LESSONS LEARNED FROM THE NORWEGIAN VARIANT OF THE FINANCIAL FAIR PLAY REGULATION

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Abstract

INTRODUCTION
In spite of the increased revenues for European football clubs in recent years, most football clubs do still experience financial difficulties, and Norwegian football clubs are no exception to this trend. However, the aim for a football club is not to maximize its profit, its aim is to maximize its final league position subject to its available economic resources. For this reason, sporting success, and not economic success, is a club's actual strategic purpose (Sloane, 1971).
Money spent on players and coaches explains to a big degree the sporting result, and Szymanski (2003) showed that wage costs explained as much as 90 percent of the final league position in English Premier League. This may cause to an arms race for clubs to obtain the best available players to achieve sporting success, which again lead to an imbalance between income and expenditures (Barajas & Rodriguez, 2010).
To finance their losses, many clubs depend on gifts from benefactors or emissions from investors, which may lead football clubs to over-invest and undertake big risks since the costs, are not covered by the club itself, but by its "sugar daddies" (Hölmstrom, 1979). However, if benefactors and investors are not willing to finance the losses, this heavily over-investing may lead to bankruptcy. In a sporting contest, the competitors are mutual dependent of each other, and if one club goes bankrupt, negative spillover effects will hit all competitors. To avoid such a scenario UEFA implemented Financial Fair Play (FFP) regulations, which are effective from the 2013/14 season (UEFA, 2012).
The Norwegian Football Association (NFF) implemented a national financial regulation in 2009 called "the Financial Follow-up System" (FFS), which is harmonizing with the FFP. Hence, Norwegian football clubs have five years of experience of operating under financial regulations such as the FFP. Under the FFS-regulations, Norwegian football clubs must report financial results twice a year. NFF do then work out a

scorecard for each club based on its financial results. The scorecard is meant to signal the clubs economic sustainability in the long-run. In the scorecard, financial ratios for liquidity and solidity are accounting for as much as 70 percent, while operating result accounts for the remaining. Based on the scorecard, the clubs are divided into three zones: a green zone, which is considered the “safe” zone, a yellow zone, which is considered the grey area, and a red zone, which is considered the “danger” zone.

RESULTS & DISCUSSION

When the FFS-rating started in 2009, only one out of 16 clubs were in the green zone, five clubs were in the yellow, while 10 clubs were in the red zone. Five years later on six clubs were in the green zone, 10 clubs in the yellow zone, and no clubs in the red zone. Based on this positive development in the clubs financial score, the FFS-regulation is apparently a success. Still, the FFS-ratings have big variation over time due to overrating liquidity and solidity in the calculation of the score. The ratings show that a club, which is in the red zone at one point, may be reported fit and in the green zone six months later, only to be back in the red zone at another six months. This inconsistency may indicate that the club’s economy is in constant disorder. The score from the FFS-regulation is very sensitive to cash flow generated by gifts from benefactors and deposits from investors, money that may enable the clubs to maintain a further unhealthy operation.

The signaling is also based on a defective basis of figures. Norwegian football clubs cannot organize themselves as pure limited companies but are organized as voluntary associations. Still, contractual relationships with limited companies is possible and many Norwegian clubs have a dual governance structure where market and player rights are organized in affiliated limited companies (Gammelsæter & Jakobsen, 2008). The financial reports from the clubs are consolidated financial accounts between the clubs and its affiliated limited companies, which with the clubs have a formal relationship. Affiliated companies that the clubs do not have a formal relationship with will not be a part of the consolidated financial accounts, and hence not part of the score calculation. For this reason, the scoring is based on wrong premises, and the FFS-regulation portray a make-up of the finances of the football clubs. Hence, an apparent success may actually be a real failure.

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