UEFA financial fair play – the curse of regulation

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Aim of abstract/paper - research question

This paper tries to answer whether UEFA's Financial Fair Play concept will be effective in achieving the envisaged goals of bringing more financial rationality and discipline in European football.

Theoretical background or literature review

Despite rising revenues the majority of the top league European professional football clubs report record aggregate net losses every year. However, enforced by the expanding influence of private investors on the football business, in the "rat race" for sporting success on both national and European level, the access for clubs to external financial resources is not evenly allocated. From a financial perspective, European club football nowadays is therefore far away from the idea of equal opportunities. Given the correlation between sporting success and the clubs expenses for player wages (Szymanski, 2003) this must consequently result in a decline in Competitive Balance. Six years ago Lago, Simmons & Szymanski (2006) proposed tighter financial regulation from UEFA as a possible means to combat financial instability in European football. Also recent studies confirm the necessity of regulative measures (A.T. Kearney, 2010).

Against the backdrop of these undesirable developments, UEFA saw an urgent need for action and in September 2009 its Executive Committee approved the Financial Fair Play concept, which comes into force in the 2013/14 season. The core element of the new so called club-monitoring is the break-even requirement: Once the rule takes effect the relevant expenses of a club are no longer allowed to exceed its relevant income. Yet during the first years after the implementation, acceptable deviations to the break-even criterion are allowed. With regard to the financial aspect, UEFA aims at the protection against a continuing over-indebtedness of the clubs. Although not explicitly mentioned, the intended goals also refer to the aspect of Competitive Balance (Vöpel, 2011), as a long-term viability and sustainability of European club football can only be achieved by securing a Competitive Balance on a level that does not endanger the suspense between clubs and leagues alike.

Methodology, research design and data analysis

The study sets out with a review of the literature findings from previous research on the financial situation in European professional football. Afterwards, UEFA's new regulations and the relevant literature are discussed. Subsequent sections examine the relationship between the major stakeholders from an agency-theory perspective. By applying game-theory (building on Haugen & Solberg, 2010) – thereby assuming cloned teams and (more realistic) un-cloned teams in their decision to hire expensive/cheap talent – the probable behavior and the dilemma many European football clubs will be facing are shown. The paper furthermore identifies a number of potential loopholes of the current concept which clubs could use to their advantage as a consequence of being in a Prisoner Dilemma (PD).

Results, discussion and implications/conclusions

The relationship between UEFA and the European football clubs could be described as a principal-agent relationship, with UEFA as the principal commissioning the task to adhere to the Financial Fair Play regulations to the clubs (agents). An agency-problem arises due to different interests and asymmetric information. This gives rise to opportunistic behavior of the clubs (moral hazard), which in this case is enforced by the competition or rivalry between them. The incentive of the clubs is to have more financial resources for hiring talent than their competitors. Therefore, it can be assumed that the clubs will only pretend to adhere to the new regulations, while UEFA must monitor their abidance. Due to nowadays increasingly more complex company structures of professional football clubs and the sophisticated outsourcing of liabilities, UEFA faces a difficult challenge in assessing the documents of 236 licensees in total. Thus, monitoring costs can be assumed to be remarkably high.

Potential loopholes of the concept in its current form range from several possibilities in which ways the figures of relevant income and expenses could be improved to exception provisions of UEFA itself. A game-theory approach illustrates the mechanisms why clubs will tend to exploit these loopholes. In the case a club is convicted of not respecting the criteria, it faces a number of sanctions up to the withdrawal of the license for the upcoming European competitions. While this risk might deter smaller clubs with lesser financial capabilities of trying to bypass the regulations, the aggressive strategy (PD) even becomes more attractive to big clubs. Hence, they gain competitive advantage to their rivals and the gap between the clubs widens. In any case, the authors assume that the new regulations result in higher costs for accounting and therefore less money available for investment in talent. Nevertheless it must be stated that the presents of sugar daddies may reduce and at least their power will diminish.

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