

Parachute Payments In English Football; Softening The Landing Or Distorting The Balance?

Wilson, Rob; Plumley, Daniel; Ramchandani, Girish

Sheffield Hallam University, United Kingdom

E-mail: r.j.wilson@shu.ac.uk

Aim of paper

This research has three aims. First, to examine the extent to which parachute payments widen or bridge the financial gap in the Championship between clubs that receive them and those that do not. Second, to analyse whether the overall competitive balance in the Championship is affected by the parachute payment system taking into account the prevalence and value of these payments. Third, to compare the performances of clubs in receipt of parachute payments and those without in terms of promotion to the Premier League (the top tier) and relegation to League 1 (the third tier).

Theoretical background

Received theory suggests that the perfect game is a symbiotic contest between equally matched teams (Wilson, Plumley & Barrett, 2015). The economic problem with this 'symbiotic contest', as Vrooman (2015) contends, is that professional sports leagues form imperfectly natural cartels where games are played between teams with asymmetric market power. Professional sport teams (and leagues) are intrinsically different from normal forms of mainstream business, where the most successful firms can eliminate competition and establish stronger market position. Such elimination of competition and single team dominance in sport, however, is not healthy for the continuing success of the professional league due to the joint nature of production (Leach & Symanski, 2015).

As such, this paper examines whether or not parachute payments distributed in English football to relegated teams are distorting the competitive balance within the English football league system. There is extensive research that has analysed competitive balance in the so called 'big five' European football leagues (England, France, Germany, Italy and Spain; e.g. Goossens, 2006; Montes, Sala-Garrido & Usai, 2014) but there is little research that has been conducted in the lower tiers of these respective leagues and no research, to the authors' knowledge, that considers the impact of parachute payments on competitive balance.

Methodology

The time frame for the analysis was the ten Championship seasons from 2006/07 to 2015/16. This time frame was chosen based on the availability of data about parachute payments made to clubs relegated from the Premier League, which was sourced via direct correspondence with the Premier League. Turnover figures for clubs that competed in the Championship at any point in the time period under consideration were obtained from their annual accounts. Championship results for each season between 2006/07 to 2015/16 were collated from the English Football League website.

Overall competitive balance of each season was measured using Michie and Oughton's (2004) Herfindahl Index of Competitive Balance (HICB), which was derived based on the number of points achieved by all clubs in the Championship in each season. The research also examined specific aspects of competitive balance that are likely to be of interest to both fans and league authorities — promotion, survival and relegation. Performance against these outcomes in the Championship of clubs with parachute payments was analysed relative to clubs that did not receive them through further statistical tests.

Results, discussion, implications

We found that parachute payments offer clubs that are eligible to receive them a relative financial competitive advantage over other clubs in the sense that they can be used to offset player transfer fees and wages. In relation to the overall competitive balance of the Championship, we found evidence that an increase in the number of clubs with parachute payments and the overall value of these payments coincided with a reduction in competitive balance in the league. Furthermore, clubs with parachute payments were found to be twice as likely to be promoted to the EPL and considerably less likely to suffer further relegation to League One compared to clubs without. In relation to parachute payments aiding promotion, the results were statistically significant ($z = 2.075$, $p < 0.05$).

The paper puts forward two main suggestions for league organisers based on the results. First, a re-distribution of parachute payments is recommended to bridge the financial gap between the leagues. A more equal distribution of the broadcasting rights, in relation to improving competitive balance of leagues, would possibly begin to bridge the financial gap between some clubs. Second, the implementation of a

handicap system is discussed, with relegated clubs potentially having the choice between a handicap (with parachute payments) and no handicap (without parachute payments).

This research extends the evidence base of competitive balance in professional team sports and also contributes to the academic literature in a novel way, primarily by being the first paper of its kind to examine competitive balance in relation to parachute payments.

References

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