
Insolvencies and financial difficulties in French football, 1970-2012

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Synopsis:

The abstract focuses on the causes of insolvencies and financial difficulties in French football over the period 1970-2012.

Abstract:

1. AIM / RESEARCH QUESTION

Insolvency is an endemic problem in the world of European football (Szymanski, 2012). In French football, the within-season disruption of championships due to club insolvency and the necessity to keep a sufficient number of clubs to maintain interest in competitions were two reasons for the implementation of club financial controls (Dermit-Richard, 2004). These controls became effective in 1990 with the establishment of the national direction of management control ("Direction Nationale du Contrôle de Gestion", DNCG). Within this context, our aim is to identify the causes of insolvencies and financial difficulties in French football and to observe a possible impact of DNCG on their number. This research is the first step of an international project aimed at comparing insolvencies and financial difficulties in English and French football. In the context of the latter, decisions taken to relegate clubs or refuse to promote clubs other than on the basis of sporting merit are taken as a proxy for financial difficulties (other than in cases of attempted bribery).

2. THEORETICAL BACKGROUND

Insolvency within English football has received some attention in the literature, notably by Beech, Horsman and Magraw (2010) who identified five types or causes of insolvency:

1. clubs that have failed to cope with relegation;
2. clubs that have failed to pay monies due to the government;
3. clubs that have seen 'soft' debt become 'hard' debt;
4. clubs that have lost the ownership of their stadium;

5. the 'repeat offenders'.

Szymanski (2012) noted that notwithstanding the number of football clubs which go into administration, few actually disappear. He argued that the cause of administration was not 'irrational exuberance' where owners live beyond their means in order to achieve a better league position, but instead was caused by two types of negative shocks:

1. negative productivity shock (underperformance on the pitch compared to the previous season in cognisance of players' salaries),
2. negative demand shock (e.g. a decrease in revenues for a given level of sporting performance, caused by, for example, a substantial diminution in a media rights deal).

3. METHODOLOGY AND DATA

As part of a project aimed at comparing French football with the 92 professional football clubs in England over the period 1973-2010 (Szymanski, 2012), we are interested in the 92 top performing French clubs for each season within the defined time period. The latter is the period 1970-2012, providing 20 seasons before and after the inception of DNCG (both 1990-1991 and 1991-1992 considered as corresponding to its inception). We attempted to identify all insolvencies and financial difficulties and their causes in French football over the period 1970-2012. To do so, we relied on several sources:

<http://fr.wikipedia.org/>, <http://footbalenfrance.fr/>, <http://www.savoie-foot.com/savoiefoot/CFA/>, <http://www.rsssf.com/players/trainers-fran-clubs.html>, a document from the French football league entitled "Rapport moral saison 1990-1991" (Pukan, 1991) and a PhD by Durand (1994).

Adapting the types of insolvencies identified by Beech et al. (2010) and Szymanski (2012) to French football and the data available, we consider four causes:

1. negative productivity shock (underperformance on the pitch compared to previous seasons),
2. negative demand shock (generally identified as low attendance for a given level of sporting performance),
3. overspending (weak financial performance and the absence of a negative shock – either to productivity or to demand),
4. population / club concentration (where a club is based in a location with a low population or where more than one club exists in its geographical area).

4. RESULTS, DISCUSSION AND CONCLUSIONS

Over the period 1970-2012, we identified 114 cases of insolvency and financial difficulty among the 92 elite French clubs, including 63 cases of insolvency and 9 cases of anticipated financial difficulties in case of promotion (refusal). During season 1990-1991 there were 10 cases of insolvency and financial difficulty (of which 6 were insolvencies) and during season 1991-1992 there were 7 cases (of which 6 were insolvencies). This compares to an average of 2.05 for the seasons before the inception of DNCG (1.25 for insolvencies alone) and 2.8 after the inception of DNCG (1.4 for insolvencies alone).

For insolvencies and financial difficulties, the main causes were productivity shock (36%) and overspending (33%), followed by demand shock (16%) and population / club concentration (15%). For insolvencies considered alone, the

main causes continued to be productivity shock (44%) and overspending (39%), followed by demand shock (18%). No case of insolvency was due to population / club concentration. Hence, our results suggest that irrational exuberance is one cause of insolvency in French football clubs, which contrast with Szymanski's (2012) findings in respect of English football.

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