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**THE IMPACT OF THE FINANCIAL FAIR PLAY
REGULATION ON THE EUROPEAN PROFESSIONAL
FOOTBALL LEAGUES**

Summary of PhD dissertation

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In 2009, UEFA, an international organisation governing European football, declared a plan to introduce Financial Fair Play (FFP) regulation. The crucial element thereof is a limit put on the possibilities of covering losses of clubs with an use of external resources. The latter include funds of owners ('sugar daddies'). The mechanism in question has been introduced gradually. In 2014, the compliance of financial statements of clubs with the regulation were evaluated for the first time.

Whereas the name of the regulation refers to equity, the official aims (e.g. fostering sustainable growth of football) are rather connected with efficiency. Nevertheless, public statements of people directly involved in the creation of the FFP suggest that one of the motives that led to its introduction was creation of 'level playing field', in particular by restricting the spending possibilities of the new owners of European clubs who originated from Russia, Arab or Asian countries. Indeed, some journalists, sports economists, lawyers, football agents and fans have pointed that introduction of the FFP has restricted the competition by petrifying the elite of a few strongest clubs. Furthermore, it has been argued that the regulation has a negative impact on the players (as well as some other stakeholders), since it limits the choice of clubs to play for, as well as the level of wages. The latter is another of the aims of the regulation openly admitted to by UEFA. Therefore, it has been argued that compliance of the FFP with EU law is doubtful.

The representatives of UEFA (including the president, Michel Platini) have suggested that the introduction of FFP had been inspired by clubs themselves and the regulation-making process allowed for participation of the stakeholders. It can be argued, however, that some of groups of the latter were underrepresented. On the other hand, the strongest influence on the FFP creation can be attributed to the representatives of the strongest clubs. In particular, due to their demand the introduction process has been delayed in time, allowing them for adopting adequate strategies. In particular, the first financial statements, fully examined within the FFP process, have been for the 2011/12 season. This means that the clubs had had an opportunity to increase spending on talent (among others, by buying new players) beforehand. In a short time, therefore, the introduction of the FFP could have results opposite to the assumed ones.

The main research objective was to analyse the impact of the FFP introduction on the European football market in the period 2009-2015. In particular, the competitive balance at the continental level has been examined. Although UEFA avoids referring to the concept of competitive balance (which constitutes one the foundations of the sports economics) officially, the before mentioned doubts of legal and economic nature mean that this issue is of crucial significance for the general appraisal of the FFP. Moreover, in order to conduct the research,

a construction of an original league model has proven to be indispensable. The model is a substantial extension of the existing ones, proposed within the sports economics literature. Furthermore, properties of the league model has been tested with an use of an econometrics.

The conducted analyses referred to the research thesis according to which the introduction of Financial Fair Play has resulted in change of the competitive balance in the European football. In particular, three hypotheses have been tested:

1. The competitive balance in the European football has changed due to the adoption of new strategies by the clubs, informed beforehand about the introduction of the so-called break-even condition within the FFP regulation.
2. The break-even condition has led to an decrease in competitive balance between European league, in particular by strengthening the dominating position of some of them.
3. The break-even condition has strengthened the dominance of particular clubs within national leagues.

The dissertation consists of three chapters. In the first one, the European football market has been described, in particular the economic interpretation thereof and institutional framework have been presented. Furthermore, the FFP regulation, its rules, introduction process and official aims have been explained, as well as the legal and economic arguments for and against it. Furthermore, the results of a comparative analysis of European football leagues have been discussed, with a special focus on the strongest ones – English, French, German, Italian and Spanish. The importance of the latter part stems from asymmetry of impact of the FFP, which is a result of the lack of institutional coherence between countries. Based on the first chapter, the thesis and hypotheses have been formulated and explained.

In the second chapter, an original, theoretical sports league model have been presented. The dynamic nature thereof allowed for conducting the analysis of the adapting process of the clubs to the new institutional setup. Furthermore, more than one league consisting of more than two teams are analysed at once, the clubs differ in decision criteria and revenue-generating potential (‘market size’) and the production factor – ‘talent’ – can be traded by the clubs on the transfer market. The latter property allows for analysis of the intertemporal nature of the clubs decisions regarding employment of talent, since football players are not only employees but also assets that are subject to transactions and speculation. Along with the discussion of the original model, existing literature on league models, with a particular focus on the FFP appraisal, has been presented.

In the third chapter the empirical results have been presented. In particular, the distribution of talent for clubs competing in twenty four strongest European national leagues

during period consisting of eleven seasons (2004/05-2014/15) have been estimated. To conduct this part of the research, a double Poisson model has been utilised. With an use of methods proposed within the existing literature documenting empirical studies on competitive balance, presented in the third chapter as well, differences in quality (i.e. talent employment) both between and within leagues have been analysed. Furthermore, the chapter presents the dynamic model utilising panel data estimated in the previous step. The rationale for this part of the research has been to analyse the intertemporal relation between quality of teams that compete in national leagues, as well as the tendency for the dominance of small group of clubs to be maintained.

The dissertation is supplemented by the annexes, among which one could pay special attention to a comment on the perspectives of Polish Ekstraklasa in the context of the FFP.

The results of the research are consistent with the thesis and hypotheses. Firstly, one could argue on the theoretical basis that the FFP has resulted in the strengthening of the dominance of a relatively small group of clubs from the strongest leagues. Furthermore, one should expect a reaction of clubs prior to the introduction of the regulation. In particular, clubs supported by sugar daddies have been motivated to substantially increase spending on players in seasons 2009/10 and 2010/11. This strategic response was the stronger, the more generous the owners of a given clubs were.

Secondly, empirical research (despite technical problems regarding accuracy of estimates resulting from a relatively low number of matches in which teams from different leagues compete) suggest that dominance of a small group of clubs from the strongest European leagues has indeed strengthened. Therefore, the skew of the distribution of talent has increased. One has to bear in mind, however, that occurrence of this effect has been the least debatable within the seasons directly regulated by FFP. Moreover the conclusions that can be drawn from the econometric analysis with an use of a dynamic panel data model are that the clubs competing in the same league are strategic complements. Furthermore, one can identify the tendency for the strongest teams (i.e. the ones competing in the Champions League) to maintain their dominant position nationally.

Keywords: Financial Fair Play, UEFA, football, sport economics, professional team sports, competitive balance, regulations impact assessment, economic model of sports league, Poisson model, Arellano-Bond model

JEL classification: Z21, Z23, Z28, L83, L51, D92