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Classifying financial situation of professional football clubs

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Background

The European Union is worried about the financial distress in business. There is a policy addressed to develop early warning sign which help to prevent bankruptcy and act in early stages of financial crisis. A quick response at that time may be vital in order to offer a second chance to businesses. Spanish Football industry has experienced serious financial problems. Ascari & Gagnepain (2006) assert that Spanish football industry suffers a structural weakness but, in their opinion, the situation seems to be less severe than in other European leagues. Boscá et al. (2008) refutes the conclusion of the former author and they state in line with García & Rodríguez (2003) that 'the economic situation of Spanish football clubs presents an important fragility'. Barajas & Rodríguez (2010) describe the difficult financial situation of the Spanish Football Industry.

Objectives

In that context, the objective of this work is to provide a tool oriented to classify the football clubs taking into account their financial situation. This kind of classification may help to determine which clubs need a special monitoring or even extraordinary measures in order to guarantee their financial sustainability.

Methods

We have worked with data panel of football clubs in First and Second Division from year 2000 until year 2008. On average, we each year have 37 clubs. We have excluded those clubs and years for which we jointly missed some data. It implies that finally the sample has been reduced to 209 cases. The financial data for each club has been extracted or stimated from its financial statements. Regarding financial distress and financial crisis, the works by Beaver (1966), Altman (1968), Altman et al. (1977), Dimitras et al. (1999) have been useful in order to choose some of the ratios employed in this paper. Ratios used for Barajas & Rodríguez (2010) have been taken as reference. We have also introduced some variables which reflect variation in particular accounts.

We are looking for an indicator that is linear combination of all the variables and it permits to classify the different clubs in level of financial situation. The formula used to obtain the indicator is:

$$IND(\%)=\sum \beta_j X_j$$

Where β_j is the importance of X_j factor in the indicator.

A factorial analysis with oblimin rotation has been carried out in order to get a limited number of factors. As we could reduce the variables to only one factor, we decided to transform it into an indicator which classify clubs in a scale from 0% to 100%, being the former the worst value and the last the best.

Finally we classify all the clubs according the resultant financial situation as: critical, worrying, warning or good.

Results

We have obtained a factor that reflects three components: the first would be related to management of the club (including variations in expenses on players and in ordinary revenue and the ratio total income to total debt); the second would be related to risk (including variation in current liabilities and in total debt), and the third would reflect the indebtedness (total debt to total assets and current assets to current liabilities ratios). From this factor we have obtain an indicator useful for grouping clubs according their financial situation. This indicator is positively related with management of the club and negatively with others variables. According with this indicator, only 21.5% of the clubs would be in a good financial situation, some 34% would be in a warning situation, some 27.8% in a worrying situation and 16.7% in a critical situation along the period 2000-2008. In First Division, the situation is slightly better.

Conclusions and discussion

It is useful to have a tool for classifying clubs. Variables can be grouped into components related to management, risk and indebtedness which.

The situation of the clubs is better if it is better the management of the club and is worse if the variables related to risk or/and the indebtedness are greater

It is necessary test the stability of the model to establish the indicator definitively.

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