VOLATILITY PROBLEMS IN PROFESSIONAL EUROPEAN SOCCER CLUBS

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Abstract

Aim of abstract
Although European soccer – despite the continuing financial crisis – rushes from sales record to sales record some clubs get into financial distress. In addition to current examples from German soccer – FC Schalke 04, Arminia Bielefeld, TSV 1860 Munich – there are also some international cases – Portsmouth AC in England or AC Parma in Italy – worth mentioning. This is due to the dependency of revenues from sporting results in soccer clubs. In English, French and German soccer broadcasting revenues are allocated according to sporting criteria whereby successful clubs receive a greater portion of the proceeds than their comparatively unsuccessful competitors. The aim of this study is to detect the extent of financial risks caused by the uncertainty of sporting results with the help of an adequate ratio.

Theoretical background and literature review
The theory of risk management is based on ideas by Modgliani and Miller (1958). They argue that on a perfect market without any imperfections the value of a company cannot be influenced – neither positively nor negatively – by risk management. However, the assumption of the existence of a perfect market is not maintainable in reality because of information asymmetries or transaction costs. Risk management justifies itself because of this.
In the context of the shareholder value theorem the main arguments for risk management were delivered by Bessembinder (1991), as well as Smith and Stulz (1985) for financial distress and Froot, Scharfstein and Stein (1993) as well as Stulz (1990) for investment policy.

In the risk management process risks are first identified and then measured by an adequate ratio to take the appropriate steps. To quantify risks different ratios were developed. Apart from qualitative quantitative measurements have to be mentioned. Quantitative risk measurements refer to different ratios as volatility or the concept of value at risk. The risk of a financial asset – like a common stock – is generally measured by the volatility of its returns – those stocks whose returns tend to fluctuate significantly across time, rather than remain relatively stable, provide greater uncertainty to investors, and increase the probability of the investor suffering capital losses.

Methodology, research method, and data analysis
Considering the ratio of volatility a quantitative research method was chosen using data from different European soccer clubs that come from the so-called “Big Five”-leagues – England, France, Germany, Italy and Spain. The clubs were selected according to restrictions like the availability of revenue data of five consecutive seasons. The revenues of the three most important sources in term of volume – matchday, broadcasting and commercial – were collected and analyzed. Altogether, fourteen European Soccer clubs – five clubs from England and Germany, four Italian clubs, two Spanish clubs and Olympique Lyonnais from France – were selected. In a second step based on the collected data the volatility of the sources of revenues were calculated – first individually for each football club, followed by the calculation of a mean volatility for each source of revenue.

Results, discussion, and implications
The results show that the calculated volatility differs across the fourteen analyzed soccer clubs. On average the volatility of matchday revenues mount up to 17.48%, broadcasting revenues to 21.74% and commercial revenues to 16.04%. It is noteworthy that the spread of volatility between the clubs is quite high. In the case of matchday revenues the difference ranges from 0.63% by Olympique Lyonnais to 44.96% by Juventus Turin. The broadcasting revenues range from 6.84% by Olympique Lyonnais to 52.72% by FC Schalke 04 and the commercial revenues from 2.48% by Hertha BSC Berlin to 31.32% by Borussia Dortmund. In addition to sporting results new advertising contracts or development of the stadium are also relevant factors for the differences.

For this reason soccer clubs should – in the context of risk management – try to reduce the volatility of their revenues in order to secure in particular the necessary resources and the long-term athletic success. For this it is essential to identify in a second step adequate measures to achieve this aim.

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