FINANCIAL STABILITY AND SOUNDNESS IN EUROPEAN TOP FOOTBALL CLUBS

Abstract ID: EASM-2015-182/R1 - (704)

All authors:
Angel Barajas (corresp), Oscar Castro-Limeres

Date submitted: 2015-03-20
Date accepted: 2015-04-14

Type: Scientific

Keywords: UEFA FFP, Football, Financial stability, Multi-Criteria Decision Analysis

Category: 6: Sport Economics and Finance

Synopsis:
The paper analyses the financial stability of top 10 European football clubs using MCDA adapted to football features and considering the UEFA FFP Regulations.

Abstract:
AIM OF THE PAPER
This paper aims to design a methodology for the evaluation of the financial stability of football clubs considering the Financial Fair Play Regulations (UEFA, 2012) and explores how these work with a sample of top European football clubs according to their revenues. This method is used to establish a ranking according to the levels of financial stability and soundness of the clubs in the sample.

THEORETICAL BACKGROUND
This paper is based on two theoretical backgrounds. The first concerns the methodology, based on the basic reference is the work by Ginevičius & Podviezko (2013). The second line is related to the peculiar features of the football industry. Top European football is characterized by high revenues and highly paid salaries paid to players, a recurrent financial unbalance, the emergence of financial doping and ‘Sugar Daddies’ resulting from the existence of conflicts between sporting and financial results that brings financial doping and ‘Sugar Daddies’ to football (Franck & Lang, 2013), the flexibility in regulation (Morrow, 2013), the heterogeneity in regulation among national leagues (Solberg & Haugen, 2010) and its social impact. Both sources have been used in order to adapt the model and create the ratios that to fit better to the football industry.

METHODOLOGY, RESEARCH DESIGN AND DATA ANALYSIS
Ginevičius & Podviezko (2013) developed a methodology to...
quantitatively classify quantitatively financial institutions. This paper adapts that methodology to the football industry. Firstly, it defines and estimates a number of ratios and their corresponding weights are defined and estimated. Then it uses, four Multiple-Criteria Decision Analysis (MCDA) are used: SAW, TOPSIS, COPRAS and PROMETHEE II. The results from these four MCDAs are then taken into account to finally classify the financial situation of the clubs. Considering the results from the four MCDA, a classification of the financial situation of the clubs is done.

Originally, the paper intended to analyze the top ten European clubs in Europe by taking the total revenue according to the 2014 Deloitte Report. However, the financial data of Chelsea and PSG were not available and they were replaced by the data for Liverpool and Borussia Dortmund (the next two clubs next in the list). The study was done carried out for the seasons ending in 2011, 2012 and 2013. Even though all the clubs followed the International Accountancy Standards, some adjustments were still required.

RESULTS, DISCUSSION AND CONCLUSIONS
The financial situation of the clubs analyzed, considering the three years period rank, is from first to tenth place, as follows: Bayern Munich, Arsenal, Manchester United, Borussia, Manchester City, Real Madrid, AC Milan, FC Barcelona, Liverpool and Juventus. The application of the MCDA to the clubs presents revealed that Arsenal, Bayern Munich, Borussia Dortmund, Manchester City, Manchester United and Real Madrid are among the 6 best clubs in all of the seasons. Considering the taking the studied ratios and the financial statements into account, results showed that Borussia Dortmund and Manchester City present a clear improvement in their accounts. They pass from the 5th and 6th positions in 2011 to 1st and 2nd positions, respectively, in 2013. Even when despite there are differences among clubs, in general their financial situation generally improves slightly. The main change is was given in season 2011/12, the FFP rules come into force were enforced.

The obtained results present show that big European clubs are financially stable. Moreover, some progressive improvements in stability and sustainability have been found. However, in the sample, AC Milan, FC Barcelona, Juventus and Liverpool have been found to require some additional improvements in their financial statements.

The tool applied in this study, based on financial and economic data, could be used by the stakeholders in this industry. Including more clubs would enrich the study but this will be a next step for further research. It is a tool based on financial and economic data. This study would be enriched including a more clubs. That will be a next step for further researches.

References: