
European football clubs - Risk averse or risk lovers?

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Abstract

INTRODUCTION – RESEARCH ISSUE

In recent years, many European football clubs have struggled with financial problems. This in contrast to North-American team sports, where teams have been healthier in financial terms (Haugen & Solberg, 2011). One reason for this is different aims. According to the sport economic literature, European football clubs emphasise sporting performances stronger than financial performances, compared to North-American teams (Késenne, 2007). This also affects their willingness to involve in risky investments, for example when recruiting players. By 2014, the aggregated transfer fees of players in the English Premier League amounted to €2,706 billion. Next followed the Italian Serie A and the Spanish La Liga, with aggregated figures of €1,207 billion and €1,134 billion.

The sport economic literature has treated football clubs as homogeneous units, which is a strong simplification. Within a club, there will be people with different aims and preferences, which also involve willingness to take risk. These people, who also are decision makers, involve administrative leaders, sport leaders, board members. Additionally, supporters and the local media may also have their say, at least indirectly. From a decision making point of view, it is interesting to investigate their attitudes towards risk. This is also the main research issue in this paper. Are some of them more willing to accept risky investments than others – for example when recruiting players? If so, the internal distribution of power can influence the behaviour of the clubs. Information on these matters can contribute to a better understanding of the behaviour of football clubs as producers operating in markets.

THEORETICAL PERSPECTIVES

Investors base their decisions on a tradeoff between risk and return. In the financial economic literature, this tradeoff is modeled by considering the risk premium investors require to enter a risky venture. The risk

premium is defined as the difference between the expected return of the lottery and the certain amount of money the decision makers is prepared to trade the lottery ticket for. The literature often model the lottery as double or half lotteries with 50/50 probabilities. What is the maximum amount the decision maker is prepared to bet? The answer is his absolute risk tolerance, and the inverse is his absolute risk aversion coefficient. Another alternative is measuring the relative risk aversion coefficient, with betting amounts measured in shares of available fortune. Discussion of risk premium follows as a consequence from Neuman and Morgenstern (1953) expected utility theorem and assumes that an investor has sufficient information to make rational choices, and that his alternatives can be ranked with a utility function.

METHODOLOGY – RESEARCH DESIGN

The empirical analysis is based on a survey of people involved in Norwegian football clubs in the top two divisions, where respondents included the categories mentioned above. In some of the questions, the respondents were presented hypothetical situations where the club considered recruiting new players. Here we described the circumstances so that the answers reflected their risk premiums. Additionally, the questionnaire also used other approaches to unveil attitudes towards risk, for example if the respondents expected the clubs would receive extraordinary funding in case of unforeseen financial difficulties. Here, they answered by grading their agreements with the claims by means of a Lickert-scale from 1 to 10. In total, the sample consists of 314 respondents.

RESULTS

The results showed that sports leaders had the highest risk premium, and hence were the most risk aversive category. Surprisingly, they were more risk aversive than administrative leaders. As we expected, the supporters were at the other end of the scale with the lowest risk premium. Indeed, they were the only category that was categorized as “risk lovers”, i.e. who had a negative risk premium. However, the results also showed internal differences within this group, as board members of the supporter clubs had a positive risk premium. These patterns corresponded with the general claims. Administrative leaders were more willing to accept deficit and risk to achieve sporting success compared to sport leaders. On the other hand, they were less optimistic with regards to the ability of being saved in case the club ran into financial difficulties. The presentation at the conference will go more into details on these and other results.

References

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