

The Unintended Consequence of Financial Fair Play: An Examination of Competitive Balance across Five European Football Leagues

Wilson, Rob and Plumley, Daniel

Sheffield Hallam University, United Kingdom

r.j.wilson@shu.ac.uk

Aim

This paper examines competitive balance in European football leagues before and after the inception of Financial Fair Play (FFP) regulations by the Union of European Football Associations (UEFA) in 2011.

Theoretical Background and Literature Review

The FFP regulations were implemented following a period of financial instability amongst European professional football clubs. The two objectives of FFP were to bring about more financial stability in European football and make the industry (and individual leagues) more competitively balanced. It is not clear whether or not the definition of competitive balance put forward by UEFA is aligned with the theoretical definition of competitive balance found in academic literature (e.g. Fort & Maxcy, 2003) but it is evident that UEFA are indeed concerned with the concept of 'competition' between teams in their respective member leagues. However, there is very little evidence at the present time as to the veracity of the achievement of the second objective of FFP in relation to competitive balance aside from one or two papers (e.g. Freestone & Manoli, 2017). Furthermore, there has been extensive criticism of the regulations in academic literature, particularly linked to suggestions that the regulations may in fact have an adverse effect on competitive balance and only actually maintain the status quo of keeping the top clubs at the top of the game (e.g. Szymanski, 2014). Vopel (2013, p.17) confirms this point by stating that the spending power provides the true competitive advantage in football, making it "almost impossible to catch-up to bigger clubs without external funding". The 'big five' leagues in European football have historically been characterised by competitive imbalance and dominance by a select number of clubs (Ramchandani et al., 2018) something which goes against the fundamental premise of competition in professional team sports.

Methodology

Our research focuses on the top division football leagues in England (English Premier League), Germany (Bundesliga), France (Ligue 1), Italy (Serie A) and Spain (La Liga). The paper is organised into two distinct time periods: pre FFP, comprising the six seasons between 2005/06 and 2010/11; and post-FFP, comprising the six seasons between 2011/12 and 2016/17. An independent sample t-test was used to establish whether the differences in the competitive balance scores for HICB, title gap and survival gap in each league before and after FFP were statistically significant. Further analysis examined the levels of dominance in each league pre FFP and post-FFP including the number of different teams to win the league title and the number of different teams to finish in the top four positions.

Results and Discussion

The results show a statistically significant decline in competitive balance post-FFP for leagues in Spain, Germany and France but not for England and Italy. Furthermore, the results report significantly higher levels of concentration and dominance by a select number of clubs in Germany (most notably Bayern Munich). The standout discussion point here is the case of the German Bundesliga. In relation to all measures of analysis, the Bundesliga performed poorly and saw a significant decline in competitive balance and a significant increase in the gap for the title as well as seeing fewer title winners and fewer clubs finishing in the top four positions in total. The findings for Germany are also interesting given the ownership structure of clubs in Germany and the 50+1 rule. This system means that, historically, German clubs have been averse to financial takeovers. This can be to the detriment of clubs that are trying to improve their performance within such a system as they cannot catch-up to the bigger clubs without external funding. Whilst we cannot obviously claim causation in respect of FFP in the context of our results, we can partially attribute a decline in competitive balance to the sizeable financial gap that has developed between clubs during this period, caused in part by increases in prize money linked to broadcasting and pan-European competitions.

Conclusion and Implications

The results from this study, in part, provide evidence to support the criticisms levelled at FFP in the extant literature, particularly in the context of the elite leagues in Germany, Spain and France. Furthermore, under the current regulations it will be difficult for any of the 'smaller' clubs to close this gap given that the regulations limit significant external investment. Thus, clubs must look to other long-term financing strategies or innovation in their strategic direction to be able to compete. However, innovation and long-term financing will only get you so far in respect of the revenue that you can actually generate. Under a break-even principle, the clubs that earn more will ultimately always have more to spend. Hence, we argue that FFP may have had an unintended consequence in relation to the competitive balance of European football leagues.

References

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