

(SP) ARE RICH CLUBS MORE SUCCESSFUL? AN ANALYSIS OF THE RELATIONSHIP BETWEEN BUDGET AND PERFORMANCE FOR GERMAN SOCCER

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Introduction

Sports associations and sports functionaries were asked for regulations in the sport system (e.g. revenue sharing, salary caps, roster restrictions, transfer fees). Their arguments are always the same: Financial power will determine sporting success; sporting success will lead to boosted financial power. A helix between financial power and sporting success will occur. Without regulations financial balance will be decreasing, leading to a subsequent decrease in competitive balance. A further consequence will be a drop in fan interest and in the long run the existence of the league is endangered.

Since this line of argumentation plays a central role in theory and policy of team sports it seems to be amazing that there is a lack of empirical research analysing the relationship between financial power and sporting success. Only a few papers exist like Scully (1974) or Hall, Szymanski & Zimbalist (2002).

Three main questions can be derived:

- (1) Is financial imbalance growing in time?
- (2) Does a relationship between budget and sporting performance exist?
- (3) Is financial power causal to sporting success?

This analysis will examine these questions upon German professional soccer concerning both Bundesliga (first division) and Bundesliga 2 (second division). The period under consideration will be from season 1981/82 to 2004/05. For this time span the budget of all teams playing in one of these leagues as well as sporting data is available. This 24-season period is comparable to other studies (e.g. Hall, Szymanski & Zimbalist 2002).

Method

The mentioned question will be analysed in three separate steps. To examine question (1), first of all the development of club budgets will be displayed.

To analyse empirically, if all teams participating equally on the decreased league budget, one can conduct a test of convergence. Such a test according to Barro & Sala-i-Martin (1995) will be accomplished. The test on convergence is based on the development of several measures (coefficient of variation, Gini coefficient, Herfindahl Hirschman Index). Another kind of convergence is present if "poor" clubs will grow faster than the "rich" clubs. The so-called β convergence (unconditional and conditional) will be tested with aid of a regression based on the model of Dobbson & Goddard (2002).

To examine question (2), the correlation between club share of league budget and the final league position (total points at the end of season) will be calculated. The corresponding long run relationship will be analysed by the correlation between average club share on budget and the average final league position (average points at the end of season). This procedure is according to the analysis conducted by Hall, Szymanski & Zimbalist (2002).

Finally, question (3) will be analysed by conducting a test of Granger causality. Varying from Hall, Szymanski & Zimbalist (2002) a panel causality test by Venet & Hurlin (2001) will be chosen. This procedure considers in contrast to the time series based causality test (Granger 1969) possible heterogeneity of the panel data.

Results

The analysis of question (1) yields to the result that for the Bundesliga and convergence is existing. Thus, the gap in financial power between “rich” and “poor” clubs is getting smaller over time. Correlation between financial power and sporting success can be found. In the short-run this relationship is not strongly developed. In the long-run correlation is much more existent. The panel causality test (3) can not identify any causal relationship between clubs share of league budget and sporting success. These results can be obtained in both directions. As final result, it can be derived that the above described helix of financial power and sporting success can not be proved for professional soccer in Germany.

Discussion

These findings may be interpreted as evidence for an efficient system of financial equalisation implemented by the German Football Association (DFB) and the German Football League (DFL). On the other hand, this may be a consequence of management quality. While the successful clubs could demonstrate a high management quality already in 1970's small clubs cognized the meaning of management quality lately. These small clubs had had the need to catch up. The observed convergence can also be a consequence of this catch up process.

References

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