

# **Understanding Soft Budget Constraint in Western-European and Central-Eastern-European Professional Football**

**Havran, Zsolt and András, Krisztina**

Corvinus University of Budapest, Hungary

zsolt.havran@uni-corvinus.hu

## **Aim**

The paper presents the implementations of János Kornai's theories about transition and Soft Budget Constraint (SBC) through the example of the special and popular topic of professional football. Nowadays professional football is facing serious challenges in Western Europe and in our narrower region, Central and Eastern Europe. For the former the appearance of so-called "sugar daddies" and irresponsible management, in the latter case weakening competitiveness, the decreasing number of domestic consumers and recurring public funding are the main problems. Because of the above-mentioned challenges, The Union of European Football Associations (UEFA) created the regulation of Financial Fair Play (FFP). The research question of the paper is how can the SBC help us to understand the current trends and the main differences between the Western-European and Central-Eastern-European (CEE) professional football?

## **Theoretical Background and Literature Review**

The paper shows the theory of Soft Budget Constraint and its application in professional sport. It illustrates the market and bureaucratic co-ordinating mechanisms and explains the specialities of the state and the market model of professional football through the transition of CEE countries.

Originally, Kornai developed the SBC concept (Kornai, 1980) to understand the inefficiency of loss-making companies in socialist economies which were repeatedly bailed out by the state. In capitalism several examples can be found for SBC (for example in case of banks, local governments, countries, non-governmental organizations, etc.). András (2003) applied the SBC in the case of socialistic sport and football in transition countries in the CEE region. In connection with FFP regulation, several well-known economists applied the SBC theory of Kornai (Franck & Lang 2014; Storm and Nielsen 2012 and 2015; Andreff 2015). We can find further current references with respect to English and Italian football, as well as in the comparison of the competitiveness of professional sport in North America and Europe.

## **Methodology and Data Analysis**

Professional football's specialities in the post-socialist countries and current business results of CEE football were examined. Our aim is to examine the presence of SBC in CEE football and to find similarities and differences in the application of SBC in the two different parts of Europe. We analyse the market revenues of football clubs to specify the efficiency of CEE clubs and to find the operating model of them (business or state model). Based on Kornai (1980) as well as Storm and Nielsen (2012), we can identify the categories of soft operation (soft pricing, soft taxation, soft subsidies, soft credits, soft investments, soft accounting) and inefficiency in the CEE region.

Throughout this paper we used two methods: on the one hand through secondary research we present the achievements and business functioning of CEE-region football with the help of existing international literature and UEFA 2016 benchmark report that present deep analyses about revenues (TV-rights, UEFA revenues, Tickets, Sponsorship, Other) of football clubs.

On the other hand, analysing our own primary data collection (totally 2,102 transfer data from transfermarkt.de), we examined the level of revenue from player export realized by the clubs and championships of the CEE region (9 countries) between 2006 and 2016. Our aim was to show the sport professional and financial efficiency of CEE clubs and to identify clubs and championships which have SBC and ineffective operation.

### **Results and Discussion**

We show detailed figures and calculations about revenues of CEE football clubs in the examined 9 countries. Both professional and financial competitiveness of the CEE region can be considered weak in European football but transfer market income can be evaluated efficient. There is a big difference between clubs and championships even within the region, still, there are clubs in the region that can be considered competitive in international competitions (from Czech Republic and Poland), in the number of consumers (Poland) and on the field of player sales (Serbia, Croatia).

By using their resources efficiently and by realizing revenue from the market, a Central-Eastern-European championship or club can establish its future success. Clubs of some countries like as Hungary cannot operate effectively thanks to excessive state subsidies and SBC. We present Hungarian cases related to the 6 criteria of SBC.

### **Conclusion**

Related to the reviewed literature, many top football clubs from Western Europe operate with SBC, but these clubs have real owners and they can realise significant part of their revenues from the market. The sugar-daddy owners of these clubs support the teams because of synergy with other companies from another industry of special political aims. In CEE, clubs often no not real owner, football companies owned by non-profit organizations which mostly supported by the state. It seems that less subsidy by the state can be mean better sport results for clubs and for national teams too. A small country (with lower number of consumers) has to focus on the improvement of youth system and realize market revenue from the transfers.

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