Sport Funding And Finance

Track Chair: Sven Junghagen, Copenhagen Business School

Who Invests In Financial Instruments Of Sport Clubs? An Empirical Analysis Of Actual And Potential Individual Investors Of Professional European Football Clubs

Huth, Christopher

University of Bayreuth, Germany

E-mail: christopher.huth@uni-bayreuth.de

Aim of the research

Due to the reinforced conditions of official regulatory credit screening procedures of Basel II and Basel III, credit is now more difficult to obtain for risky business models such as sport clubs. Therefore, alternative, supporter-based financial instruments have become more important. Given the increasing relevance of fan investors for professional European football clubs and instances — e.g., fan bonds of German football clubs TSV 1860 München and FC Hansa Rostock — where the issuing football club did not successfully implement their supporter-based financial instrument, the issuing club has to know in advance who may provide capital to implement an appropriate selling process. Therefore, the aim of the study is to identify factors that influence the purchase decision of actual and potential individual investors of financial instruments of football clubs. In this context, we first try to evaluate the factors separating potential individual investors from non-investors based on the willingness to invest. Then, we analyse the factors that describe the actual individual investors of football clubs.

Theoretical background and literature review

Traditionally, financial literature posits the notion of "Homo Oeconomicus" who makes perfectly rational economic decisions. However, individual investors do not act in line with the theory. Alternatively, behavioural finance is an approach that applies psychology to finance. It attempts to analyse the behaviour of the financial markets and of individual investors by identifying and learning human psychological phenomena (Kahneman & Tversky, 1979). The literature on behavioural finance offers various explanations as to why individual investors do not act accordingly and, therefore, are subject to different biases (e.g., home bias, naive diversification, excessive trading, herding).

Previous sport-related research focuses primarily on the influence of sporting results on club's stock prices and volatility (e.g., Benkraiem, Le Roy, & Louhichi, 2011) or the effects of an IPO on a club's sporting performance (Baur & McKeating, 2011). With the exception of the study of Huth, Gros, and Kühr (2014), who investigate the role of individual investors' emotional motives in sport investments, quantitative research in the area of fan investors is limited.

Methodology, research design, and data analysis

In line with our research-leading aim, we selected two dependent variables and different finance-related, club attachment-related and sociodemographic independent variables for bivariate and multivariate analyses.

For the data collection, we used a standardized online questionnaire to track factors that describe potential or actual investors in financial instruments of football clubs. The online questionnaire was used for cost and time reasons (Fowler, 2014). As we aim to cover respondents across Europe, the questionnaire was available in five languages — English, German, French, Spanish and Portuguese — to include participants from different parts of Europe with large and smaller football leagues. The questionnaire tool Qualtrics was used for online sampling. The link was posted to selected fan and financial online forums across Europe and to different social media channels. The questionnaire was online for several weeks (12/16–01/17). In total, 760 respondents completely filled out the questionnaires during the survey phase and were considered in our analyses.

Results, discussion, and implications/conclusions

Our findings indicate that club attachment is essential for an investment in a football club. Justifiably, these financial instruments, such as bonds, are called "fan-bonds" in the sport economic literature. In their selling campaigns, football clubs should focus on men who possess a certain level of knowledge of financial instruments, have a certain risk appetite and have a direct attachment to football in general and — if possible — to a specific football club.

The results also underline that traditional investment objectives are more or less irrelevant for supporter-involved financial instruments. Therefore, football clubs can act differentially in comparison to other firms issuing financial instruments such as stocks and bonds. The individual investors of football club-related financial instruments do not expect or require a financial return of the issuing football club. In contrast, in line with previous sport-related findings, they invest to help the club realize their future (sporting) objectives. The sporting success of football clubs replaces the financial return for their individual investors. Therefore, investors expect an emotional return that compensates their financial efforts.

References

Baur, D., & McKeating, C. (2011). Do Football Clubs Benefit from Initial Public Offerings? *International Journal of Sport Finance, 6*(1), 40–59.

Benkraiem, R., Le Roy, F., & Louhichi, W. (2011). Sporting Performance and the Volatility of Listed Football Clubs. *International Journal of Sport Finance, 6*(4), 283–297.

Fowler, F. J. (2014). *Survey Research Methods*. Boston: SAGE.

Huth, C., Gros, M., & Kühr, C. (2014). Fananleihen deutscher Fussballunternehmen — Eine empirische Untersuchung des Anlageverhaltens der Zeichner. *Corporate Finance, 5*(1), 7–16.

Kahneman, D., & Tversky, A. (1979). Prospect Theory: An Analysis of Decision under Risk. *Econometrica, 47*, 263–292.