

Institutional Change in Football Club Management: The Case of Clube De Regatas Do Flamengo

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Abstract

The article aims to scrutiny the institutional change of Clube de Regatas do Flamengo, the most popular football team in Brazil. It investigates the influence of the club's management's radical change (2013-2018) on its football team performance (2016-2022). It includes a special spotlight on the approval of a responsibility fiscal law in the club's charter. A micro-analytical approach inspired in the Institutionalist perspective will be used as a guide of study. A case study is proposed, focused on the management change, and is based on the club financial report data, including debt, debt services, and revenues, particularly member fans program and marketing and TV broadcasting rights. After equating debts and expanding revenues, the case study evidenced that Flamengo was ready for a technical jump, increasing the expenditures on valuable football players, coaches, and other technical committee members. Finally, the results of this investment capacity can be seen in the final classification in seasons 2016 to 2022 of the first division of the Brazilian Football League, and other cups – national or international (continental cups). Preliminary results suggest that Flamengo has experienced an institutional divergence and the signals point out a possible virtuous circle.

Keywords: *Institutional Change; Management; Clube de Regatas do Flamengo.*

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I. Introduction

According to its charter, Clube de Regatas do Flamengo (Flamengo Yacht Club, henceforth Flamengo) is a multi-sport entity defined as a non-profit association. It was founded in 1895 in Rio de Janeiro, where it is based. It is the most popular football club in Brazil, according to Datafolha Institute, reaching 20% of Brazilian football fans in 2019 (more de 40 million fans)¹. Flamengo's long history in many sporting modalities, especially in football, includes plenty of titles, epic victories, and painful losses.

In 2019, Flamengo experienced both the worst tragedy and the best sporting season in its history. Early in the year, the club suffered a terrible loss when a large fire broke out at its training center, known as "Ninho do Urubu" (Vulture's Nest), killing 10 teenagers in the dormitory. Later in the year, particularly in the extraordinary 24 hours from November 23rd to 24th), Flamengo won not only the most important continental title – Copa Libertadores da America – after 38 years but also the Brazilian Championship after 10 years.

This winning cycle was not random. It was due to a long-run process of institutional change. As stated by Roman Soriano, "the ball doesn't go in by chance" (Soriano, 2012). That is precisely what happened to Flamengo: an institutional change in management. For a long time, Flamengo had lost its protagonist role in national and continental competitions. There are multiple reasons for Flamengo's decline over time, all of which have been associated with poor management and spiraling debt. What caused such a change?

The general objective of this article is to present the process of institutional change in an associative football club. An analytical approach is required to understand this process of institutional change. From an institutionalist theoretical perspective, a micro-analytical approach will be suggested and addressed to a case study. The specific objective is to address this micro-analytical approach to Flamengo's institutional change. As shown in the article, the political dimension is important to explain an institutional change in an associative football club. The political drift breaks institutional inertia, promoting strong enforcement agreements that reflect the new "shared beliefs". In this sense, a set of questions emerges: how can the process of Flamengo's institutional change be explained? Was a vicious circle replaced by a virtuous circle? Has Flamengo experienced an institutional divergence?

Recovering the history of Flamengo's change in institutional management is, in that sense, essential to explain the winning cycle that began in 2019. The focus, therefore, is to analyze the process of change inside an organization (associative football club) from breaking institutional inertia (extractive institutions) to an

¹ See: <https://globoesporte.globo.com/futebol/noticia/segundo-pesquisa-datafolha-um-em-cada-cinco-brasileiros-e-torcedor-do-flamengo.ghtml>.

institutional change and perhaps an institutional divergence. To reach the objective, an extensive theoretical approach based on an institutionalist perspective is required. After proposing a micro-analytical approach, a case study will be presented. The main data source comes from Flamengo's Annual Financial Report, from 2011 to 2021. Furthermore, performance indicators will be shown to present the outcomes.

This paper is structured into three other sections. The next section aims to present the microanalytical approach to interpreting the case study. Section 3 presents methodology and the sources data. Next, the history of institutional change of Clube de Regatas do Flamengo is presented in a case study. Finally, we describe the sports outcomes to reach partial conclusions for this study.

II. Theoretical and analytical approach

There are many interdisciplinary approaches to explain institutional change focused on organizations. In a football club, it is important to distinguish between an enterprise club and an associative club. Our focus is on the latter. To do that, we turned to concepts and insights which come from historical institutionalism and mainly from new economic institutionalism. The idea is to develop a micro-analytical approach to present the whole process from institutional inertia, characterized by extractive institutions (poor institutional arrangement) to institutional change, which can experience institutional divergence (long run).

To do that, it is necessary to adapt many concepts to the specific scope of institutional change: an associative football club as a specific mode of organization. As recalled by Charles Ménard: "The development of competing explanations reflects an increasing interest for the nature of organizations. This becomes particularly obvious when looking at the resurgence of the literature on the theory of the firm, but also at the booming number of papers on other modes of organizations, e.g., strategic alliances, joint ventures, etc. However, it also suggests that we still miss an integrated theory" (Ménard, 2005, p. 281). That is precisely our aim: to present an approach to explain the process of institutional change in an associative club.

As described ahead, this study covers a part of this literature to propose a specific approach to set the objective of the study. Initially, it is important to highlight that, according to Douglass North "the major focus of the literature on institutions and transaction costs has analyzed institutions as efficient solutions to problems of organization in a competitive framework (Williamson, 1975, Williamson, 1985)" (North, 1991, p. 98).

The origins of new institutional work come from Ronald Coase's work. As pointed out by Caballero and Soto-Oñate (2016), Coase (1993) "generated a micro-analytical approach to organizations that gave rise to transaction cost economics... He also generated a macro-analytical approach that studied the relations between institutions and economic performance, as well as processes of institutional change. New institutional economics has incorporated both approaches, which are mutually inter-related, that is to say, it has studied institutions and how institutions interact with organizational arrangements within economy" (Caballero and Soto-Oñate, 2016, p. 332-333).

Douglass North in his book *Institutions, Institutional Change, and Economic Performance* (1990a) define institutions as 'rules of the game in a society'. In other words, institutions are rules in a kind of social structure that is laws, regulations, and their enforcement, agreements, and procedures. To North, institutions are constraints that shape human interaction and the way that societies evolve through time. According to North "Institutions provide the incentive structure of an economy; as that structure evolves, it shapes the direction of economic change towards growth, stagnation, or decline" (North, 1991, p. 97).

As North explained, "in order to lower the costs of exchange, it was necessary to devise a set of institutional arrangements that would allow for exchange over space and time" North (1990b, p. 359). According to North "Institutions are the rules of the game, that is to say, the humanly devised constraints that structure political, economic, and social interaction" (North 1991, p. 97). In sum, according to the abovementioned author institutions consist of formal rules, informal norms, and enforcement mechanisms, and they provide the incentive structure of an economy". This perspective will be particularly useful to talk about new institutional arrangements in an associative football club.

The particular interest in the abovementioned ideas is how to produce a set of management rules of the game (with enforcement) that induce a virtuous circle. From institutionalist thought (new institutional economics), we remember that institutions reflect shared beliefs, therefore creating, maintaining, and disrupting institutions entails creating, maintaining, and disrupting these shared beliefs. The process of institutional change depends on how the actors involved deal with these shared beliefs. It brings the idea that the fight for authority (political change in governance) is a starting point to discuss the institutional change in an associative club.

In this sense, "The short-term horizon of political actors, who are interested in the electoral logic, contrasts with the nature of those political decisions whose implications only play out in the long run... Actors may recur to the design of governance mechanisms, i.e., institutions and organizations... These formulae may take different forms depending on a number of factors, such as the nature of the operation, the actors, the transaction costs, the institutional environment, etc." (Caballero and Soto-Oñate, 2016, p. 339-340).

The new institutional economics has provided relevant arguments on political transactions and organization too, but these arguments have not been so systematically treated. Caballero and Soto-Oñate (2016) offer some contributions to understand how political institutions affect the volume of political transaction costs and the governance of the political organization and then they define: “political governance is a way to reduce transaction costs via different structures of hierarchy and organization” (Caballero and Soto-Oñate 2016, p. 332). As we will demonstrate, the importance of these insights relates to understanding the effects of a change in the political process of associative football clubs (political organizations). This change occurs caused by designing new governance mechanisms centered on credible commitments.

A synthesis approach called “institutional work” can be useful to deal with the specific problems related to this article, particularly in terms of institutional change. This approach focuses on the role of actors in creating, maintaining, or disrupting institutional structures. It claims a critical need for attention to the fundamentally political character of institutional work, the cumulative effects of action taken by multiple actors, and communicative and discursive dimensions.

The approach puts emphasis on the ways in which humans construct, maintain, or revise the meaning of institutions. As stated by Beunen and Patterson (2019), “the concept of institutional work has its origin in organization studies and has so far been mostly used in that context... This insight compels new approaches to studying institutional change that go beyond either structural or actor-oriented perspectives alone and instead place a central focus on the dynamic interplay between actors and institutional structures” (Beunen and Patterson, 2019, p. 13). As previously mentioned, there is an emphasis on the actors, the players who enact structure in the first place, and the role they play in sustaining or changing these structures over time. As described ahead, a coalition of leaders (multiple actors) will be the focus of the study.

One important contribution from new institutionalist perspective is due to Acemoglu and Robinson (2012) for whom “historical stories of success and failure” of countries are caused by political and economic institutions. The authors, according to Sam Hickey, argue that “‘inclusive’ (as opposed to ‘extractive’) institutions are the critical factor in shaping both economic and political progress, as through formal property rights and liberal forms of democracy” (Hickey, 2015, p. 1). Of course, this insight must be adapted to an organization.

According to Vuković (2012), in Acemoglu and Robinson (2012) book: “Politics and the formation of political institutions take central stage, which formulates the thesis that only within an inclusive political system is it possible for nations to achieve prosperity. The opposite scenario will occur under extractive political institutions where wealth will be accumulated within a narrow ruling elite which will aim to preserve its power, thus sentencing a nation to persistent poverty” Vuković (2012, 322). Vuković says more: “The emphasis is on how inclusive political institutions can lead to inclusive economic institutions that will lay the foundations of wealth creation and sustainable growth. The combination of inclusive political and economic institutions shapes the incentives needed for a society to prosper” Vuković (2012, 323).

Inclusive institutions result from conflict and institutional drift. The process of building inclusive institutions begins with a critical juncture that allows an initial institutional drift. Then there is a need for the commitment value of political institutions – transforming temporary *de facto* into more durable *de jure* power². Inclusive institutions seemingly provide a recipe for positive developmental outcomes, namely political stability, and long-run economic growth, according to the authors. These institutions were subsequently reinforced over time in a positive feedback system the authors call a virtuous circle.

Acemoglu and Robinson constructed a simple model in which political elites can block technological and institutional development because of a ‘political replacement effect’ (Acemoglu and Robinson, 2006). With a few adaptations, it is not difficult to understand the institutional inertia in an associative club. There is an internal struggle for power, and it is very difficult for a new coalition to emerge to face the status quo that threatens power. An initial drift could be a kind of opportunity window to promote institutional change (based on changing extractive institutions into inclusive institutions).

An associative football club that experiences a vicious circle is featured by extractive institutions, particularly those non-efficient institutional arrangements related to management. Institutional arrangements are “the policies, systems, and processes that organizations use to legislate, plan and manage their activities efficiently and effectively coordinate with others in order to fulfill their mandate. Institutional arrangements include the supervising organizations, their human resources, funding, equipment, and supplies, leadership, effectiveness, and the communication links between and among organizations”³.

² *De facto* power is power that is not allocated by *de jure* institutions such as voting legislation or elections, but rather is possessed by a social group because of wealth, violence, or other means.

³ As defined by the United Nations Development Program (UNDP): http://ggim.un.org/ggim_20171012/docs/meetings/4th%20HLF/DEFINITION%20FOR%20NATIONAL%20INSTITUTIONAL%20ARRANGEMENTS.pdf.

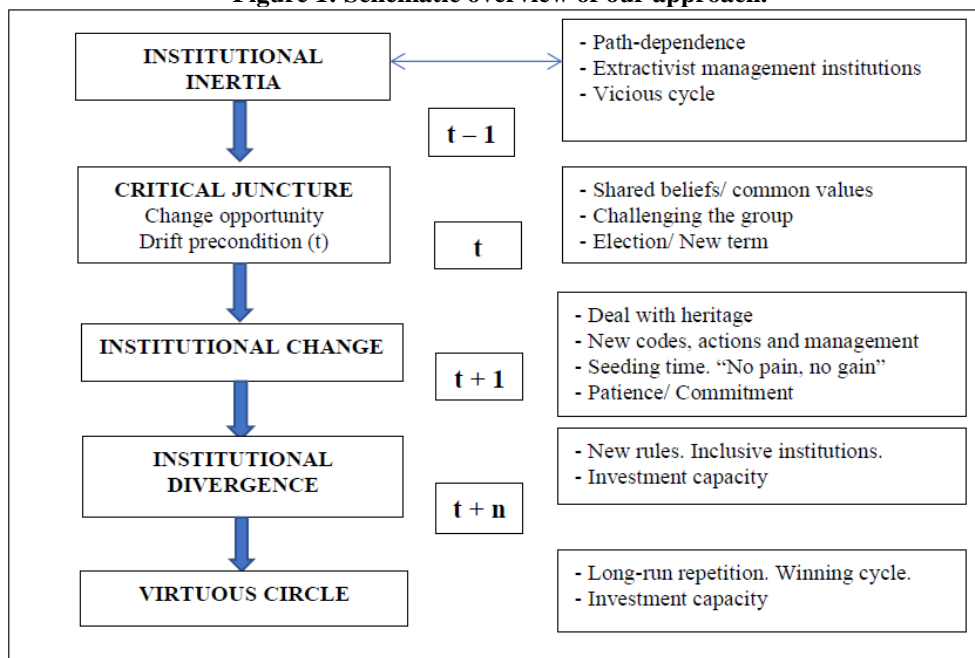
How can an organization face institutional inertia and promote institutional change? It is a very hard process due to the presence of high transaction costs, which are fuel for the vicious circle. Extractive institutions in a football club are strongly associated with high indebtedness that leads to financial dependence on bank loans, strangling their capacity to invest. Looking for short-run outcomes, managers resort to populist actions. And the circle is reinforced. Therefore, in the case of an associative club, it is essential to challenge the political system in the election cycle.

It can be considered the critical juncture in which initial drifts lead to the emergence of a broad and powerful coalition in society in favor of reforming charters and removing bad management. An inclusive political system (executive and deliberative power) expresses an inclusive and virtuous management system, shaping new economic and management incentives. A little synthesis of the approach proposal can be presented in the following phases:

1. **INSTITUTIONAL INERTIA:** featured by extractive institutional arrangements, evidenced by opportunistic behavior; asymmetric information; low bargaining power; debt dependence; bad contracts; high transaction costs. In short: a “vicious circle” associated with path dependence.
2. **CRITICAL JUNCTURE:** a new electoral cycle and a new challenging coalition (new shared beliefs).
3. **PROCESS OF INSTITUTIONAL CHANGE:** new institutional structure of governance and changing extractive institutional arrangements. Dealing with high transaction costs (high indebtedness; high financial loan dependence; low investment capacity; bad contracts; etc.). A “new circle” building process, related to “no pain, no gain” culture.
4. **REINFORCEMENT:** New institutional arrangements and structure of governance. New investment capacity associated with insufficient sports outcomes, but strong commitment to “shared beliefs”.
5. **INSTITUTIONAL DIVERGENCE:** inclusive institutional arrangements and a new structure of governance are built. Low transaction costs; transparency; high investment capacity; professional football management. Long-run winning cycle/sports outcomes. Repetition process: a virtuous circle.

We are now ready to try to interpret an institutional change in an associative football club, in which a new set of management rules of the game (with enforcement) is produced to induce a virtuous circle. The notion of institutional arrangement works for associations, in this case for Brazilian football clubs, particularly Flamengo. Figure 1 shows the case study’s micro-analytical approach to interpreting an institutional change in an associative football club.

Figure 1: Schematic overview of our approach.



Source: Author’s own.

As shown in the figure, institutional change depends on a long process from breaking the institutional inertia to conceiving an institutional divergence. One precondition to start the process is to acknowledge the existence of extractive institutions (what is deeply wrong inside the institution). It allows the conditions of conceiving a challenging coalition of actors who reflect new shared beliefs, offering a real alternative to the status quo managers. So, the institutional process begins based on a changing governance process and many times using

the high level of legitimacy which came from the electoral process. Once new institutional arrangements are conceived, including changing formal rules, we are ready to promote institutional divergence, when a virtuous circle (titles conquests) associated with inclusive institutions is built.

III. Methodology and data

The above suggested micro-analytical approach to explain an institutional change in football clubs is compatible with a case study. To analyze the impacts of restructuring of Clube de Regatas do Flamengo and capture the effects of institutional change, two main sources of data are presented: financial and performance data.

The financial data is presented in the Clube de Regatas do Flamengo Financial Annual Report⁴ considering the following years: 2011, 2012, 2013, 2014, 2015, 2016, 2017 and 2018. The idea is to focus on the restructuring period (2013–2018). After identifying the financial restructuring and its results, the next step is to analyze the Club's football performance in the main competitions. will capture the institutional change, particularly regarding the investment capacity of the Club. An evolution analysis from the following data is presented:

- Football revenues
- Revenues per source (%)
- Wage expenses
- Wage expense/ operational revenue ratio (%)
- Debt
- Financial expenses/ net operational revenues
- Intangible investments
- Acquisition of players rights

All data was deflated by the Extended National Consumer Price Index (IPCA), Brazil's official inflation measure, captured by the Brazilian Institute of Geography and Statistics (IBGE). The year of reference (R\$ million, 2018=100) is the last year of the restructuring process of the Club.

The main source of data for sports performance analysis is the TransferMarkt⁵ website. One important indicator of a football team's technical consistency is their performance in the national championship, the largest competition of the season. A specific indicator (yield coefficient) is the points yield (number of points earned/number of points possible). The formula is simple. In the Brazilian Championship, there is a total of 38 matches. Each victory is worth 3 points, a tie is worth 1 point, and a loss is worth 0 points. The highest number of points possible in the championship is 114 points.

For further information, the website of Clube de Regatas do Flamengo⁶ and also the Financial Annual Reports are useful to evidence the investment capacity particularly regarding to acquisition of players rights.

IV. Case study: Restructuring of Clube de Regatas do Flamengo

The long-run inertia and Flamengo's institutional decline

We are now ready to analyze the institutional change in Flamengo, from its institutional inertia (vicious circle) to the institutional change (new circle). From 1980 to 1992, Flamengo experienced its golden age in terms of sporting achievements. At that time, Flamengo was a protagonist in terms of national competitions, but also winning international championships. The list of official titles includes one Club World Cup, intercontinental title (1981); one Libertadores da América Cup, continental title, (1981); five Brazilian championships, national title (1980, 1982, 1983, 1987, 1992); Brazil Cup, national title (1990); three state championships, regional title (1981, 1986, 1991).

After that, particularly from 1993 to 2012, Flamengo lost its lead in the national scenario to several clubs: São Paulo, Palmeiras, Corinthians, Grêmio, Santos, Internacional, and Cruzeiro. During this long-run decline, Flamengo changed from being a national protagonist to having a regional role. The list of official titles from 1993 to 2012 includes a significant nine regional titles (1996, 1999, 2000, 2001, 2004, 2007, 2008, 2009, 2011). After 17 years, Flamengo won the Brazilian championship in 2009. Shortly before, in 2006, they won the second most important title in the country, the Brazil cup. In both cases, it was clear that it was a fortuitous achievement not indicating a tendency.

On one hand, fans were satisfied with the regional supremacy among Flamengo's main rivals (Vasco, Botafogo, and Fluminense). On the other hand, the lack of a protagonist role on the national stage, and particularly, continental successive failures became an embarrassment for fans and a reason for mockery by their opponents.

⁴ Available in: <http://www.flamengo.com.br/transparencia/demonstracoes-financeiras>.

⁵ <https://www.transfermarkt.com.br/>.

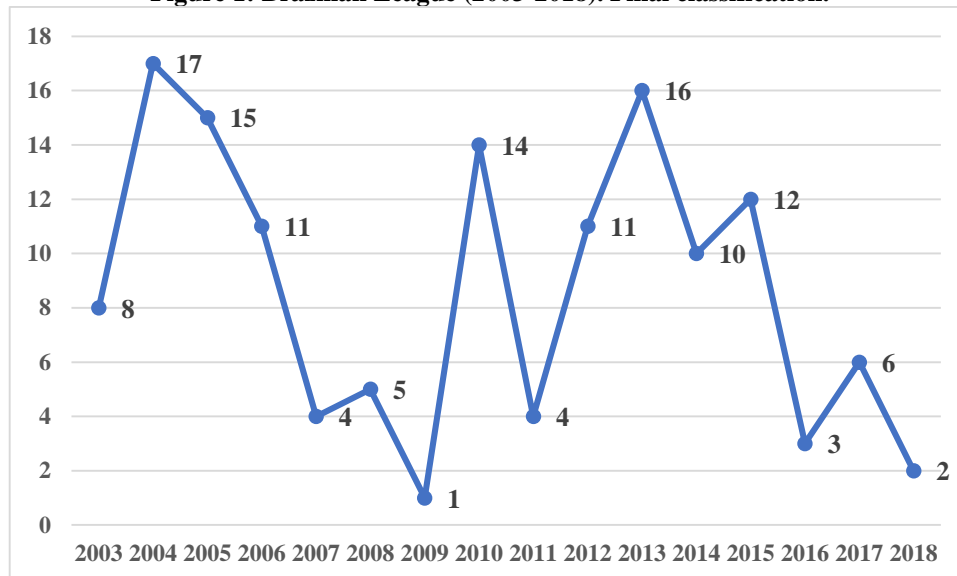
⁶ <http://www.flamengo.com.br/>.

This sporting decline reflected organizational and management chaos. Debt was spiraling out of control due to populist management in an attempt to deal with the permanent demand for titles created over a 20-year period.

Two important events in the cycle of decline were the contracts signed with two former Best FIFA Men's Players: Romário (1995) and Ronaldinho (2011). The model for these contracts was the same. Even without resources, the easy solution was to incur debt. The legacy of this modus operandi has been a huge liability left to be managed by subsequent club presidents. In 2012, Flamengo's debt had reached about 1,2 billion Brazilian Reais (428 million Euros, 31/12/2012).

As shown in Figure 1, Flamengo's outcomes in the Brazilian League from 2003 to 2015 were not outstanding, except for the 2009 title. After 2016, sports performance experienced a significant change.

Figure 1: Brazilian League (2003-2018). Final classification.



Source: Author's own based on TransferMarkt data.

The performance results demonstrated how Flamengo had taken a secondary role in the national arena. Even considering good teams, particularly in 2009, the yield coefficient (total points/ maximum score based on TransferMarkt data) in the Brazilian Football Championship places Flamengo in 5th place (49,7%) for the 2006-2012 period. One important regional rival, Fluminense, won the 2010 and 2012 titles, which explains the 4th best yield coefficient (51,3%), while São Paulo was the leader (56%). Additionally, Fluminense reached the Libertadores (continental) final in 2008. At that time, Flamengo was at a lower level when compared to its regional rival.

The emergence of a new political coalition: from building new governance to the fiscal responsibility law

It is especially important to remember that neither patrons nor external factors have caused the institutional change process in Flamengo. It was an internal and endogenous process. To overcome the institutional inertia and to promote an institutional change, it was necessary to change the political coalition that governed the club. A window of opportunity to promote the change was opened in 2012, an electoral year. A new political coalition named "Chapa Azul" (Blue coalition) won the election at the end of 2012. Some of their shared beliefs and views are listed below:

- Mission: To bring Flamengo back to the current reality we live in by means of a professional management model.
- Vision: To become the biggest and the best football team in the Americas and one of the top five teams in the world.
- Marketing: The fan as the main partner in all of Flamengo's projects, developing an ambitious fan-partner program.
- Management and finance: To prepare a Financial Master Plan and renegotiate all debts. To promote austerity, transparency, and quarterly accountability. To propose and implement a Fiscal Responsibility Law.
- Football: To create a professional management model.

Aside from these daring goals, it can be said that the new governing coalition was successful in launching a modern management culture in the club, using corporate governance principles that allowed institutional change. One important action was approved in 2015. The advisory board unanimously approved the Fiscal Responsibility

Law by incorporating an amendment into the charter on April 7th, 2015. It allowed the consolidation of corporative governance in the Club. Good management practices have become an obligation to any elected board. Its insertion into the Club's charter guarantees important safeguards to the institution:

- Whoever incurs losses to the Club's assets or image can be prosecuted including their particular patrimony assets, even after the end of their term in office.
- The budget establishes limits on expenditures, target evaluations, calculation methodologies, prospective scenarios, and monitoring reports.
- Quarterly balance sheets and their comparison to the budget have become mandatory, and financial and accounting reports are published.

The abovementioned coalition split in the 2015 and 2018 elections, but the shared beliefs, values, and practices were in line with the new governance principles and better institutional arrangements. It is possible to divide the trajectory of political governance into three phases:

1. Phase 1 (2013-2015): focus on austerity and debt reduction; shared beliefs and new code of conduct.
2. Phase 2 (2016-2018): increased investments in a professional football team and in infrastructure (training center); new sports outcomes.
3. Phase 3 (2019-2022): market aggressively – strong investments and great performance outcomes.

In addition to the internal management efforts, it is important to highlight the external aid that came from PROFUT (Law 13.155/15) in 2015. It was fundamental to the process of debt renegotiation, given that it allowed financing fiscal debts for up to 240 months and reducing penalties by 70%, among other benefits.

Since a new institutional arrangement has been built, it has been also accompanied by new financial situation and the football team performance.

The financial restructuring

As proposed, Phase 1 launched a new form of governance focused on austerity (expenditure control), new sources of revenue, and debt reduction. It is characterized by financial restructuring. Initially, it is important to highlight the historical dependence on revenues from TV broadcasting rights. Flamengo's case is peculiar due to the disbandment of "Clube dos 13" (a kind of clubs league formed to negotiate TV broadcasting rights) in 2011. The new negotiation of TV rights quotas increased the gap between Flamengo and Corinthians as the major revenue raisers.

The contribution of TV rights to total revenue remained at a very high percentage, which could justify their primary role in the club's institutional change. However, they did not meet expectations. In 2018, TV rights accounted for 45% of total revenues, compared to 64% in 2012, revealing its secondary role in the restructuring process. It is necessary, but not enough condition to explain the process. The primary measures are due to multiple factors, including expenditure control, new sources of revenue, and infrastructure investment, among others. Table 1 shows the evolution of Flamengo's sources of revenue between 2012 and 2018:

Table 1: Flamengo Football Revenues, R\$ thousand (2012-2018)

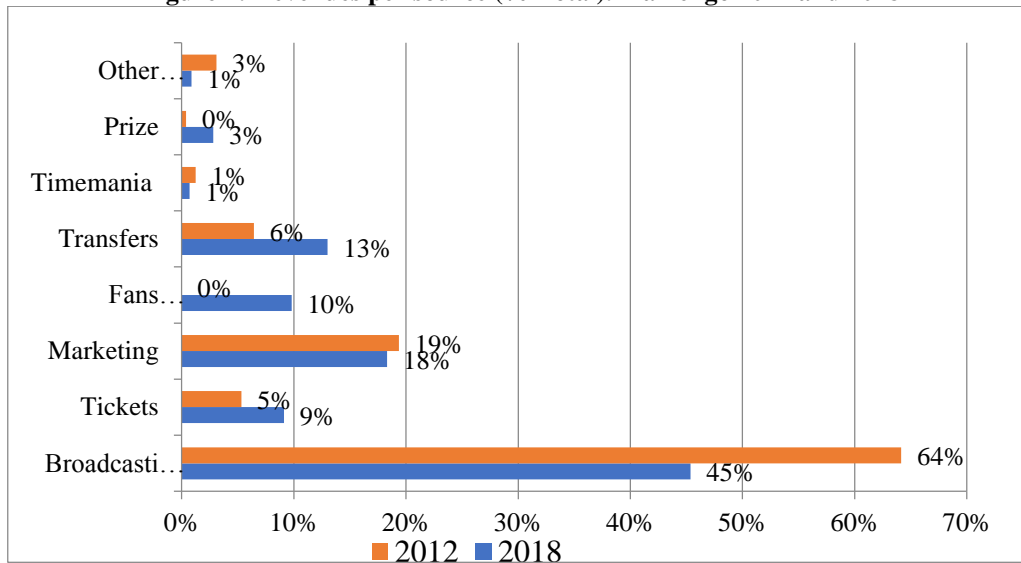
Football Gross Revenues	2012	2018	2012-2018
Broadcasting rights from TV	163.796	222.472	136%
Tickets	13.570	44.700	329%
Marketing	49.440	89.878	182%
Fans Membership Program	-	48.077	
Transfers	16.480	63.762	387%
Timemania	3.190	3.445	108%
Prize	1.005	13.782	1371%
Other revenues*	7.903	4.329	55%
TOTAL	255.385	490.445	192%

Source: Clube de Regatas do Flamengo. Financial Annual Report 2012 and 2018.

* Includes football fan membership program and championship prizes.

The most important increase in revenues came from prizes, tickets, fan-membership program (new source) and particularly transfers. As seen, broadcasting rights revenues growth rate were not impressive. Figure 2 shows in greater detail the revenue percentages per source, comparing 2012 and 2018.

Figure 2: Revenues per source (% Total). Flamengo 2012 and 2018



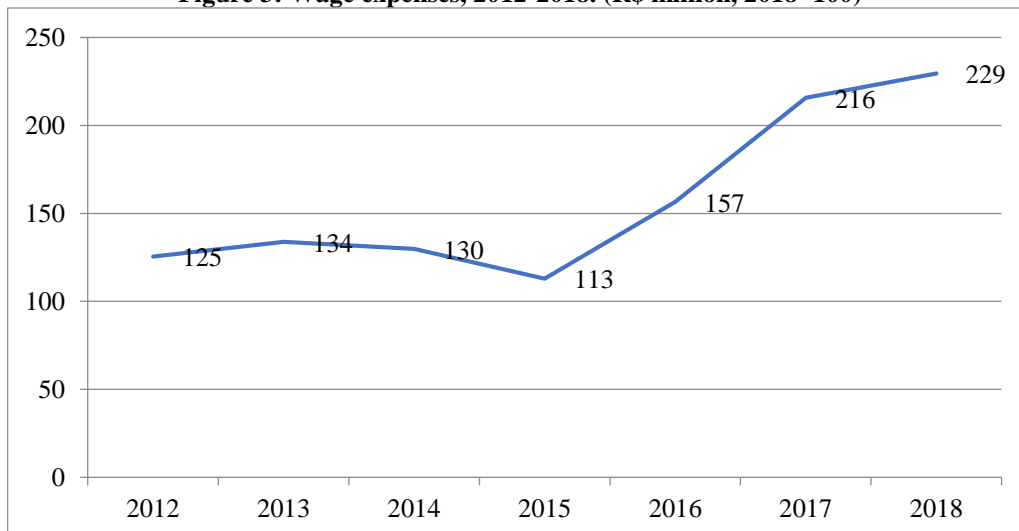
Source: Clube de Regatas do Flamengo. Financial Annual Report 2012 and 2018.

A significant finding is the decrease in the dependence on TV rights revenues. This was possible mainly because of a new source of revenue: the creation and consolidation of a fan-membership program. Another important source of revenue was player transfer fees. Because of a long-time investment in the “base division”, Flamengo has become a seller club. Before selling its young rising stars, Flamengo started a new cycle as a seller club. In 2015, the Club transferred Samir to Udinese for € 4 million. In 2017, it transferred Jorge to Monaco for € 8.5 million, and in 2018, Felipe Vizeu was transferred to Udinese for US\$ 6.5 million. The rising stars were transferred for impressive market values in 2017, 2018 and 2019, respectively, Vinicius Jr. (Real Madrid), Lucas Paquetá (Milan), and Reinier (Real Madrid) earned the Club € 45, € 35, and € 30 million, respectively.

Another important new source of revenue was the fan-partner program called “Nação Rubro-Negra” (Red and Black Nation), launched by the Club’s marketing department in 2013. Its evolution has been impressive, with 100,000 partners by 2018 and more than 150,000 by 2019. In 2018, it accounted for about 10% of operational revenues.

Beyond the revenues increase effort, the pathways to a new investment capacity were long and involved a “no pain, no gain” philosophy as evidenced in the expenditure control within the professional team and reflected in modest technical results. As shown in Figure 3, wage expenses were controlled by a powerful austerity policy in phase 1. It demanded patience from the fans and very low investment in the professional football team.

Figure 3: Wage expenses, 2012-2018. (R\$ million, 2018=100)

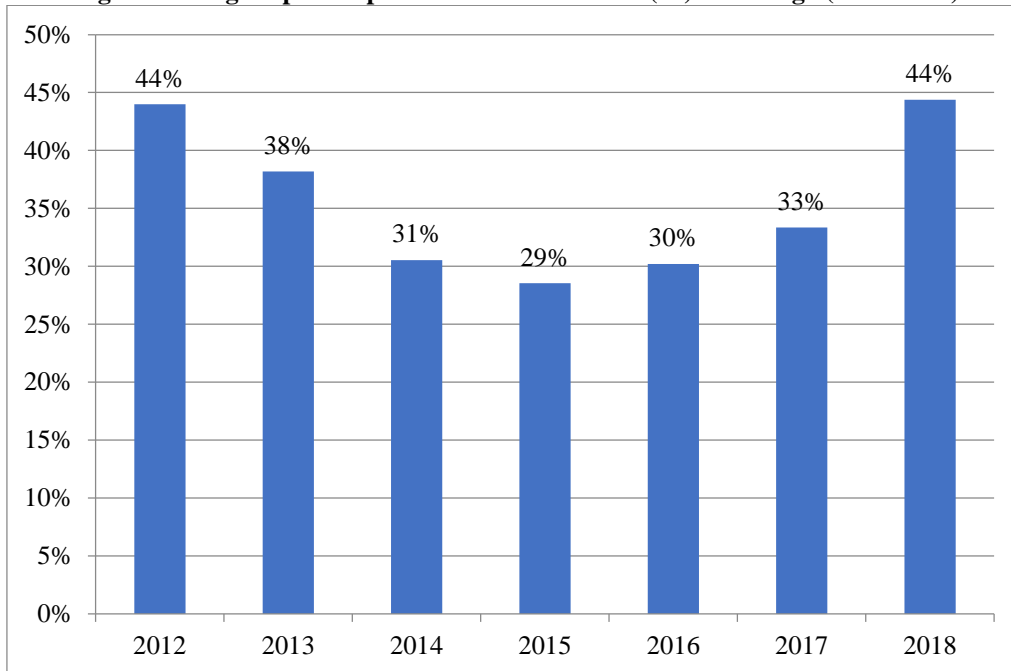


Source: Clube de Regatas do Flamengo. Financial Annual Report (from 2012 to 2018).

In phase 2, on the other hand, a higher investment capacity was demonstrated by a strong increase in wage expenses. As shown in the above graph, wage expenses doubled in 2018 compared to 2015. Phase 2 shows a new investment capacity, as described below.

From another perspective, it is possible to see the effects of the austerity policy from the wage expense/operational revenue ratio, as shown in Figure 4:

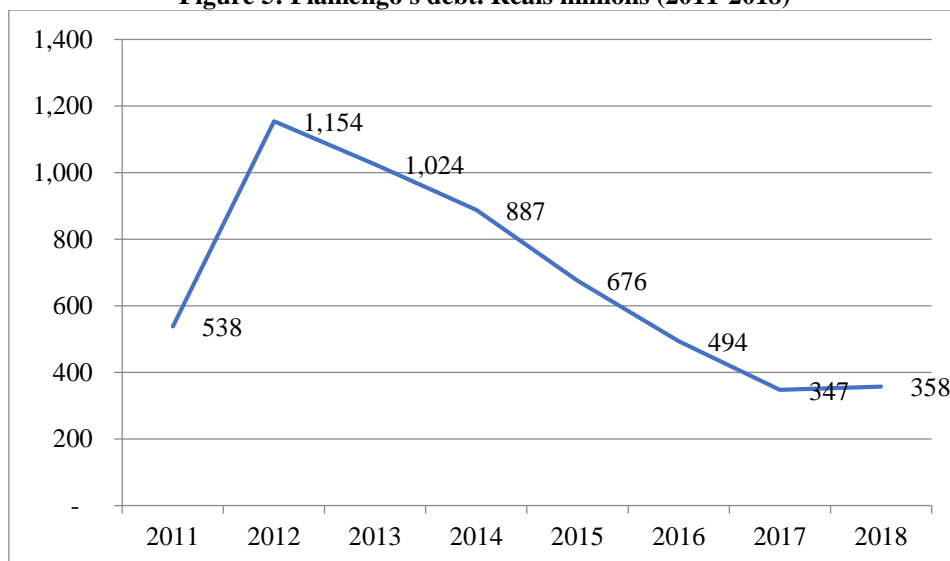
Figure 4: Wage expense/operational revenue ratio (%). Flamengo (2012-2018)



Source: Clube de Regatas do Flamengo. Financial Annual Report (from 2012 to 2018).

It is interesting to point out the same level ratio in 2012 and 2018. However, the financial situation is quite different. The austerity policy in phase 1 was adopted to address the most important elements of Flamengo's vicious circle at that time: the enormous debt and the dependence on bank loans. The debt evolution is outstanding. Figure 5 presents Flamengo's debt evolution from 2011 to 2018. Even considering that the transition and institutional change of Flamengo encompasses 2013-2019, it is important to review its 2011-2012 history. There was an important event to point out. In 2012, Arthur Andersen Consulting reclassified the debt. As shown in the graph, a huge increase can be observed from 2011 to 2012 (Clube de Regatas do Flamengo, 2012).

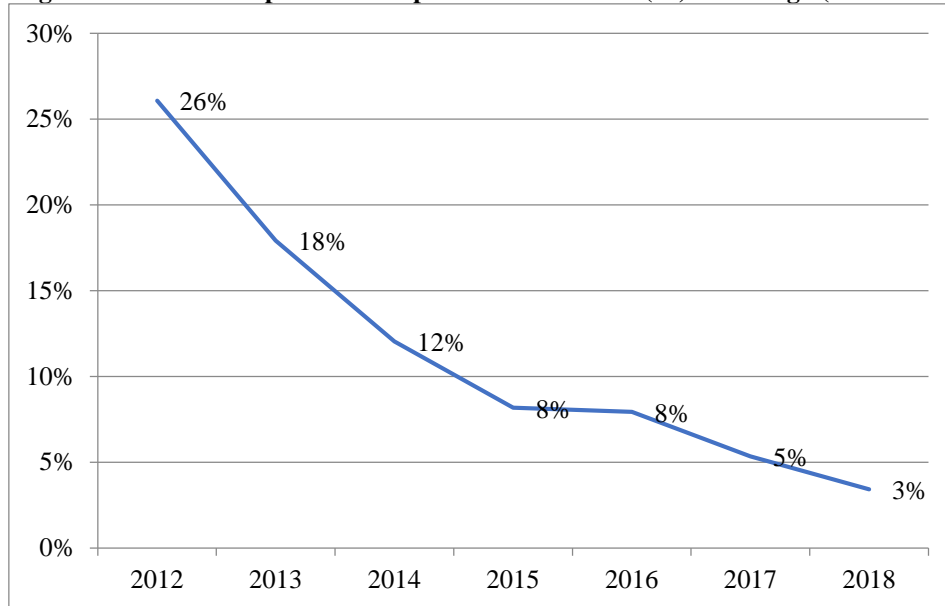
Figure 5: Flamengo's debt. Reais millions (2011-2018)



Source: Clube de Regatas do Flamengo. Financial Annual Report (from 2011 to 2018).

The phase 1 austerity policy accompanied by a set of actions to increase revenues has brought an impressive debt reduction. This movement represented the end of bank loan dependence. Financial expenses have gone down to a comfortable level, as shown in Figure 6.

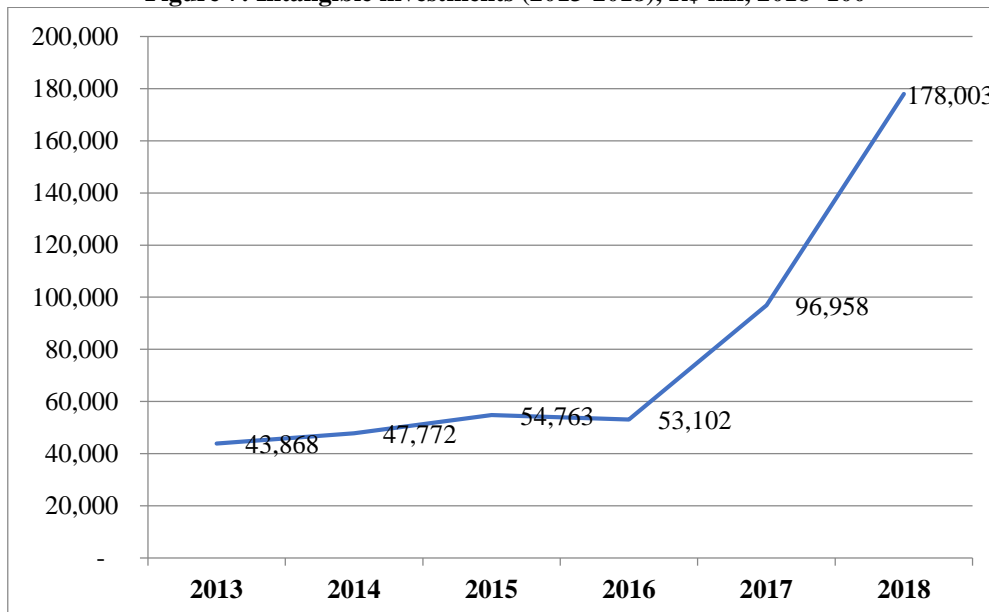
Figure 6: Financial expenses/ Net operational revenues (%). Flamengo (2012-2018)



Source: Clube de Regatas do Flamengo. Financial Annual Report (from 2012 to 2018).

The new financial situation because of an endogenous process (institutional change) on one hand, and an exogenous factor (PROFUT) on the other opened a range of possibilities for investment, particularly in the acquisition of transfer rights of professional football players. Intangible investments include infrastructure and acquisitions of transfer rights of non-professional and professional players. As evidenced in Figure 7, intangible investments were compatible with the austerity policy of phase 1 and experienced a change in phase 2.

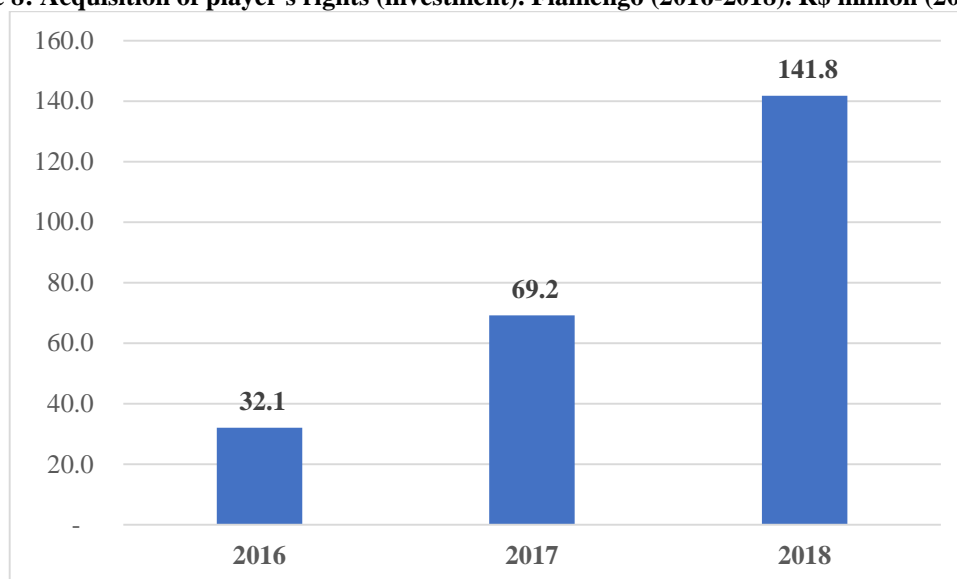
Figure 7: Intangible investments (2013-2018), R\$ mil, 2018=100



Source: Clube de Regatas do Flamengo. Financial Annual Report (from 2012 to 2018).

From data above, the most important investment item is the “acquisition of players’ rights”, as shown in Figure 8. Some important players signed contracts between 2016 and 2018, for instance: Everton Ribeiro, Diego Ribas, and Vitorino.

Figure 8: Acquisition of player's rights (investment). Flamengo (2016-2018). R\$ million (2018=100)



Source: Clube de Regatas do Flamengo. Financial Annual Report (2016, 2017 and 2018).

As pointed out by Soriano, “the ball does not go in by chance” (Soriano 2011). That is precisely true for the process of institutional change in Flamengo’s management. After a “period of pain”, a new winning era was consolidated.

Phase 3: A new investment capacity and a cycle of triumphs

The main consequence of financial restructuring was the reduction of debt and the increase of investment capacity. The result of this process was an aggressive posture on the market and a focus on the team performance and outcomes.

A widely used indicator of performance of a football club is to scrutiny the results of the main national league (coefficient yield). As shown in Table 2, during phase 1 (2013-2015) Flamengo achieved a low coefficient yield of 43,9%, far from the leader Cruzeiro (61,7%). Flamengo experienced an amazing change and reached a turning point in phase 2. During the period that encompasses 2016-2018, even without winning the championship (3rd, 6th, and 2nd place, respectively), Flamengo reached the second place in points yield (58,2%).

Table 2: Yield comparison (Phases 1, 2, and 3)

<i>Seasons 2013-2015</i>	Wins	Ties	Losses	Points	Yield
Cruzeiro (leader)	62	25	27	211	61,7%
Flamengo (8th)	41	27	46	150	43,9%
<i>Seasons 2016-2018</i>	Wins	Ties	Losses	Points	Yield
Palmeiras (leader)	66	25	23	223	65,2%
Flamengo (2nd)	56	31	27	199	58,2%
<i>Season 2019-2021</i>	Wins	Ties	Losses	Points	Yield
Flamengo (leader)	70	22	22	232	67,8%
Atlético Mineiro (2nd)	59	23	32	200	58,5%

Source: Author’s own based on TransferMakt data.

As described below, even without championship titles, the average yield increased from 43,9%, during restructuring period, 2013-2015 (Cruzeiro reached 61,7% and won two titles), to 58,2% during the 2016-2018 period (Palmeiras reached 65,2% and won two titles). It was the very first sports outcome of the institutional change promoted in the club.

In 2019, Flamengo broke the all-time record performance in the national league reaching 90 points. It represents a ratio of 90/114 or a yield of 78,9%. As shown in the table, considering the seasons from 2019 to 2021, Flamengo became the points yield leader, evidencing the new competitive era, reflecting the new investment capacity.

The abovementioned coefficient yield shows the technical change and performance during phase 2. In addition to the Brazilian Championship, Flamengo reached two important finals in 2017, the Brazil Cup and the

South American Cup, which are the second most important competitions in Brazil and South America, respectively. The Club reached a new level in 2019 with Phase 3, which included aggressive marketing and a remarkable winning cycle.

A newly elected board with the same “shared beliefs” and actions that promoted the institutional change during the previous years began a new cycle at the end of 2018. A new phase was launched. Because of its new investment capacity, the Club made very aggressive market moves in 2019.

Acquisition rights of players like Arrascaeta, Rodrigo Caio, and Bruno Henrique, as well as negotiations of transfers like Gabriel Barbosa (Gabigol) early in the year, were the first aggressive moves in the market. After an unsuccessful first semester, the coach was replaced. In addition, a remarkable coach from Europe was hired: Jorge Jesus. Reconciling new acquisitions like Gerson and Pablo Mari and free agent players like Filipe Luis and Rafinha, Flamengo built a remarkable, experienced, winning, and engaged team. The sports results were only a matter of time.

In just a few months, notably the second semester of 2019, Flamengo achieved impressive sports results. After 38 years, the club won the Libertadores Cup on November 23rd. The following day, Flamengo won the Brazilian Championship, ending a 10-year drought. At the Club World Cup, Flamengo lost to European champions Liverpool in a very tight game. In the Brazilian Championship, as presented before, Flamengo broke the record with 90 points reaching points yield of 78,9%.

After 2019, Flamengo won several titles, with different level of significance (regional, national and international), as shown in Table 3:

Table 3: Sports outcomes (2019-2022)

Coverage	2019	2020	2021	2022
Regional				
Carioca	Champion	Champion	Champion	Final
National				
Brazilian League	Champion	Champion	2nd	5th
Brazil's Cup	Quarterfinal	Quarterfinal	Semi final	Champion
Supercopa		Champion	Champion	Final
International				
Libertadores	Champion	Round of 16	Final	Champion
Recopa	-	Champion	-	
World clubs cup	Final	-		3rd

Source: Author's own.

It suggests an indication of a continuous circle of victories. A repetition cycle is necessary to confirm whether the institutional change is an institutional divergence. In sum, using the microanalytical approach applied to the study case of Club de Regatas do Flamengo, the findings are expressed in the table below:

Table 4: Institutional change in the Clube de Regatas do Flamengo

Phases	Period	Features
Institutional inertia	1993-2012	Populist management Lack of professionalism Increasing debt
Critical juncture	2012-2013	Election. “Chapa Azul” victory New shared beliefs
Institutional change	2013-2018	Financial restructuring Debt reduction Responsibility Law
Institutional divergence	2019-2022	Reinforcement (fiscal responsibility) Investment capacity increase and constant Several titles and good performance indicators
Virtuous circle	2019 - ?	To be confirmed in the next years

Source: Author's own.

The study case of Clube de Regatas do Flamengo suggests a break in the institutional inertia in 2013 and a deep institutional change whose consequence was an institutional divergence. This process, otherwise, seems to be concluded considering the financial management of the Club. Despite the excellent performance of the football team, it is important to wait the next years to confirm the existence of a virtuous circle. The main concern is the absence of a professional football team management model. It is still managed by amateur leaders. That is the motivation to explain why between 2019 and 2022 seven different coaches were hired to the technical direction of the team. Besides that, the results were positive.

V. Conclusion

The main objective of this article was to present an analytical approach to analyze an institutional change in an associative football club. Based on insights from the institutionalist perspective, a micro-analytical approach has been suggested and addressed to case studies. In this sense, it is very important to consider the contexts, specificities and history of each club to capture the inertia and the existence of extractive institutions and to recover the political and management changes during the process of institutional change.

Flamengo has proven to be a very interesting case study, fulfilling some hypotheses brought by the study. A new political coalition led the institutional change during the 2013-2018 term. The most recent coalition shares the same management beliefs, and because of a new investment capacity, has shown an aggressive behavior in the market. It allowed the formation of a winning team. It is clear that the process that has culminated in the 2019 victories was due to an impressive institutional change. If this process is repeated several times with a prolonged winning cycle, it will be possible to conclude that Flamengo has experienced not only an institutional divergence, but also a virtuous circle, a process that places the club permanently on another level.

A good indication of Flamengo's new institutional situation is the increase in its bargaining power since the beginning of 2020. The club refused to sign a TV broadcasting rights contract to sell its image to the state (regional) championship. Furthermore, the need for management improvement is still ongoing, particularly in terms of new revenue sources ranging from the main sponsor to new streaming and social media possibilities.

Considering the performance of the football team, still competing, and winning big national and international titles, it seems to corroborate the idea of an institutional divergence of the Club. The pathway to a virtuous circle depends on a professional management model in the football team conception. In sum, Clube de Regatas do Flamengo has created inclusive institutions regarding the financial management, but not in the football team.

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