

# (SP) THEN NEED OF COMPETITIVE BALANCE IN EUROPEAN PROFESSIONAL SOCCER: A LESSON TO BE LEARNED FROM THE NORTH AMERICAN PROFESSIONAL LEAGUES

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## Introduction

This paper analyzes and discusses the importance and need of Competitive Balance (CB) (Neale, 1964) in professional team sports leagues for turnover, profit and economic growth of a league. EUR soccer leagues (UEFA 2006) are compared to the Big-4 NA leagues (National Football League (NFL), Major League Baseball (MLB), National Basketball Association (NBA) and National Hockey League (NHL)) (Wilner 2005 SportsBusiness.com) in analyzing the importance of a high CB.

The sports models in EUR are very different compared to NA (Deloitte&Touche 2004). NA leagues are designed as business firms (Quirk & Fort, 1992) where EUR leagues are organized for sportive goals in democratic/political national federations (Troelsen, 2005). CB has for long been an issue in NA leagues (Zimbalist, 2002), resulting in extensive league regulations to improve CB with the aim of increasing the incomes for the stakeholders (Fort & Quirk, 1995, Whitney 2005). In EUR discussions on the importance of CB have barely started – lately with Franz Beckenbauers loud call May 4<sup>th</sup> 2006 for a better CB in European Soccer/Champions League (CL) level.

## Methods

The definition of CB is for a professional league between several definitions. “*Oh Lord, make us good, but not too good*” – The president of the Yankees (Neale 1964), “*CB refers to balance between sporting capabilities. The more balanced the teams, the more uncertain the outcome of each match. A lack of CB will draw less spectators and media and reduce the total income for a league.*” (Michie & Oughton 2004), “*Proper CB should be understood to exist when there are no teams chronically weak because of MLB’s financial structural features. Proper CB will not exist until every well-run team has a regularly recurring hope of reaching postseason play.*” and “*Fans want to begin each season with hope and expectation.*” (MLB 2000).

The measurement of CB can be divided into two groups (Troelsen 2005):

**Static CB:** Measuring the difference when the top is playing the bottom of a league but not taking into account if the same teams constantly are in the top. Additionally, the Static CB can be measured by the outcome of the top playing the bottom. Standard deviation, Herfindal’s index, C5. Cn. Gini. (Michie J. & Oughton C.2004).

**Dynamic CB:** Measuring how often the same teams, over a certain time period, are constantly dominating the top of a league and the mobility of the teams over the years. How many top 1+2 positions has the most winning teams had over the last 10 years? Haan et al (2002) used the differences in the year-to-year rankings to measure the dynamic CB (DNt).

$$DN_t = \frac{2}{n} \sum_k |r_{kt} - r_{kt-1}|$$

Dynamic CB is the most important focusing on the stability of the top teams and future expectations “Fans want to begin each season with hope and expectation” (MBA 2000).

The paper has for 10-18 years on public available data calculated the Dynamic CB for EUR-Top 5 soccer leagues and NA-Top 4 leagues and statistical compared these findings, showing a higher and significant CB in NA leagues than in EUR soccer leagues.

The paper is analyzing the reasons for these differences in CB, and the main reasons are: A larger market size and a longer history in a league improves the total market revenue from sponsors, spectators and fans (Troelsen, 2005; Dejonghe, 2001; 2006). If nothing is done to regulate CB, “Big-city teams win too much”(Whitney, 2005). The mid-season budget explains 50-70% of the final standings, strongest correlation in English Premier League, MLB, NBA, and NHL (Zimbalist, 2002). Below the top teams is a possible conflict between gambling on sportive success and ensuring economic sustainability (Michie&Oughton, 2004; Dejonghe, 2006). Increased revenue sharing will not improve CB. The only mechanism that fosters balance is a salary cap (Fort & Quirk, 1995), Limited revenue sharing might increase CB (Marburger, 1997), Leagues with promotion and relegation results in teams investing more in playing talent (Hall, 2002; Noll, 2005) driving up players’ part of the league revenue. Promotion and relegation is a substitute for either relocation or expansion (Noll, 2005).

## Results

### Competitive Balance:

- In a league with high Competitive Balance (CB) all teams at the start of a season have a realistic expectation to perform well and end up high in the final ranking. The result is that almost ***no teams are constantly ranked in the top or in the bottom of the league.***
- Without interfering in CB, big city teams or teams with deep pocket investors will dominate the league and will constantly be ranked in top of the leagues.
- ***The CB is much higher in North America (NA)*** for all Big-4 leagues than for soccer in Europe (EUR).
- NA focuses on ***CB to optimize turnover, profit and economic growth of a league.*** EUR can learn from NA’s experiences. Lack of governing CB in EUR soccer will on the long run result in less growth in revenues, financial gambling in reaching playoffs, bankruptcies, rival leagues and fewer fans for the EUR-leagues.

## Discussion

### Based on comprehensive analysis we suggest the following for European soccer:

- EUR soccer leagues must realize, that to influence and ***govern CB is important.*** Doing nothing will finally lead to a decreasing CB in EUR Soccer and result in declining incomes for the EUR-leagues.
- A system with ***closed professional leagues*** like in Holland looks promising. The number of professional teams in a country must be placed balancing the size of the markets – as the size of the market is the strongest balancing element in CB.
- The introduction of ***Play Offs for championships, relegation and promotion*** can be introduced but adjusted into a version acceptable for EUR.
- A salary cap might be difficult to implement in EUR. But ***some limitations on player’s budgets for the strongest teams,*** a hard or soft salary cap with the exception of one or two marquee players can be implemented. The introduction of a salary cap can only be successful if a system of revenue sharing would be implemented.
- ***A league must own all media rights*** and then redistribute them equally to the teams. Extended local media rights for weaker teams will result into better CB by creating new fans to the benefit of the league and the teams.

- The introduction of an ***exogenous controlling license commission***. Exogenous persons will be introduced such as Commissioners, legal experts/lawyers and some other external specialists.

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