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EMBRACED BY GAZPROM

Why Is the Business Model of FC Zenit Unclear to Scholars of Sports Management?

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Introduction

Zenit Saint Petersburg Football Club has become Russia's football champion for five years straight. Perhaps, such a "tradition" will be continued this year. Fans, experts, researchers associate the main reasons for success and domination in the domestic Russian football market with the sustainable alliance with the state-owned Gazprom Corporation and the club's growing funding from the resources of this entity. However, the UEFA compliance audits did not reveal serious violations in the club's books and artificial budget inflation. Everything happens within the framework of the Regulations. But there are still questions to ask.

We aim to show only a small and non-core part of the football business of the state corporation, we will trace when and how the interests of a large industrial gas giant and an ordinary football club from St. Petersburg came together. Who benefits from this, and how did it become possible? A business model for filling the club's budget and a sponsorship card with a dozen and a half Gazprom subsidiaries, the formation of public opinion about the Zenit "people's" team through the efforts of reporters and commentators of the only Match TV channel owned by Gazprom Media, a number of football farm clubs and the level of corporate interests in the production and sports hierarchy are the new realities and dominants of Russian football. Successful marketing concepts of Russian football clubs still remain an "unexplored object" for both sports marketing theorists and practitioners who cannot understand the benefits of the parties involved in the development of football in Russia.

Theoretical Foundations of the Study

Management theories increasingly convince us that the contours of the relationship between the state and society have fundamentally changed (Rhodes, 1997). This is happening in various countries of the world and leads to changes in the world order. Management is no longer absolutized in the form of a single responsible governing body. Most often, various state institutions and public organizations are involved in the management process. Therefore, we turn to a comparative analysis of different management models and their transformation in accordance with changes in the external environment.

Common governance approaches used in sports include federal/unitary governance, system governance, joint governance, stakeholder governance and network governance (Harris et al., 2023).

The above-mentioned problems and the structure of federal/unitary governance are studied in the work (O'Boyle and Shilbury, 2016); system governance was presented in a study (Henry and Lee, 2004); forms and principles of joint governance were reflected in another study (Shilbury et al., 2016); stakeholders were managed by the same researchers a year earlier (Ferkins and Shilbury, 2015); the basics of network relationship governance are presented here (Chappelet, 2016).

We assume in this article that the structure of relations in Russian professional sports in the XXI century has become the basis for another form of governance in sports, which we will conditionally call "public-corporate governance in sport".

For You, for Us and for the Gas!

This is how the most popular toast sounds at feasts with representatives of the gas industry. Almost the youngest raw materials industry has become the most fashionable, the most promising and the most resource-intensive in just 50 years. It was Gazprom's gas revenues that made Russia a strong mining and trading power with "South" and "Nord" Streams of international transportation. And let no one be confused by the terrorist sabotage on the Nord Stream, and the problems that arose after that. It's unpleasant, but not tragic. The whole world is going through difficult times. And the perpetrators will be punished. The inconvenience of this situation was experienced, first of all, by the end users of the product in Europe. In winter, this is especially palpable and painful. Though this does not prevent Gazprom from developing its business projects and reinforcing the power of its empire with victorious achievements and trophy decisions.

We try to show only a small and non-core part of the football business of the state corporation, and trace when and how the interests of a large industrial gas giant and an ordinary football club from Saint Petersburg came together. Who benefits from this, and how did it become possible? In modern realities,

Zenit's five championships straight and a weighty claim to a sixth title cannot do without mentioning the Gazprom empire in this context of success and triumph. A business model for filling the club's budget and a sponsorship card with a dozen and a half Gazprom subsidiary, the formation of public opinion about the Zenit "people's" team through the efforts of reporters and commentators of the only Match TV channel owned by Gazprom Media, a number of football farm clubs and the level of corporate interests in the production and sports hierarchy are the new realities and dominants of Russian football.

How it all began? As they say in Russia, know how to do things, know how to have fun. They always knew how to have fun in Russia and everywhere. The first experience with the placement of gassers' money in Soviet football dates back to 1976. At that time, the senior officials of Orenburg oblast disbanded Lokomotiv, that played in the third division, in order to establish Gazovik football club and transfer the financing of the club to the Orenburggazprom gas production company and employ all the football players, coaches and staff of Lokomotiv there. That's how everyone lived in the USSR. Sports teams were assigned to industrial enterprises, law enforcement agencies or trade unions and were united into voluntary sports societies. If a football club was established at an enterprise, then football players were registered as sports instructors, and salaries and bonuses were received through the trade union committee. At that time, the Orenburggazprom company was headed by Viktor Chernomyrdin, the future prime Minister of the Russian Government. With his light hand, the cooperation of football and gas partners started.

This initiative did not go unnoticed in the gas industry, and gradually football clubs with a "gas" history began to be established. For instance, Moscow's Spartak has acquired a partnership with Urengoygazprom, an affiliate of Gazprom. The company's logo was placed on the team's kits in the 1995 and 1996 seasons. Astrakhangazprom acquired football club "Volgar" of Astrakhan and renamed it "Volgar-Gazprom". In Tomsk, Vostokgazprom, another Gazprom regional affiliate, became the general sponsor of the FC Tom Tomsk. But in all these cases, it was about financing sufficient for the third division. Gazovik-Gazprom FC from Izhevsk is considered to be the most successful among Gazprom clubs. Vladimir Tumaev, director of Spetsgazavtotrans, became the founder of the club, its president and a player who took to the field in official matches until the age of 58. And the club from Izhevsk was very close to reaching the top division of the Russian Football Championship. Thus, Gazprom's football clubs have left a noticeable mark on the football map of Russia.

Zenit Leningrad

Zenit FC won its main title of the USSR Cup winner in the military 1944, after the lifting the siege of Leningrad. But the club's structure and its circumstances were no different from hundreds of similar Soviet sports organizations. Since

the late 1950s, the club has been on the balance sheet of the Leningrad Optical and Mechanical Association (also known as LOMO), which produced military optics and guidance systems. The name of the Zenit FC is a symbol of the upper point of intersection of the horizon with the celestial sphere. As you see, it indicates belonging to the military sports complex.

Right after the dissolution of the Soviet Union and the resulting economic crisis in the country, LOMO stopped funding the club. Leningrad City Council, the Leningrad Association of State Enterprises, Lenoblsovprof (Leningrad Regional Labor Unions Council), Lengorsportkomitet (Leningrad City Sports Committee) and Leningrad Football Federation became the new custodians of Zenit. In 1992, Zenit played in the first Russian Championship. However, at the end of the season, Zenit was relegated to the first division again. Anatoly Sobchak, the city's mayor, entrusted the rescue of the club to Vitaly Mutko, chairman of the mayor's committee on social issues. Mutko had to find sponsors who would take over the funding of the dying club and organize the work.

Over the next five years, the club has transformed. In 2001, Zenit had ten shareholders among its founders: Fertilizer manufacturer Eurochem (12%), Fund for the Development and Support of Mass Media (10.8%), IT company CJSC Computerland SPb (6%), Saint Petersburg Telephone Network (7%), bakery manufacturer Karavai (5%), Worldwide Fair "Russian Farmer" (5%). Vitaly Mutko owned 12% of the shares. But Gazprom's structures like Gazenergofinance (24%), Lentrassgaz (28%) were already the major shareholders and the largest sponsors of Zenit at the turn of the century. Cumulatively, Gazprom's affiliates owned 52% of the club's shares. Life was getting perfect, and the football club from Saint Petersburg became a prominent football force in the Russian Championship.

Restructuring of the Club's Management

In the early 2000's, big money came to Russian football. In 2001, Evgeny Giner became the owner of FC Central Sports Club of Army (CSKA), Spartak was acquired by Leonid Fedun and Vagit Alekperov, the Lukoil co-owners in 2003. They were ready to increase the clubs' budgets and Zenit with the level of funding that Gazprom's affiliates provided to it at that time, was uncompetitive. Vitaly Mutko brilliantly used his administrative connections and lobbied for the invitation of David Traktovenko and Vladimir Kogan, the Promstroybank SPB bankers, to be among the shareholders of Zenit. The bank was engaged in lending to the largest industrial enterprises of Saint Petersburg. Many of them were close to bankruptcy and eventually banks got the companies. In order to manage numerous assets, Kogan and Traktovenko established the management company Banking House Saint Petersburg. FC Zenit became one of the clients of this management company.

Technically, in 2002, the bankers purchased 24% of Zenit owned by Gazenergofinance and then bought out an additional issue and shares of some minority shareholders. As a result, Promstroybank received a control share in Zenit, and Lentransgaz retained a block of 25%, which allowed Gazprom representatives to participate in the club's life. Sergey Fursenko, head of Lentransgaz, became Gazprom's representative on the Zenit's board of directors in 2003.

At that time, Fursenko was not a well-known executive, but he had a very serious personal resource. In 1996, together with his older brother Andrey Fursenko, he co-founded the cottage cooperative (camping) "Ozero" ("Lake") in the Priozersky district of the Leningrad oblast. Among the other founders of the coop were Yuri Kovalchuk and Nikolai Shamalov, the future co-owners of the Rossiya Bank, and Vladimir Yakunin, the future president of JSCO Russian Railways.

The owners' alliance fixed the club's business pretty quickly. Zenit's budget immediately increased to \$15 million in 2003, to \$25 million in 2004, and to \$45 million in 2005. The last figure already matched to the level of expenditures by the largest clubs of Moscow. In the mid-2000s, Giner and Fedun estimated the annual budget of CSKA and Spartak at around \$50 million, respectively. But for the shareholders of Promstroybank, \$50 million was already the limit. In 2005, Vladimir Kogan, the major shareholder of Promstroybank, announced a total sale of his assets in Saint Petersburg. He received the largest amount for the bank – VTB acquired it for \$577 million. Meanwhile, Kogan and Traktovenko received \$36 million for the 51% of the Zenit FC. Although the actual market value of unprofitable club without valuable real estate and titles was probably close to zero. Furthermore, Alexey Miller, who had been a fan of the club since childhood and became chairman of the Gazprom board of directors in 2001, was directly interested in the fate of Zenit FC. In the first season after the purchase by Gazprom, Miller became president of the club, and Zenit's budget grew to \$60 million, in 2008 it reached the prestigious mark of \$100 million. Opponents from Moscow fallen behind abruptly.

The Russian Football Economics

Except Krasnodar FC, the structure of the top Russian football clubs' economy is arranged uniformly. Zenit FC was no exception, but displayed the most extensive example of such a model of Russian football. In the framework of this model, the figure of the owner [company or individuals] is a formal affair. Indeed, profit or loss by the end of the year are reflected only on paper and do not affect the welfare of the owner in any way. Suffice it to recall how sanctioned VEB.RF has sold the majority of the stock in CSKA to an obscure Balance Asset Management. Another example is FC Rubin, where Rustem

Saimanov performed as both the owner and CEO until December 2022. Therefore, the fact that Gazprom does not directly own the club solves nothing. Accordingly, Zenit's official owner is not Gazprom, but Gazprombank, in which Gazprom directly owns less than half of the shares, but controls it through other affiliates.

But the most important thing for understanding the organizational structure of Russian clubs is elsewhere. Who is that perfunctory owner and whom does he represent? The answer on this question impacts on the source of funding processed into advertising deals that, in its turn, form a significant part of the budget. UEFA investigated these contracts in detail according to the previous version of the rules on financial fair play. A special commission and independent agencies assessed whether agreements had been signed on market terms or whether the owners were trying to artificially inflate the budget.

The information provided by Zenit to UEFA estimated Gazprom's contribution at €48.8 million, where €20.8 million was an advertising contract, and €28 million was an endowment. Nevertheless, UEFA Club Financial Control Body found Zenit violated Financial Fair Play Rules, but the sanctions turned out to be quite mild – Russian club fined €6 million, got limits on transfer expenses, strict monitoring for three years.

Zenit was found to be in violation of the rules of financial fair play, but got off lightly – €6 million in fines, limits on transfer expenditures, strict monitoring for three years.

But this story has served a good purpose for the club's owners. They began to split up advertising contracts and expand partnership niches. Is this what academics don't realize when they ask questions at conferences about how Russian football clubs manage to attract such generous sponsors with the lack of notable achievements and titles on the international stage? The capitalist form of production described by Karl Marx could not even dream or think about creating state corporations that can transform the tasks of the state through obtaining financial benefits from tax revenues and incomes in the context of business relations with commercial partners.

Right after the UEFA investigation, the list of sponsors and partners posted on Zenit's official website has expanded. Gazprom stands apart, but a large list of subsidiaries of the gas company has been added to it. Currently, Gazprombank, Gazprom Neft, Gazprom Export, Gazprom Mezhhregiongaz, Gazprom Pererabotka, Gazprom Transgaz Saint Petersburg, two brands of Gazprom Neft product (G-Drive fuel and G-Energy engine oil) are officially represented as sponsors of Zenit FC, the corporate integrator of digital development Gazprom Neft Digital Solutions, as well as the former Gazprom insurance company SOGAZ (now controlled by Yury Kovalchuk's structures) and another former Gazprom affiliate, the petrochemical company Sibur (the major owners are Leonid Mikhelson and Gennady Timchenko).

Such a sponsorship contract-splitting between Gazprom's subsidiaries happened due to Zenit's desire to technically comply with the UEFA FFP rules. Under these circumstances, Zenit's budget continued to grow. Back in 2010, Alexander Dyukov, who replaced Sergey Fursenko as president of the club, stated that by 2014 the budget would grow to \$150 million (at that time it was about \$100 million), and this would allow Zenit to fight in European competitions. Dyukov is an old familiar to Alexey Miller. In 1998–99, they worked at the Seaport of Saint Petersburg, through which the main stream of Russian oil was exported. Dyukov was the CEO of the port, and Miller served as the investment director of the management company OBIP. Soon Miller became the head of Gazprom, and Dyukov run his petrochemical affiliate Sibur. A few years later, Dyukov turned executive of Gazprom Neft. In fact, it was Sibneft, which Gazprom acquired from Roman Abramovich for \$13.1 billion and made corporate rebranding.

Where Is the Government Watching?

And here we come to the most significant question. Why does a gas company need such grandiose investments in Zenit FC? What is the point for Gazprom to spend so much money on marketing, and how does the state as a holder of the controlling stake in the company (50.2%) look at it?

Zenit executives insist that marketing contracts have a salutary effect on the business of Gazprom companies. Zenit executives insist that marketing contracts have a positive impact on the business of Gazprom companies. In 2017, Alexander Dyukov claimed that the partnership between Zenit and Gazprom is mutually beneficial. As the Chairman of the Gazprom Neft Management Board, he noted that the company is completely satisfied with its cooperation with Zenit. Sponsorship of the football club is viewed as an effective tool for promoting retail brands, such as gas station networks, Drive-café, G-energy, and G-drive, under which motor fuels, energy drinks, and various related products are sold to consumers. In a stagnating market, the company manages to increase sales every year and generate additional revenue. According to Dyukov, Gazprom Neft ranks first in Russia in terms of average daily fuel sales and sells more coffee in its cafes than any other gas station or coffee shop network.

Such statements can be treated with skepticism. Eventually, the dynamics of Gazprom Neft's revenue growth clearly depends on the conjuncture of oil prices on the global market, and not on the results of Zenit.

Another question is: since Gazprom's major holder is the government, then maybe the \$2 billion that Gazprom spent on the football team, could it invest in healthcare or education?

Actually, this is not exactly the case. Certainly, the government is the major holder of Gazprom, but operating management issues, except for completely strategic and geopolitical ones, are in the hands of hired managers.

Excessive marketing costs could theoretically have a negative impact on the company's income. Nevertheless, in the case of Gazprom, the revenue indicator is much more significant than marketing costs that do not affect it at all. The government receives income from Gazprom in two ways: in the forms of taxes and dividends, which are paid to all shareholders in proportion to the size of the shares. And the first amount is much larger than the second.

A recent example: by the end of 2022, Gazprom's net income decreased by 40% to 1.2 trillion rubles, the second half of the year company run at a loss mainly due to a reduction of gas supplies to Europe (by more than 50%) and an increase in the tax rate on mining for Gazprom. The Board of Directors refused to pay dividends at the end of the year. However, the government is in the black: in the form of taxes for 2022, Gazprom paid more than 5 trillion rubles to budgets of all levels, which makes 18% of federal budget revenues. Dividends would have brought much less: in recent years, Gazprom's total dividend payments have been kept at 300 billion rubles – half was owed to the state.

Therefore, Gazprom's expenditures on Zenit FC do not seriously affect anything for the state, since Gazprom's revenue and taxes on gas production are essential to the state.

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