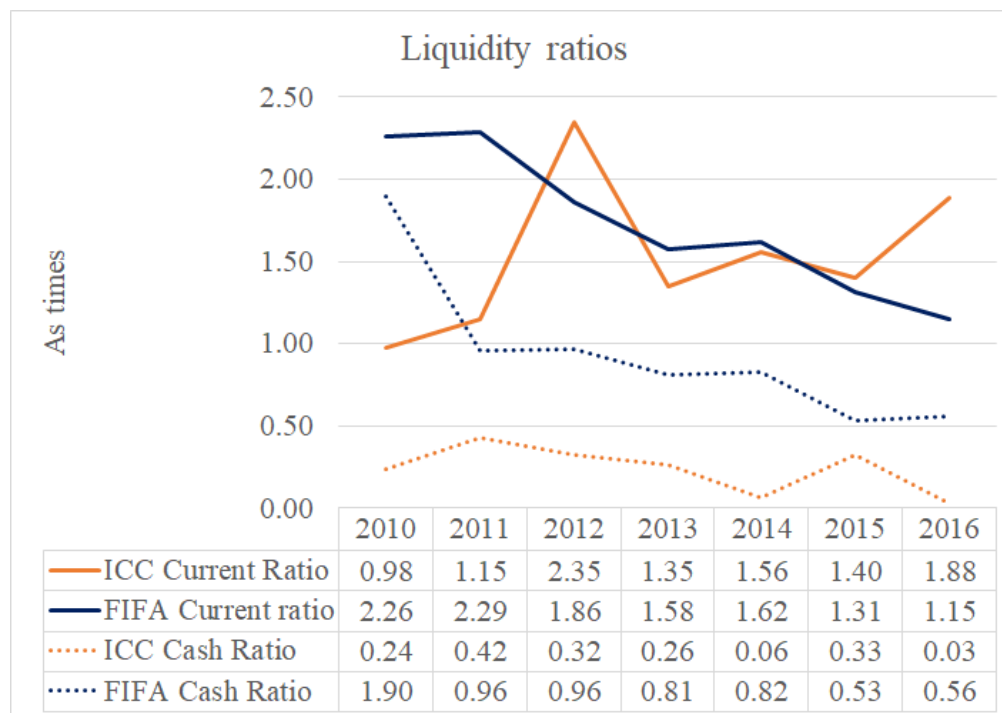


Figure 7. Current ratio of ICC and FIFA of the years 2010 to 2016

Comparison FIFA

FIFA's financial position when it comes to repay its current liabilities out of its current assets is solid even though it has witnessed a steady decline over the years. FIFA's strategy to recognise expenses before events take place is similar to what the ICC does and it significantly influences the current liabilities. On the other hand, FIFA's long term strategy since 2011 regarding its current assets has been to invest in financial assets such as short term bonds to gain financial independence from the FIFA WC (FIFA 2011: 20, FIFA 2011: 82). Investment in short term financial instruments is not observed for the ICC as its strategy is to invest more in long-term instruments, which could hamper its ability to react to unexpected events.

2.3.2 Cash ratio

Cash ratio is used to measure an organization's liquidity and its ability to meet short term debts with cash and cash equivalents (Goel 2016: 102). If the ratio is above 1, it indicates that there is no financial difficulty in paying of short-term debts; however in most non profit organisations this is not always a common strategy.

Cash ratio

= *Cash + cash equivalents / current liabilities*

ICC

ICC reaches its highest values in 2011 (0.42) and 2015 (0.33). In both world cups, the cash ratio increased due to a high value of cash and cash equivalents that was recorded as a consequence of operating activities from the World Cup.

Comparison FIFA:

Values from both organisations decreased over time and were lower than 1.0 in most years, meaning that there were more current liabilities than cash and cash equivalents. This could be seen as a poor indicator of their ability to pay off short term debts with cash. However, especially for non profit organizations, cash is often seen as a poor asset to hold, as this money could be returned to members or used for sport related activities that generate higher returns on investments (Atrill and McLaney 2013: 271-272).

Additionally, sport federations such as the ICC and FIFA will not go out of business as easily as profit organisation and do not need huge amounts of cash and near-cash assets to pay off current liabilities. Nowadays, both organisation are using their cash to reinvest in financial assets to develop their sports rather than hold large amounts of it on their balance sheets. However it has to be mentioned that ICC had a very low ratio in 2014 and 2016 what should be avoided in the future.

2.4 **Gearing ratio**

The gearing ratio compares the organisation's capital to the funds borrowed. It measures the contribution of the long-term lenders with respect to the long-term capital structure of the organization (Atrill and McLaney 2016: 291).

Gearing Ratio

= *Non current liabilities / (Total Assets - Current liabilities)*

ICC

The gearing ratio measures how financially dependent the organisation is on its members' funds comparing to long term borrowings. Figure 8 illustrates that the ICC became more dependent on long term borrowings over the years, meaning that the organisation has become more susceptible to any unpredicted negative changes in the popularity of cricket. The main reason for a higher degree in leverage is because of an increase in non current liabilities since the deposit was received from commercial partners that has to be paid back.

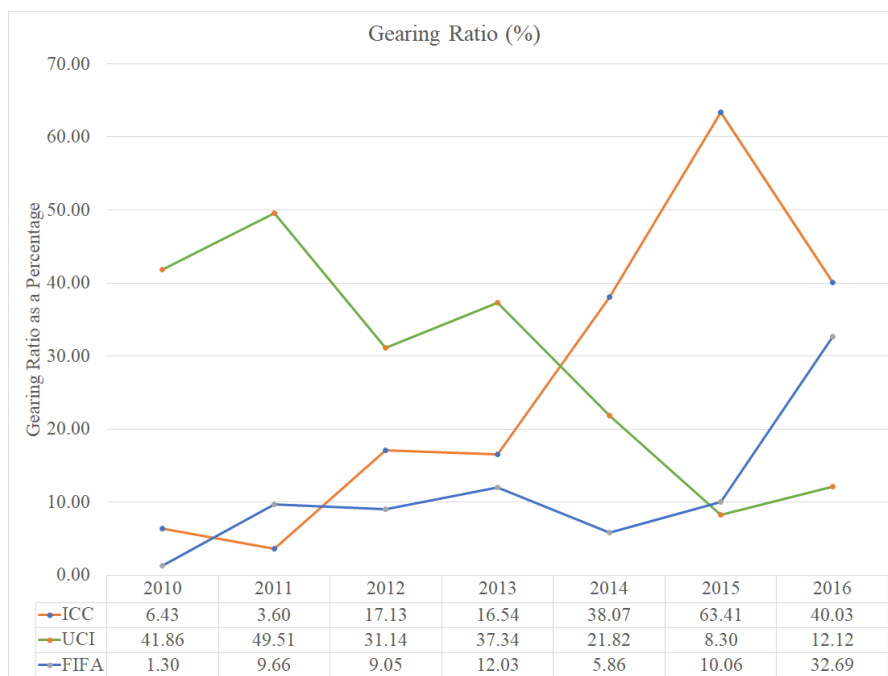


Figure 8. Gearing ratio comparison ICC, UCI and FIFA

From 2010, there has been a significant increase in the gearing ratio of the ICC. The ratio stands at 40.03% in 2016 which is more than six times of 2010. This gives an understanding that the ICC has high amounts of debts from the previous years. However, not all debt is a bad debt since it is a way for the organisation to increase a higher surplus through smart investments. In 2014, a deposit of \$95m received from commercial partners made it easier for the ICC to create more assets which lead to high non-current liabilities. In 2016, the members received an advance again from the ICC which increased the assets. Also, receivables from the sale of commercial rights and tax from sponsorship deals.

Although, the gearing ratio increased over time, this does not indicate that the ICC is in poor financial conditions since long term borrowing can be used to support the organisation in further growth.

Comparison with FIFA and UCI

FIFA has more current liabilities than its non-current liabilities. The majority of non-current liabilities are a result of provisions made by FIFA in expectation of a possible future outflow based on past experiences of FIFA. In 2016, FIFA had more than \$12m contract liabilities, a part of non-current liabilities which relate to the payments received in advance, resulted to an increase in the ratio.

UCI had a history of having tremendous cash reserves and low short term debts from 2010 to 2013. However, from 2014 the UCI's current liabilities increased due to an increase in short-term deferred revenues for UCI World Championships. It also had long term deferred revenues for the Olympic games spread over 4 years. Thus, it can be seen that the gearing ratio fell down after 2014 which is different from the ICC.

Recommendations

Chief Executive Mr. Richardson stated in the annual report that the ICC continues to deliver a long term ICC strategy consisting in four main pillars such as **cricket development, integrity, events and commercial partnerships and market development**. This report provides recommendations based on the main four pillars and the financial analyses.

Since a couple years ago, women cricket has not been seen as important as men cricket but this is changed over time. According to the ICC annual reports the investment in women's cricket is growing steadily. The last Women's WC final was watched by 1.1 million people on Skysports which is even higher than the Champion's Trophy final between India and Pakistan that generated 400,000 views. This indicates that new broadcasting opportunities could create new sources of revenue from sponsors. The first step in women's cricket is already made by increasing the prize money to \$2m; yet, this is still limited in comparing with men cricket. An increased investment in women cricket is suggested since this is a new market to enhance popularity of cricket on a global scale. The WC generates a greater proportion of funds flowing into the ICC than other events and revenue sources, leading to significant peaks in revenue (Figure 2). Furthermore, the ROA showed that investments in assets would be recommended to gain independence. These investments in fixed assets may develop women's cricket to the next level since we mentioned that this is a new market to gain popularity of the sport globally.

Regarding the president of the ICC, holding simultaneously a position as the president of the cricket council India implicate this lack of independence between the ICC and one of its strongest members and incites allegations of corruption. The current business model where the ICC Board is dominated by Full Members encourages them to act as a "club" and results on a bias towards their interests and not the interests of other stakeholders including the public, the players, commercial partners, and other countries. According to David Morgan's documentary "death of a gentleman 2015", the Big Three, namely the Cricket Australia [CA], English and Wales Cricket Board [ECB] and Board of Control for Cricket in India [BCCI] have taken over running of cricket for their own financial gain, at the expense of especially the associate countries that seeking test status. USACA suspension from membership in 2015, the third occasion it has been suspended by the ICC over the last 12 years, exemplifies this point. Therefore, distinction between Full and Associate Members should contain either a more open pathway for members to full membership or a total abolition such as in the FIFA. Another recommendation is to strengthen the position of the Ethics Committee where an Independent Director that do not hold any other executive role within a Member Board is appointed to promote the interests of the ICC over all other interests.

The current distribution model is based on automatic entitlements and requires the ICC to distribute most of the surplus from ICC events to Members. This model represents a barrier to the acceptance of new members and promotion to full members as the existing ones benefit from a reduced number of members. It also prevents the ICC from building up reserves to

deal with unexpected crises as we noticed in the cash ratio. It should be changed to a model based on need. As mentioned, more open path way for associate members is critical to develop the sport of cricket on a global scale. United States [USA], China and Africa have huge amounts of people that are interested to participate but as long as the financial support from the ICC do not cover the facilities that are needed it will be impossible to develop those markets. It is not suggested to increase the amount of full members in the short term but it is highly recommended to support associate member more by increasing the amount of financially support that is needed.

A greater transparency is also recommended, as the ICC could publish further data on its Financial Reports. For instance, a more detailed information on the revenues originated from the WC is commonplace in an organisation like FIFA and should be for the ICC.

The ICC changed its World Cup format for the years 2019 and 2023 to a 10 team tournament. In the year 2015, the tournament included 14 teams which was a huge success in terms of revenue and global coverage. The ICC should reconsider its plan of including just 10 teams. Right now, 8 out of the 12 full members have qualified. West Indies, Afghanistan, Ireland and Zimbabwe which are the remaining 4 members need to compete in 2018 Cricket World Cup qualifier. As the ICC aims to be the most loved sport in the World should make their tournaments more open for nations to compete like FIFA does. Being a governing body of 105 nations and a decision of having just 10 teams is little harsh and also decreases the chances of being more popular globally . At the same time there is possibility of generating more revenue otherwise.