

## Course and Management of Latent Stages of Economic Crises: The Case of German Professional Football Clubs

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### **Aim**

Although European football industry, especially top leagues, has been showing constant revenue growth during the last two decades, there is broad evidence for frequent cases of financially distressed football clubs, including insolvency proceedings, both, in German and other European leagues. So this phenomenon is well documented (see e.g. Szymanski, 2017, p. 422). Since focus in literature is almost exclusively on entry into insolvency proceedings and on obvious stages and indicators of crises, such as “operational losses”, “illiquidity”, and “indebtedness”, there is a research gap for more latent stages of a crisis. Because grounds for later insolvency proceedings might already occur in these earlier stages, it is important to understand the relation between them. The research question is as follows: “Is there a systematical relation between events occurring in early, i.e. latent, stages of crises and the further progression of such crises, including entering insolvency proceedings, in the case of German professional football clubs?”

### **Theoretical Background and Literature Review**

A wide-ranging systematic literature review with 119 identified relevant articles has been conducted in order to identify the research gap and to summarize the current state of theoretical background within the field of “(economic) crises in professional football” (see upcoming scientific presentation of Druker & Daumann, 2018). These results will be briefly presented beforehand.

The theoretical background is twofold. First, there is a flourishing research on the economics of (especially professional) team sports and there are some peculiarities of the team sport industry (e.g. objective functions, value creation and co-opetition, market structure and intense competition, institutional rules such as the relegation/promotion system, and the role of the stakeholder “fan”), in context of which literature explains why clubs, in general, so frequently end up in a threatening financial crisis. Apparently, the European team sports model promotes an overinvestment environment for the clubs and puts many of them at the edge of a financial collapse. There are mainly two explanations for such a situation: the logic of a “rat race” (see e.g. Franck, 2010) and the “soft-budget-constraint” (see e.g. Storm & Nielsen, 2012). Yet, these findings don’t look in detail on the course of a crisis of a football club. Therefore, and secondly, models taken from genuine crisis research are used to close this gap. Particularly, different stages of crises (ideal-typical order: stakeholder crisis, strategic crisis, product/sales crises, profit crisis, liquidity crisis, and finally insolvency proceedings) (see e.g. Crone, 2017). Additionally, because of the case of team sports, an extra stage, the “sporting crisis”, will be integrated into this model. It is important to note, that the

course of a crisis can consist of all of these stages or only of some of them. Also the order of the stages might differ from the ideal-typical one. Any stage can be characterized by symptoms (e.g. frequent changes of managers or head coaches) and causes (either external or internal).

### **Research Design and Data Analysis**

First, all identifiable cases of any of the crises stages of German professional football clubs will be searched for in different media (databases of nationwide newspapers (e.g. FAZ, Süddeutsche Zeitung, Handelsblatt, Tagesspiegel)) and databases of sports and football specific magazines and websites (e.g. SPONSORS, Kicker, 11Freunde, Sport1)). Secondly, all of the case data obtained will be content-analyzed (after approach of Mayring, 2015) in order to re-construct and to understand the courses of the crises and the managerial measures undertaken (i.e. a qualitative approach will be used). Different courses of crises and different managerial measures should lead to different outcomes (e.g. either moving further towards insolvency proceedings or recovery). This relates directly to the research question. The sample will comprise any case that has occurred between 1999 (the introduction of the new insolvency law in Germany – the “Insolvenzordnung”) and 2017. As a professional club any club from tier one (“Bundesliga”) to four (“Oberliga” until season 2007/2008 or “Regionalliga” since season 2008/2009), which is actually rather semi-professional, will be considered.

### **Results and Discussion**

Preview: Five clubs have been pre-analyzed so far and showed that mostly either high risk-taking (as a strategic decision) in early stages or ongoing stakeholder disputes, resulting in an absence of a stable sporting strategy, in combination with a series of negative shocks (persistent sporting failure) lead to a situation where illiquidity and insolvency proceedings are most likely to be the outcome.

### **Conclusion and Implications**

Preview: By analyzing professional football clubs which ended up in entering insolvency proceedings, the findings might support the understanding of emergence and progression of crises and facilitate their management. In addition, some aspects of the economic theory of team sports can be extended or further confirmed.

### **References**

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