ON PROFIT IN SPANISH PROFESSIONAL FOOTBALL

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Context

Sloane (1971) broke with the tradition of studying American professional sport by considering that a club's aim is to maximize profit. At least, for English football, profit-making clubs are not the rule. Szymanski and Kuypers (1999) affirmed that, there is no relationship historically between profit and playing performance. Nevertheless, since 1991 when several clubs began to be quoted on the London Stock Exchange, profit and performance on the pitch have begun to grow together. They also asserted, as did Morrow (1999), that a fundamental dilemma exists for football clubs. This is to achieve the balance between playing performance and economic aims in the long term. So, clubs became utility maximisers. Gerrard and Dobson (2000; 147) explained the 'team performance – profit club' model. In this model, the club utility function is precisely the function to be maximised. There is a financial restriction linked to a club's solvency. It may be the requirement of a minimum profit.

If we accept the proposition of utility maximization, the great debate would be centred on the parametric settlement of that minimum profit. In Spain, Guijarro *et al* (2000) and Blasco *et al* (2002) suggested the zero-profit hypothesis. In that case, any excess of resource would be allocated to achieve better sports performance.

This proposition presents some limitations. Mainly, it demands a unique optimum of the relationship between team performance and profit. Also, club managers should choose rightly that optimal point. Simon (1997) provided an alternative in suggesting that economic agents look to achieve a certain degree of satisfaction. They may be satisfied even without reaching the optimum.

Methods

In stage 1, I collected information regarding the economic results of 34 clubs from the Spanish First and Second Divisions throughout the period 1998 to 2002. Considering that each year the features (division and results) of clubs change, the sample consisted of 89 First Division and 59 Second Division 'A' clubs. Statistical and graphical analysis of means, medians, maximums/minimums of profit after taxes and observing trends for each club complete this phase. In Stage 2, I test the following hypothesis: If team performance and club profit are represented by S and P variables, respectively. S_s represents the sports performance at a satisfaction level and P_s is the profit that guarantees that level of satisfaction. Then it is necessary for the following expressions to be verified:

(1) $P \geq P_s$

(2) $S \geq S_s$

Let us suppose that the CEO considers the necessity of incurring squad costs (C). We can expect that the higher the cost of the squad, the better the team performance. As a consequence:

(3) $$\frac{\partial S}{\partial C} > 0$$

At the same time, an improvement in sports results will lead to an increase in revenue (R), so:

(4) $$\frac{\partial R}{\partial S} > 0$$

Nevertheless, the effect on profits is not clear because the increase in costs implies a decrease in profits. But, simultaneously, there will be more revenue as a consequence of the better performance of the team.

From a neoclassic point of view, we would choose the costs that give a nil marginal profit. With Simon's perspective, we could select the costs that allow us to reach a satisfaction profit. Subsequently, the model would be similar, but the choice is different. However, it seems that if there was an attitude towards profit maximization, expected profits should be positive; meanwhile in a satisfaction approach expected profit may be zero. Consequently, in order to check which behaviour better fits our observation of Spanish Professional Football clubs, I test the following hypothesis:

(5) H_0: Expected profit = 0

(6) H_1: Expected profit > 0

I use Wilcoxon's non-parametric test on the same sample of clubs during 1998-2002. The chosen variable to check is Profit after taxes (BN).

Results

The main findings of the previous statistical analysis were that 55.9% of the clubs presented a negative average financial result during the period. Nevertheless, the average profit of the clubs as a whole was €375,963 but the median falls to €116,632.40. It is worthwhile considering that, within the time observed, there are two real deals with extraordinary figures, namely, the stadium of Sarria sold by Espanyol, and Real Madrid's sale of Ciudad Deportiva. Histogram analysis showed a strong concentration of profit and loses around zero. I found that changes in trends of results are quite common, but all agree with the outcomes of the non-parametric test summarized in Table 1. These results were not significant, so, we can reject the null hypothesis and accept that the behaviour of Spanish football clubs follows a satisfaction model.

Table 1: Wilcoxon's non-parametric test -summary

	H_0: E(BN) = 0
Z	-,760(a)
p-value	.447

(a) Based on positive ranks

Conclusions

Most Spanish football clubs announce poor economic results. This fact leads us to conclude that they plan their economic aims in line with Simon's aspiration level. So, club managers would try to assume costs that provide a satisfaction profit. Using the Wilcoxon's non-parametric test, I found that in Spanish clubs' profits tend to be zero. This result is compatible with Simon's satisfaction proposition, but not with the neoclassical one. Spanish clubs do not have as a primary goal reaching profits through their sports performance.

References

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