

One step forward in the financial crisis of Spanish professional football

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Aim of paper and research questions

There currently is a global financial crisis. The USA and the EU countries have been obliged to come to the rescue of banks and financial institutions. To the date, 9 Spanish football clubs have gone into administration. In this context, our aim is to identify how the Football industry in Spain has been affected. We also consider if there are any significant differences between the financial accounts of clubs under administration and the rest.

Literature review

In 2006 the Journal of Sports Economics published a special issue about the financial crisis in European football. Lago et al. (2006) pointed out two features of a systemic crisis: a common set of problems afflicting all clubs and the damage for financial stability of the whole when a club or a group of clubs are under financial distress. Ascari & Gagnepain (2006) conclude that the Spanish football industry suffers a structural weakness but, in their opinion, the situation seems to be less severe than in other European leagues. Boscá et al. (2008) refute the conclusion of the former author and they assert in line with García & Rodríguez (2003) that 'the economic situation of Spanish football clubs presents an important fragility'. Regarding financial distress and financial crisis, the works by Beaver (1966), Altman (1968), Altman et al. (1977), Dimitras et al. (1999) have been useful in order to choose some of the ratio analysis employed in this paper. The work of Morrow (1999) provides some specific ratios for football industry.

Research design and data analysis

The database used for this research consists of financial data that appears in the Financial Statements of 35 clubs (18 belong to 1st Division and 17 to 2nd Division) at the end of the season 2007/08. For comparative reasons, data at the end of season 2006/07 has been used. A multiratio financial analysis has been carried out. This is a common methodology for studying financial distress. Parameters have been set in order to classify the clubs. The financial situation of each club can be categorised as good, warning, worrying or critical according to parameters for each ratio. Finally, we have obtained a general map of the financial situation of professional football clubs. A t-Test for Independent Samples has been carried out in order to check if there are significant differences between the clubs under administration (6 in the sample) and the rest (29 clubs). A logistic regression has been performed in order to try to find an explanation of administration in football.

Results

The Spanish football industry represents a critical financial situation in general. 45.7% of clubs have a critical situation according to the indebtedness ratio. Its average value for 1st Division is 0.81 but for 2nd Division goes up to 2.83. The global estimated debt of Spanish football industry was almost €3.5 billion at the end of season 2007/08 when the previous year it was around €3 billion. It is important to underline that the borrowed debt from financial institutions was almost the same (€750 million in 2007 and €732 million in 2008). The average expenditure on

players (wages and salaries plus amortization) over operating revenue is 0.99 in 1st Division and 0.98 in 2nd Division. Only FC Barcelona and Real Madrid have the value of their ratios among parameters that are not critical. Clubs under administration and the rest of the clubs don't show statistically significant differences in the average of their main financial ratios. Being under administration is not explained by any financial ratio or account.

Discussion and conclusion

Looking at the results, we can conclude that the financial crisis in the Spanish football industry is deepening irrespective of Real Madrid and FC Barcelona maintaining a positive financial situation due to their ability to generate revenues. Indebtness is growing but financial institutions have cut the credit to football clubs. Clubs have had to increase all other ways of getting credit through what can be called "forced credit". There is a major difference between divisions. The indebttness in 2nd Division is much higher than in 1st division. The effort for promoting to join individual bargaining of tv rights without the existence of any 'golden parachute' may explain that situation. Financial indicators do not explain why clubs are under administration. Clubs with bad financial ratios avoid administration.

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