

Regulatory intensity in English and German professional football: A comparative analysis of national requirements for ensuring financial stability

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Regulatory intensity in English and German professional football: A comparative analysis of national requirements for ensuring financial stability.

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Regulatory intensity in English and German professional football

Abstract

Purpose - In order to secure a proper execution of sporting competitions, national governing bodies of professional football leagues apply specific regulatory procedures. In this context, special focus is placed on requirements that are supposed to ensure financial stability of clubs. They, in turn, help avoid negative economic externalities, i.e. the problem that financial difficulties from one club can affect other clubs and stakeholders due to the interdependent relationships of the competition. These regulations on a national level in European professional football leagues show several significant differences. Therefore, the aim of this paper is to comprehensively analyze financial regulatory procedures of professional football leagues to generate possible improvements of the regulations in detail.

Design/methodology/approach - Using a document analysis of the regulation books of the English Premier League and German Bundesliga, this study compares the regulatory procedures of those important European professional football leagues. Further evaluation was performed through a qualitative content analysis to develop a category system including six categories with 72 criteria from deductive and inductive procedures. For more advanced coding an assessment scale was integrated.

Findings - Compared to the Premier League, the regulation of the Bundesliga points to a more intensive regulation in all categories and across all analyzed indices. The results of both leagues partially reveal that assessment and monitoring requirements tend to be ineffective, which can substantially endanger the achievement of the whole monitoring process' aims. The intention to ensure the financial stability for securing the league competition can be missed in such a situation and negative economic externalities cannot be prevented effectively.

Originality/value - For the first time, this study includes all relevant requirements of financial club assessment and monitoring. Thereby, an abstract comprehensive and systematic structure for professional team sports leagues is described and allows for a concrete international comparison of two European professional football leagues. At the end several approaches to improve the regulatory framework are provided.

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1. Introduction

In the football leagues of the UEFA and the major domestic football leagues, special focus has been placed on the requirements for the assessment and monitoring of the financial stability of potential participants (Lago et al., 2006) - namely the ability of a club to meet all payment obligations towards their employees and the creditors in due time (e.g., see in Germany No. III Appendix IX of the licensing rules of "Die Liga-Fußballverband e.V." [updated December 5th, 2014, hereinafter: DFL LO]; or E.14.7.1. of the Handbook of the English Premier League, Season 2015/2016 [hereinafter: EPL Handbook]). The essential objective of these regulatory requirements is to ensure financial viability of the clubs and, thereby, proper execution of competitions. This also protects the integrity of the competition (e.g., see E.14.7.; 37.5.; Chairmen's Charter of EPL Handbook; Dermitt-Richard et al., 2017; preamble of DFL LO; UEFA, 2015b, Art. 2.).

To achieve those *fundamental* objectives, overinvestments or 'rat races' (see Akerlof, 1976; Franck, 1995) are limited as well as other financial behavior, which can lead to financial instability. In that context, delivering financial viability at club level is vital as insolvency of a club may cause negative economic externalities for all relevant stakeholders. These negative economic consequences can turn into a threat for the integrity of the sporting competition (Buraimo et al., 2006; Müller, 2004), harm the league's image and reduce the club's revenues (Downward and Dawson, 2000; Lago et al., 2006; Müller et al., 2012). Due to this economic responsibility of the clubs, those regulations are aimed to avoid negative economic externalities for all relevant stakeholders.

At the national level, the requirements for the assessment and monitoring of financial stability with regard to the so-called *big five* professional football leagues

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within Europe, namely the English Premier League (EPL), the French Ligue 1, the German Bundesliga (BL), the Italian Serie A and the Spanish Primera División, vary substantially (Drut and Raballand, 2012; Union des associations européennes de football [UEFA], 2014, 2015a). The causes are essentially substantiated in different national conditions, historical developments, and organizational structure of the leagues and their participating clubs. Furthermore, there is a trade-off between securing financial stability and other financial aims, such as being more competitive in European competitions. However, the basic premise of this paper is that securing financial stability is needed in all national leagues to achieve all the other aims. This is reflected by the fact that all national leagues pursue this goal explicitly. After introducing and practicing its Licensing regulations, there has also been a drive by UEFA to promote good practice for insuring *sustainable* financial stability at club level: Among other things, the implementation of the Financial Fair Play regulations lead to sanctions for clubs that fail to break-even (UEFA, 2015b). National league associations are now looking to enhance existing regulations. With this, they hope to bring their member clubs into line and therefore to secure sustainable financial stability and stem too risky and unprofitable behavior, which can lead to financial difficulties (Dietl and Franck, 2007; Hamil, and Walters, 2010; Hamil, 2014). This is particularly the case when substantial losses, high levels of debt or poor liquidity cannot be bailed out by so called 'sugar daddies' (Hamil, 2014). Furthermore, these injections are proven to cause adverse incentive effects and negative effects on the financial stability (Franck, 2014; Franck & Lang, 2014).

Given the essential common objectives and the apparent disparity of regulations in each of the *big five* leagues, this paper aims to show which regulatory requirements can serve the purpose of the assessment and monitoring of short- and long-term

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financial stability of European football clubs. For this, the paper focuses on a comparison of the regulations of the English and German first division. This approach allows for a comparison of the assessment and monitoring systems and, in particular, their characteristics and regulatory intensity. This analysis is a starting point for the development of a systematic method to estimate regulatory effectiveness - i.e. information about whether the established requirements achieve the objectives of the assessment and monitoring of financial stability. Based on this, the paper identifies strengths and weaknesses of the two leagues and, thus, establishes areas for improvement.

This paper will make a threefold contribution: First, it helps create a clear structure and transparency of the regulatory requirements on an abstract and concrete level. Second, it discloses the differences and similarities with regard to the regulations of the English Premier League and the German Bundesliga. Third, it critically examines the current framework of both leagues and suggests recommendations to enhance financial stability.

The remainder of this paper is composed as follows: In section 2 and 3 the paper provides an overview of the related literature and theoretical framework. After defining the methodological approach in section 4, the results of the comparative analysis are examined and, at the same time, a critical discussion about the key similarities and differences of the leagues and the respective regulatory effectiveness is opened up in section 5. Finally, this paper closes with a conclusion and suggestion for further research.

2. Literature review

Little research has been done with respect to financial regulations of professional sports leagues, and particularly on the assessment and monitoring of financial stability.

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However, the general necessity of financial licensing requirements for the BL is discussed in some depth (see Müller; 2004; Schellhaaß, 2006). In literature, licensing procedures with a focus on single requirements are considered with critical reflections and approaches for improvement (inter alia Brast and Kasper, 2012; Klimmer, 2004; Thyll, 2004). A comprehensive and systematic analysis of these requirements in the *big five* professional team sports leagues in Germany has been conducted by Bachmaier et al. (2012).

Few empirical studies can be found in literature, which examine regulations for the assessment and monitoring of financial stability. For example, Zoccali (2011) tests the efficiency of the financial indicators for Italian professional football clubs chosen by the Italian watchdog committee within their licensing system to predict the bankruptcy of clubs.

Drut and Raballant (2012) analyze the extent to which governance systems and financial regulations have developed in European football leagues. A special focus is placed on their impact on the competitiveness of European football clubs. Based on a theoretical model and an empirical approach, sporting and economic performances are put in relation to selected aspects of the governance structures in England, France, Germany, Italy and Spain.

Furthermore, normative considerations on financial structures, crises, and their relation to governance and regulatory intervention in football leagues^[1] are conducted in general by Lago et al. (2006). Storm and Nielsen (2012) explain the financial crises and the survival of European football clubs with the help of the concept of *soft budget constraint*. The concept was first described by Kornai (1980), in the context of socialist economies. According to this theory, companies change their behavior because they know that they will be bailed out in case of sustaining financial problems. Through a

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theory-based analysis, Storm and Nielsen determine that this - according to different levels of *soft budget constraint* - leads to unequal competition in the European football leagues. Storm (2012) addresses this issue and calls for central regulation. Andreff (2007) also connects this theory with the football industry. His research attributes the problems of *soft budget constraint* and lax financial management at club level to weak governance structures at a club and league level. Based on this assumption, he develops improvement approaches for French football and in general (ibid., 2015).

Other authors have also presented country-specific considerations regarding crises, governance and regulatory intervention - for example, Gougnet and Primault (2006). Approaches for improvement have been suggested by Buraimo et al. (2006). In that respect, Dietl and Franck (2007) as well as Hamil and Walters (2010) call for a stricter regulatory approach. Dermit-Richard et al. (2017) compare the French financial regulation of the DNCG to the FFP regulations with respect to their objectives and analyze the behavior of French clubs affected by these rules. They analyze a data set of financial statements of professional French football clubs by considering financial outcome, shareholders' contributions and investments. They provide evidence that French professional football clubs make losses and that these losses were covered by shareholders contributions. Thus, they state that French clubs behave in compliance with the DNCG financial regulations but inconsistent with the UEFA regulations. They support the idea of applying the FFP rules in all national regulation systems to avoid insolvency and sporting unfair disparities of the clubs and for more sustainable financial regulation.

Szymanski (2012) examines insolvencies of English football clubs from another perspective. His research is based on two alternative hypotheses: insolvency is either considered as a consequence of 'irrational exuberance' or 'negative productivity or

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demand shocks'. He uses a regression model to underpin his hypothesis that "financial failure may be more a consequence of systemic rather than behavioural failure" (ibid., p. 16). Scelles et al. (2017) confirm these hypotheses. Based on similar methods, their research shows that in French football clubs not only suffer 'demand shocks' due to decreasing attendance but also that the 'club status' (i.e. professional status) and the 'ownership structure' (i.e. association structure) contributes to the insolvency of a club. Terrien et al. (2017) analyze the club owners' win and profit maximizing strategies in the French Ligue 1. Their research is based on a data envelopment analysis and takes productivity or demand shocks into consideration. It shows that clubs can shift from one strategy to another and versa. On this basis they develop a model to explain the problem of persistent losses in this league.

Some historical context on insolvency in English football clubs for two periods, the 'era of recovery' (between 1949 and 1980) and the 'era of decline' (between 1986 and 2010), is offered by Szymanski (2014a). He stated that there have been more formal than real insolvencies in the second period and argues that nearly all clubs that went into administration at the end survived. He further argues that the rules of the insolvency law - before introducing the penalty of point deduction for clubs going into administration - created incentives for clubs that used the insolvency to write off their debts for buying new players and, thus, having a competitive advantage.

Consequently and in addition to the national league regulations, UEFA has implemented its own Club Licensing and FFP regulations aimed at preserving and enhancing the long-term health and viability of European club football (UEFA, 2015b). The UEFA regulations have been analyzed in a handful of papers from a legal and economic perspective to determine their likely effects (e.g., see Budzinski and Szymanski, 2015; Franck, 2014; Franck and Lang, 2014; Hamil, 2014; Morrow, 2014a;

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2014b; Müller et al., 2012; Preuss, et al., 2014; Schubert, 2014; Schubert and Könecke, 2015; Szymanski, 2014b). Here it has to be pointed out that the UEFA's FFP regime has not been considered in literature in the context of national policies (except of the consideration for France by Dermit-Richard et al., 2017) although national league associations also target at preserving the long-term viability of their clubs.

3. Theoretical framework

For the consideration of regulatory requirements for the assessment and of monitoring financial stability, *negative externalities*, i.e. negative effects of economic activity on the welfare of third parties, are of relevance. Providing that the originator does not pay any compensation to the third party in case of *negative externalities* (e.g. Mankiw, 2014) he will not include the negative effects in his decision calculus. This would evoke an inefficient allocation of resources. According to the concept of market failure (Bator, 1958), this justifies government intervention, if this may lead to an improvement of the allocation (Greenwald and Stiglitz, 1986).

In the context of this paper, *negative externalities* refer to clubs facing financial difficulties or even insolvency when participating in the league competition. Due to the specific characteristics of *championship-production* as a sum of team-products in an interdependent composite system (Franck, 1995; Neale, 1964; Szymanski, 2003), sports clubs have an economic responsibility towards all parties involved in the league. Therefore, clubs need to avoid such financial difficulties.

Against this background, the financial situation of a club can lead to economic consequences for other clubs or, indeed, the entire league and its stakeholders (Downward and Dawson, 2000; Lago et al., 2006; Müller et al., 2012). Initially, this is the case with financial difficulties or even impending insolvency of a participating club. This can considerably damage the image of the league which, in turn is an important

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precondition for good marketing and collective revenues (Lago et al. 2006). This is reinforced in case of an actual insolvency and associated retirement of a club during an ongoing competition, consequently leading to negative impacts on the integrity of the championship (Buraimo et al. 2006; Müller et al. 2012; Storm, 2012). From an economic and sporting perspective, this would have a distorting effect on the entire competition. Future games would be cancelled or past games nullified – a circumstance, which can affect the image and marketing of a league (Morrow, 2014a; Müller, 2004), as well as the financial stability and image of participating clubs and other stakeholders such as suppliers, employees or sponsors (Lago et al., 2006).

Since these economic effects may cause harm to third parties, they qualify as a negative externality (Mankiw, 2014). Indeed, in the case of financial difficulties or insolvency, negative effects often arise for the club itself. However, football clubs are sometimes willing to accept a higher level of financial risk because they do not always attribute a high importance to the interests of other stakeholders and/or the welfare of third parties.

The relationship between the league association and each individual club can be interpreted as a single or multiple principal-agent relationship (see in general Jensen and Meckling, 1976). Here the opportunistic behavior of a club (agent) in the form of over-investment to trigger short-term competitive advantages towards league rivals is prevented by a contract design. It consists of requirements for the assessment and monitoring of financial stability imposed by the league association (principal) to reduce information asymmetries and their consequences (Bachmaier et al., 2012).^[2] Thus, these requirements can help stem overinvestment incentives as well as 'rat races' (Franck, 1995; Franck, 2010; Müller et al., 2012). Consequently, this regulatory intervention appears to be justified to avoid *negative externalities* as a result of these mechanisms

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mentioned above. Indeed, this has been pointed out in a number of academic papers (e.g. Franck, 2010; Hamil and Walters, 2010; Müller et al. 2012; Storm, 2012).

Beyond irrational behavior as well as agency problems with opportunistic behavior, further causes for financial difficulties and insolvencies are of relevance, and these have been mostly found in the lower echelons of the football league system in England (i.e. Championship, League 1 and League 2). This includes negative shocks, i.e. 'productivity shocks' related to underperformance of players (Szymanski, 2012), or demand shocks related to revenues that turn out lower than expected (Szymanski, 2012), respectively related to lower attendance (Scelles et al., 2017). Furthermore, Scelles et al. (2017) found empirical evidence that the professional status association structure in French football rather cause insolvency due to less financial backing. The results of Terrien et al. (2017) also show that in Ligue 1 "persistent losses are commonly explained by an intended strategy, agreed by the main shareholder, to maximize win under soft budget constraint" (ibid., p. 134). Even though these findings are of relevance with regard to the theoretical framework and its relation to financial difficulties and insolvencies, this paper considers only the aspects that have relevance for the regulatory requirements for the assessment and monitoring of financial stability as this is the focus of this study.

4. Methodology

The aim of this paper is to examine the regulatory requirements of two professional sports leagues systematically. A normative research approach is used to provide means-end relations. For a document analysis, the data evaluation of this study combines a summarizing and structuring technique of a qualitative content analysis according to the approach developed by Mayring (2014; 2015) and advanced by integrating an

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assessment scale (Mayring, 2014, p. 25.; Schreier, 2012, pp. 214 et. seq.). The detailed steps are outlined below.

The EPL and BL were selected according to professional status, organizational structure and economic power. Both leagues are represented by professional league associations, and robust club structures. They are the leagues generating the highest revenue in Europe (at the time of writing). Furthermore, they have a comparable level of understanding financial stability. Also their objectives with regard to the assessment and monitoring of financial stability are similar (see table 1) and comparable to the UEFA licensing and FFP objectives (see UEFA, 2015b, Art. 2).

Within the '*big five* leagues', the EPL and BL are chosen as extreme examples of a liberal and strongly regulated market. Moreover, the legal forms of the participating clubs are opposed to each other. The BL includes clubs that are majority-owned by members associations (with the three current exceptions of Hoffenheim, Leverkusen and Wolfsburg). In contrast, all clubs of the EPL are investor-owned corporate entities. These EPL clubs have a greater leeway to offset financial constraints with the help of capital contributions (Franck, 2010). Due to regulatory circumstances (especially the *50 plus 1 rule*) for German clubs, this option is considerably restricted. The difference in legal forms could lead to the assumption that a more effective or more intensive regulation in Germany is more important. Table 1 summarizes the selection criteria used in this study.

Table 1. Structural summary of comparison leagues. <About here>

Data was collected based on the variables established in the literature review and those that have been empirically proven to be effective for assessing and monitoring financial stability of professional team sports clubs. In the process, criteria of the UEFA regulations and the discussions concerning the assessment and monitoring of short and

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long-term financial stability have also been considered. Therefore, a *deductive* or *concept-driven* category assignment (Mayring, 2014, pp. 99 et seqq.; Schreier, 2012, pp. 84 et seqq.) has been applied.

All relevant requirements of both leagues for the 2015/2016 season were extracted from their regulation books.^[3] To complement the documentation, expert enquiries were performed with appropriate league representatives. The purpose of this was to clarify any cases of doubt in the interpretation of relevant regulations and to determine local practices, which are not set out in writing. Consequently, an *inductive* or *data-driven* procedure (Mayring, 2014, pp. 79 et seqq.; Schreier, 2012, pp. 87 et seqq.) has also been conducted.

The *concept-driven* categories and single requirements, derived from the literature and the *data-driven* corresponding regulation characteristics of the individual leagues have been fed into a data matrix. To prepare a structured category system all requirements related to a common context - based on the paraphrased and summarized text passages of the regulations and justifications found in the literature - were summarized to content units and assigned as *criteria* to a *category*. When generating the category system, only clearly definable contents were considered. By doing so, redundancies and ambiguities regarding the classification of criteria are avoided and a complete and relevant analysis is largely ensured (Mayring, 2014, pp. 81 et seqq.). This formed the first (qualitative) coding step. Based on this procedure, a catalog of 72 regulatory requirements (criteria) for the assessment and monitoring of financial stability was determined. Furthermore, the six categories *Structural Basis*, *Required Guarantees*, *Required Documents*, *Process*, *Reliability and Credibility as well as Assertiveness of the Governing Bodies* have been established. The criteria were then

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summarized in superordinate sub-categories, created in the same way as the categories, highlighted in figure 1.

Figure 1. Overview of the categories of the comparative analysis (including the number of corresponding sub-categories and criteria). <About here>

The categories with their individual criteria as well as their sources of regulatory justification are summarized in the following table (see table 2).^[4]

Table 2. Overview of categories and corresponding criteria with references of regulatory justification. <About here>

To ensure standard and objective estimation and to compare the individual characteristics of each criterion, a *scaled coding* was included in a second (quantitative) coding step. This was based on a clear set of coding rules, according to which the characteristics had to be assigned to corresponding coding values (leaned on Mayring, 2014, pp. 25; 98 et seqq.; 2015, pp. 106 et seqq.). Thereby, the particular coding values describe the intensity of the respective regulation. Table 3 shows the general coding rule, which applies to all criteria.

Table 3. General coding rule. <About here>

For scaling, values ranged from 0 and 2 to provide a consistent assignment for all criteria (Mayring, 2015, pp. 108 et seq.). Coding rules with specific descriptions have been determined for all criteria.

To increase the objectivity of the coding beyond the selected rules, the coding was performed independently by two coders (Mayring, 2014, pp. 107 et seqq.). The intercoder reliability - here calculated as the number of equal judgements in relation to the total number of judgements - is 90.3%, which is a persuading level (Neuendorf, 2017). In 14 out of 144 individual ratings differences arose due to different

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understanding or application of these rules. In these cases a consensus was found through substantive discussion of the two coders and creating a common rating.

As part of further data evaluation, various indices were constituted for the superior categories and sub-categories, based on the ratings for the particular criteria (Babbie, 2012, pp. 157 et seqq.). First, an additive index considering equally weighted criteria has been computed. This index, with a maximum achievable index level of 144 (I^A_{C144}), is directly related to the conducted coding. Second, this index was normalized to 100 (I^A_{C100})^[5] to allow better comparability and to facilitate the interpretation (see table 3). Third, a further additive index on the basis of equally weighted categories was calculated (I^A_{Cat100}). This was necessary as some categories include more criteria, while other categories include less criteria. This could potentially lead to an over- or underweighting of individual categories due to an equal weighting on the basis of the single criteria. It must also be noted that each category of criteria has an independent significance and crucial relevance for the whole process of the assessment and monitoring of financial stability. Thus, an ineffectiveness of one category does not only have a negative impact on the category itself, but rather puts the result of the whole procedure into question. The category *Assertiveness of the governing body* may serve as an example: If a governing body cannot apply enough powerful sanctions and lacks assertiveness, then compliance of the clubs with the requirements for the assessment and monitoring of financial stability is doubtful as a whole. Therefore, a fourth index was calculated, which summarizes the categories multiplicatively (I^M_{Cat100}).

5. Results and discussion

The following section details the extent to which regulatory requirements of both leagues are designed effectively. The indices illustrate fulfillments or shortcomings with

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regard to the assessment and monitoring of financial stability of the EPL and the BL.

The results for all categories are set out in table 4.

Table 4. Overall view of the intensity indices. <About here>

Compared to the EPL, the requirements of the BL point to a more intensive regulation in all categories. Even with a more differentiated approach based on equally weighted criteria or categories, the intensities remain unchanged. With regard to the multiplicative index, the index values of both leagues decrease substantially (the total EPL index decreases from 65 to 7, and the BL index from 85 to 34) and the differences in the regulatory intensity of EPL and BL become even more apparent. The total index of the BL (34) is almost five times as high as the index of the EPL (7). While the overall view of the additive results already reveals ineffectiveness in the assessment and monitoring requirements, the multiplicative results clearly show that this ineffectiveness can substantially threaten the achievement of the whole monitoring process. Under these circumstances, the purpose of ensuring financial stability and going concern of participating clubs to secure league competition will be missed. Furthermore, negative economic externalities for all league participants, their fans and other stakeholders cannot be effectively prevented.

The results of each category including appropriate sub-categories and criteria are set out sequentially to describe similarities and differences in intensity as well as conspicuities. Also strengths and weaknesses can be derived from the data by considering the objectives of the respective assessment and monitoring procedures and contrasting them with the regulatory requirements applied in each league based on the normatively derived catalog of constructive criteria (see above). Hereafter, the normatively determined individual regulatory shortcomings are introduced.

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5.1 Results and discussion for category 1: 'Structural Basis'

Analysis of the legal framework indicates high congruence between the two leagues (see table 5). Both leagues have a specific legal basis for assessing and monitoring their clubs, which includes having the same accounting obligations, independent of their legal forms. This supports the integrity and credibility of each league (Klimmer, 2004).

The following two tables summarize, on the one hand, the results of the indices with regard to this category (see table 5) and, on the other hand, the discussion (see table 6). This procedure is conducted for all following categories, including strengths, weaknesses and need for improvement in the second table.

Table 5. Individual indices for category 1: 'Structural Basis'. <About here>

Table 6. Summary of the discussion for category 1: 'Structural Basis'. <About here>

5.2 Results and discussion for category 2: 'Required Guarantees'

In contrast to the EPL, the BL has a comprehensive regulation regarding an institutionalized security deposit. This framework is considered to be an effective immediate action plan in case of unexpected illiquidity of a club and can, thus, ensure the competition (Müller, 2004) (see table 7). The maximum amount of this security fund, however, would only be sufficient to cover personnel expenses for a limited number of clubs and a limited period. If a number of clubs had financial difficulties within one season, this would lead to problems ensuring the sporting competition. The EPL is only empowered to use the Central Funds (e.g., from broadcasting or sponsoring contracts) to support the debtor club in case it failed to make any payment to a creditor. However, this would have economic consequences for other clubs, as there are no regulations regarding a repayment, a maximum amount or consequences of using this

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option. In this case, immediate and noticeable consequences for the club (e.g., deduction of points) are important. Otherwise, clubs will exploit this option and take moral hazard, e.g., by investing in player talent to secure their sporting goals (qualifying for international championships or avoiding relegation) (Klimmer (2004)).

Furthermore, the BL has a comprehensive regulation regarding a minimum liability insurance, e.g., for cases of damage caused by external circumstances. Such requirement is missing in the EPL. In the event of an insurance claim, the club concerned may face major financial problems.

Given the interdependent relationships, financial difficulties of one club can also affect other clubs and stakeholders. To avoid *negative externalities*, both requirements - appropriate evidence of insurance cover and a general safety mechanism in the event of financial difficulties - are strongly recommended for the EPL. Both requirements would have the capacity to ensure sporting competition and, thus, also provides an enhanced approach for the BL. With these requirements, clubs furthermore would be in a better position for overcoming negative productivity or demand shocks.

Evidence of no overdue payables towards relevant stakeholders (e.g., employees, clubs, state or social insurance agencies) before the start of the season is required in both leagues. This ensures that no prior financial liabilities may increase the risk for financial distress during the season (Buraimo et al. 2006; Müller et al., 2012).

Table 7. Individual indices for category 2: '*Required Guarantees*'. <About here>

Table 8. Summary of the discussion for category 2: '*Required Guarantees*'.

<About here>

5.3 Results and discussion for category 3: '*Required Documents*'

Both leagues require clubs to provide the most recent financial statements and management reports, including a comprehensive list of football-specific entries (see

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table 9). Since 2014/15, BL clubs with group structures have to submit consolidated financial statements, including detailed information. This regulation is more liberal in the EPL where clubs only have to provide such information if they consider it appropriate or upon request of the general secretary. To ensure a complete reflection of the assets and financial position of the clubs and to avoid accounting policies (in general, see Chopping, 2010; for football clubs, see Strauß, 2014) where financial difficulties can be disguised or even favoured (for BL, Küting [2005] provides concrete examples), the requirement of consolidated financial statements therefore should also apply for clubs with group structures in the EPL.

With regard to this sub-category, another difference between both leagues is the lack of a regulation in the BL that stipulates retrospective calculations of football-relevant revenues and expenses in accordance with an arm's length principle over a long-term period.^[6] In contrast, EPL clubs must submit such calculation if their aggregate earnings before tax for T, T-1 and T-2 result in a loss. To evaluate the financial stability of clubs and to minimize insolvency risks, the current financial situation as well as past developments related to football-relevant revenues and expenses must be assessed (Franck, 2014; Hamil, 2014; Dermitt-Richard et al., 2017). Consequently, it would be advisable for both leagues - regardless of their operating results - to require these retrospective calculations for a long-term period. A payables aging report and liquidity status is only required in the BL. In the EPL, this appears to be a shortcoming, as the existing debt and liquidity situation cannot be assessed adequately. Thus, any conclusions about the future financial stability appear to be rather challenging based on the currently required documents.

In the BL, the person in charge of the club's finances must be employed on a full-time basis and must have relevant qualifications and competences in finance,

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although the latter is not defined in detail. In contrast, the EPL requires a nationally recognised qualification as an accountant or auditor or adequate experience to qualify for this position. Since these employees are involved in financial and economic decisions of the clubs, a regulation seems to be sensible and a minimum standard should include specific qualification details and evidence to avoid mismanagement and any resulting financial difficulties (Klimmer, 2004; Thyll, 2004).

The requirements regarding future financial information indicate high regulation intensity in both leagues. Financial budgeting with comprehensive specifications for planned investments and financing activities is required. One striking feature is that future financial information for periods of less than a year are required only as needed in the BL, while the EPL has a comprehensive regulation. Since this would allow early detection and response to negative developments, such a requirement is strongly recommended. This has already been requested with reference to BL (Klimmer, 2004). Such demands from a practical perspective appear legitimate as most of the clubs in those leagues prepare budgeting for less than year for internal controlling.

While the BL has a comprehensive regulation regarding the requirement of updated financial statements, budgeting and evidence of no overdue payables during the assessed season, the EPL regulates this only as needed. This shortcoming can lead to problems in detecting and assessing changes of the financial situation and financial risks of the clubs, which can also have a spiralling effect (Müller et al., 2012). Thus, requirements of budgeting for periods less than a year and of updated documents only in case of prior doubts must be regarded as questionable. Here, stricter provisions should be made for each club to secure an ongoing assessment.

Table 9. Individual indices for category 3: *'Required Documents'*. <About here>

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In summary, there is scope for improvement for both leagues with regard to this category. This may help reduce information asymmetries resulting from the principal-agent relationship between clubs and governing board (see Jensen and Meckling, 1976) and provide all relevant information for the assessment and monitoring of financial stability to avoid *negative externalities* (see table 10).

Table 10. Summary of the discussion for category 3: *'Required Documents'*.

<About here>

5.4 *Results and discussion for category 4: 'Process'*

A number of criteria outlined in this section are not fully regulated by the EPL (see table 11). For example, the governing body does not have the regulatory power to contact banks, auditors or fiscal authorities of the clubs in order to gain access to the documents. The governing body is also not empowered to make corrections to the budgets if these are unrealistic. With regard to the process, it appears that in accordance with the current regulations the EPL clubs hold all power, making it difficult for the governing body to get access to all necessary financial information and to intervene where appropriate.

Indeed, analysis of the 'accounted business ratios' sub-category shows that the going concern assumption is based on discretion of individual auditors of the EPL clubs and no consideration of an equity ratio. It is also conspicuous that there is no transparency regarding the valuation basis in the EPL. There is scope for improvement here. Whilst the EPL uses a basic approach to regulations focusing on more sustainable ratios (e.g., retrospective consideration and limit of income-expenses relations considering fair values within a long-term period or a consideration of financial stability beyond the next season), the BL does not regulate this at all. Moreover, neither league regulates the use of additional ratios to assess debt positions. In Italian football (see

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Zoccali, 2011), the debt situation is identified as a significant bankruptcy indicator. The lack of regulation regarding debt limits and other long-term considerations can endanger long-term financial stability (Beaver, 1966). Furthermore, short-term risks in case of unexpected developments during the season can arise. In this context, financial difficulties are connected to shortcomings in limiting ratios regarding long-term income-expenses relations in French professional football (Dermitt-Richard et al., 2017). A more extensive consideration of business ratios of the vertical and horizontal balance sheet structure (e.g. Peterson Drake and Fabozzi, 2012) and multi-period scenario budgeting or early risk detection systems are, therefore, strongly recommended. This would promote effective assessment and monitoring of financial stability and is partly already required with reference to the BL (Klimmer, 2004; Schellhaaß, 2006). When it comes to the assessment of several (especially retrospectively) periods, taking into account strategic flexibility of the clubs - e.g., temporary unprofitability to pursue a win strategy, which can lead to economic stabilization (Terrien, et al., 2017) - could also be an option.

With respect to a more flexible budgeting scenario, it must be noted that this would additionally help protect against external productivity or demand shocks, identified as other potential insolvency causes (Szymanski, 2012). However, at this point, it also has to be considered critically that the uncertainty of sporting development makes it difficult to plan more than one year ahead (Schellhaaß, 2006).

Table 11. Individual indices for category 4: *'Process'*. <About here>

Table 12. Summary of the discussion for category 4: *'Process'*. <About here>

5.5 Results and discussion for category 5: *'Reliability and Credibility'*

Both leagues are fairly consistent with regard to reliability and credibility and stipulate an external audit of all documents including historical and current financial information

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and a review for future financial information. The EPL, however, takes a more basic approach to regulation after the start of the season.

Table 13 indicates that both leagues score lower with respect to the sub-category 'independence of the board deciding on financial stability'. This is because in both leagues parts of the governing board include employees/members of the leagues or clubs themselves or are appointed by the clubs. For better reliability and credibility and, therefore, ensuring an objective assessment and monitoring of financial stability, it is recommended to implement an external composed and appointed regulatory control body for the governing boards independent of the league, the member clubs themselves and the football association (Andreff, 2007; 2015; Dietl and Franck, 2007; Lago et al., 2006). In this context, Morrow (2014b) or Preuss et al. (2014) suggest that the independency of the UEFA Club Financial Control Body could provide a role model for national regulations.

Table 13. Individual indices for category 5: *'Reliability and Credibility'*.
<About here>

Table 14. Summary of the discussion for category 5: *'Reliability and Credibility'*. <About here>

5.6 Results and discussion for category 6: *'Assertiveness of the Governing Body'*

A number of differences between the two leagues exist in relation to the assertiveness of the governing body (see table 15). In both leagues, clubs have to comply with certain criteria to prove their financial stability preceding the season, otherwise they cannot participate. However, these exclusion criteria are not comprehensively regulated. In the EPL the board has the power to suspend clubs but there are no explicit exclusion criteria. In the BL, a club license can be withheld as a result of a club's liquidity projection. Additionally, in none of the leagues exclusion criteria based on a clubs debt

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position exist. In the BL, the board only intervenes in cases of negative equity requiring additional comprehensive obligations. Furthermore, a positive income-expenses result is not regulated as an exclusion criterion. In contrast, the EPL board monitors aggregate losses of the clubs over a three-year period in relation to the FFP Regulations that are now in place. A violation of these regulations can result in a suspension as the ultimate sanction, although this is yet to be tested. To reduce the risk of financial difficulties for future seasons in both leagues, implementing more exclusion criteria related to long-term business ratios would be advisable (Andreff, 2015).

During the season, financial stability is considered in both leagues and necessary interventions or possible sanctions are regulated comprehensively.^[7] In the context of obligations during the season, the governing bodies of both leagues may demand to have a say before the club signs new players' contracts if there are any doubts regarding the club's financial stability. This is assessed as an effective regulation (Gougnet and Primault, 2006; Lago et al., 2006). Alternatively, a wage restriction can be implemented, which has already been suggested as remedy to financial crises in English football (Buraimo et al., 2006) and in general (Andreff, 2015). There is, however, no regulation for EPL clubs to achieve a projected result (defined in the profit and loss account), whereas this is the case in the BL. This could enhance the EPL regulations and help control and secure the financial stability during the season.

Whilst both leagues regulate potential fines and point deductions, the power to suspend EPL clubs lies with the member clubs themselves - in contrast to the BL, where the league board can suspend clubs if this is deemed appropriate. From the perspective of credibility in the EPL, the question is how sanctions can help avoid moral hazard behavior (Andreff, 2015). On the one hand, potential sanctions can motivate clubs to comply with the requirements (Gougnet and Primault, 2006; Schubert and Könecke,

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2015) and, thus, can serve a useful purpose as clubs act in a more prudent financial manner. On the other hand, fines and other financial sanctions can lead to even more financial problems during the season if the concerned club is already at risk (Morrow, 2014b; Terrien et al., 2017). This, in turn, can endanger league competition and evoke *negative externalities*. Furthermore, the aim of sanctions is not to change intrinsic motivation for deviant behavior (Schubert, 2014). This can even lead to a deliberate change of the strategy at the expense of sporting success to comply with the regulatory requirements (Terrien et al., 2017). Therefore, the effectiveness of financial sanctions must critically questioned.

Table 15. Individual indices for category 6: *'Assertiveness of the Governing Bodies'*. <About here>

Table 16. Summary of the discussion for category 6: *'Assertiveness of the Governing Bodies'*. <About here>

6. Conclusion

This paper has conducted an analysis composing the financial requirements for the assessment and monitoring of financial stability of EPL and BL clubs. This analysis was based on a systematic structure also applicable for other professional team sports leagues. Reliability of the results is enhanced by deductive and inductive procedures for development of the categories, sub-categories and criteria as well as through scaled coding. This helps to identify a status quo of these requirements and to contrast them critically for the leagues described in the study. Based on different levels of intensity, differences and similarities of the financial regulations are established and the corresponding procedures are made transparent. Strengths and weaknesses are identified, a need for action is demonstrated where applicable and special improvements of the regulatory requirements are suggested.

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In summary, it must be noted that the identified shortcomings greatly restrict a comprehensive, reliable and independent assessment and monitoring of the clubs' financial stability. This, however, is necessary for the clubs to be able to get through the coming and further seasons without financial problems. Furthermore, it helps ensure competition integrity, particularly with regard to the very short-term perspective of the procedures. Although the objective of safeguarding the sporting competition on the long term is written down in or aimed by the regulations of the investigated leagues, there are scant requirements for securing a long-term continuity of the clubs. In this context, it is worth mentioning, not only missing documents, but also the shortcomings with regard to key date orientation of budgeting. To date, these budgeting are generally aligned only to the next season and not to multiple periods. This issue is even reinforced by the shortcomings with regard to monitoring of the clubs during the season and no consideration of long-term business ratios. Due to the existing shortcomings, overinvestments or 'rat races' cannot be limited effectively and, thus, increase the risks of financial difficulties. In consequence, negative economic externalities cannot be avoided effectively.

The deficits in single categories and the respective criteria thereby reduce the effectiveness of the overall process. Strictly speaking, the process of both leagues must, thus, be questioned because reliability and credibility cannot be guaranteed due to a lack in independence of the body members deciding on financial stability.

The identified shortcomings result in an essential need for action to enhance the regulatory requirements of the BL and EPL. This may help to reduce irrational and opportunistic behavior and not least force clubs to be better equipped to handle negative shocks through more incentives for sound economic behavior (already identified for the FFP regulations by Terrien et al., 2016). This is described by this study and is also

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subject to ongoing discussions about enhancing the existing regulations (e.g. for France see Dermitt-Richard et al., 2017).

Further studies following up on this paper are recommended. There is a particular need for research that focuses on specific aspects of other national football leagues or other sports leagues.^[8] Furthermore, examinations of individual criteria and critical insight into their *efficiency* to assess and monitor financial stability of participating clubs would be promising - also with regard to specific aspects of different professional status, culture or sports. Besides, the question arises how strictly governing bodies enforce the existing regulations and to what extend clubs comply with the requirements to deal with moral hazard behavior.

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Endnotes

- [1] There are some investigations of further regulations and instruments for containing overinvestment of clubs due to their causes (see Franck, 2010; Müller et al., 2012). This includes regulations for a gradual reduction of stepwise revenue surges (like revenue sharing or closed shop structures) and promotion of random influences as well as input rationing (like salary caps or restrictions of squad size). For this, see inter alia Franck (1995), Szymanski (2003) or Késenne (2007). However, these regulatory interventions are not discussed in this paper, since they do not have the objective to assess and monitor financial stability.
- [2] Schubert (2014) and Preuss et al. (2014) adopt a similar institutional economics perspective by explaining the principal-agent relationship between the UEFA and the European football clubs in the context of the FFP rules.
- [3] Cf. in particular, section E.3.-E.12., E.14.-E.16., E.18., E.21.-E.23., E.27-E.39., E.50.-E.59., E.25., J.1.2., W.8., W.14.-W.16., W.21., 22., W.53., W.54., W.62. and X.9. of PL-Handbook.; the preamble, §§ 2, 4, 5, prior 8, 8, 8a, 9-12 as well as appendices I, VII, VII a, VII b, VIII, IX, X, XII and XIII of DFL LO. Here, other legal bases, such as statutes, shareholder or cooperation agreements of considered league associations were also included.
- [4] A detailed table of all variables (categories, sub-categories and criteria) with explanations and their comprehensive justification in literature can be provided by the authors upon request.
- [5] However, this statement should not obscure the fact that, by methodological understanding, the determined values are not metric but ordinal variables.
- [6] This criterion is inspired by elements of the *break-even rule* of the UEFA FFP Regulations. Sustainable expenditures (for youth or community development and infrastructure) are excluded as they are subject to critical discussions (e.g., see Müller et al., 2012 p. 130; Budzinski and Szymanski, 2015, p. 415) in the context of securing financial stability. In this case clubs have the opportunity to operate with expenses exceeding their income.
- [7] It must be admitted here that, with respect to category 3, in the EPL the assessment during the season is limited to some degree as updated documents are not required for all clubs, but only in case of doubts.
- [8] For better generalizability as well as comparability of this study, analysis of all 'big five leagues' would have been beneficial. However, this was connected to insuperable difficulties - e.g., language barriers or the problem of data access - and must, therefore, be noted as a limiting factor here.

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Tables

Table 1. Structural summary of comparison leagues.

Criterion	League	English Premier League	German Bundesliga
Professional League Association		The Football Association Premier League Limited	Die Liga Fußballverband e.V.; DFL – Deutsche Fußball Liga GmbH
Legal forms of participating clubs		Corporate entities	Members associations & corporate entities (50 + 1 rule)
Group structure		Predominantly existing	Partially existing
Average turnover per club in 2014/2015 (million €)		220	133
Percentage of main revenues (2014/2015)		Broadcasting revenues (53%), commercial revenues including advertising, sponsoring and merchandising (29%), matchday revenues (18%)	Broadcasting revenues (31%), commercial revenues including advertising, sponsoring and merchandising (47%), matchday revenues (22%)
Wage/revenue ratio (2014/2015)		61%	52%
Objectives with regard to the assessment and monitoring of financial stability		Safeguarding the competition for the next season and longer terms, increasing integrity of competition, increasing reliability, credibility, and seriousness of the clubs towards every stakeholder, creditor protection, securing and promoting public image and marketing of the clubs and league, supporting managing and financial structures in the clubs	

Note: For the respective structural features of the leagues, cf. EPL Handbook; DFL LO; Statute of „Die Liga Fußball-Verband e.V.“ (updated June 22nd, 2015). The legal forms were determined based on the official websites of the leagues or clubs. For the key figures, cf. Deloitte, 2016. The understanding and objectives with regard to the assessment and monitoring of financial stability has been confirmed by the responsables of the leagues, in addition to the written regulations (see, in particular, E.14.7.; 37.5.; Chairmen’s Charter of EPL Handbook; No.3 Memorandum of Association of the EPL; preamble; No. III and preamble of appendix IX of the DFL LO).

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Table 2. Overview of categories and corresponding criteria with references of regulatory justification.

I Structural Basis			III Required Documents		
II Required Guarantees			IV Process		
III Required Documents					
Criterion (short form)	Selected References	d/i	Criterion (short version)	Selected References	d/i
1 Legal basis (like a statute)	Klimmer (2004)	d	24 Budgeting		d
2 Legal basis of contract	Müller (2004)	d	25 For periods < 1 year		d
3 Same accounting obligations	Müller (2004), Klimmer (2004)	d	26 Additional information about budgeting	Müller (2004), Klimmer (2004), Megginson et al. (2010)	d
4 Integration of the objectives	Müller (2004), Lago et al. (2006)	i	27 Information about budgeted investment and financings		d
5 Fixation of the definition of financial stability		i	28 Target/actual comparison		d
6 Security deposit	Müller (2003, 2004)	d	29 Marketing contracts	Müller (2004)	d
7 Minimum liability insurance		i	30 Players' contracts	Gougnet & Primault	d
8 No overdue wages and salaries		d	31 No overdue payables update	Müller et al. (2012) Morrow (2014b)	d
9 No overdue transfer payables		d	32 Updated annual accounts		d
10 No overdue payables towards associations	Buraimo et al. (2006), Müller et al. (2012), Szymanski (2014)	d	33 Updated budgeting	Müller (2004), Klimmer (2004), Schellhaaß (2006)	d
11 No overdue payables towards external institutions		d	34 Updated players' contracts		d
12 Annual accounts	Gougnet & Primault (2006),	d	35 Updated marketing contracts		d
13 Management report	Peterson Drake & Fabozzi (2012)	d	36 Complementary documents		i
14 Timeliness		i	37 Closing date	Klimmer (2004)	d
15 Status of over-indebtedness	Brast & Kaspar (2012)	i	38 Core process		i
16 Consolidated accounts	Chopping (2010), Strauß (2014)	d	39 Entitlement for obtaining information from institutions		i
17 Break-even calculation	Müller et al. (2012), Franck (2014), Hamil (2014)	d	40 Obligation of notification in case of essential changes		i
18 Arm's length principle	Müller et al. (2012)	d	41 Plausibility check		i
19 Legal group structure	described by Müller (2004)	i	42 Entitlement for corrections	Müller et al. (2012)	d
20 Loan contracts		i	43 Group consideration	Chopping (2010), Strauß (2014)	d
21 Payables aging report	Peterson Drake & Fabozzi (2012)	d	44 Ratio: projected liquidity	Müller (2004), Megginson et al. (2010)	d
22 Liquidity status		d	45 Ratio: equity	Peterson Drake & Fabozzi (2012)	d
23 Qualification for the club's responsible financial staff	Klimmer (2004), Thyll (2004), Brast & Kaspar (2012)	d			

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Table 2 (continued)

Table 1 (continued)			
	Criterion (short form)	Selected References	d/i
IV Process	46 Additional debt ratios	Beaver (1966), Zoccali (2011), Peterson Drake& Fabozzi (2012)	d
	47 Ratio: retrospective break-even development	Müller et al. (2012), Franck (2014), Hamil (2014)	d
	48 Multi-period prospective Consideration	Klimmer, 2004; Schellhaaß, 2006, Hovemann & Ebel (2007)	d
	49 External review of accounts		d
V Reliability and Credibility	50 External review of budgeting		d
	51 External review of updated accounts	Schellhaaß (2006)	d
	52 External review of updated budgeting		d
	53 Form and content of the auditor's report		i
	54 Responsibilities of decision-making bodies (general)		i
	55 Consistence of the decision-making bodies (general)		i
	56 Consistence & responsibility of the body deciding on financial stability		i
	57 Qualification of the body deciding on the financial stability	Gouguet & Primault (2006), Andreff (2007)	d
	58 Independence towards clubs		d
	59 Independence towards the league organization	Andreff (2007, 2015), Dietl & Franck (2007), Lago et al. (2006), Morrow (2014b), Preuss et al. (2014)	d
	60 Independence towards the football association		d

	Criterion (short version)	Selected References	d/i
Assertiveness of the Governing Bodies	61 No administration procedures (last 12 months preceding)		i
	62 Positive projected liquidity (exclusion criterion)	Müller (2004), Klimmer (2004)	d
	63 Positive equity (exclusion criterion)	Andreff (2015)	d
	64 Defined additional debt ratios (exclusion criterion)		d
	65 Positive break-even result (exclusion criterion)	Müller et al. (2012), Franck (2014)	d
	66 Additional documents (as needed)		i
	67 Comply with a defined projected result (as needed)		i
	68 Consent to sign new players' contracts (as needed)	Lago et al. (2006), Gouguet & Primault (2006)	d
	69 Wage restriction (as needed)	Buraimo et al. (2006), Andreff (2015)	d
	70 Sanction: Point deduction	Andreff (2015)	
	71 Sanction: Fine	Gouguet & Primault (2006), Schubert (2014)	d
	72 Sanction: Suspension		

Note: 'd' means *deductive* (concept-driven) and 'i' means *inductive* (data-driven).

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Table 3. General coding rule.

Coding value	Characteristic	Explanation
0	Not regulated	There is no regulation related to this criterion.
1	Partly regulated	This criterion is regulated through a basic approach (is required in part or as needed, i.e., in case of doubts regarding financial stability)
2	Extensively regulated	This criterion is regulated comprehensively - if applicable, by using specific input requirements

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Table 4. Overall view of the intensity indices.

Category	Index	Index _{max}	EPL	BL
Structural Basis	$I^A(1)_{C144}$	10	7	10
	$I^A(1)_{C100}$	7	5	7
	$I^A(1)_{Cat100}$	17	12	17
Required Guarantees	$I^A(2)_{C144}$	12	9	12
	$I^A(2)_{C100}$	8	6	8
	$I^A(2)_{Cat100}$	17	13	17
Required Documents	$I^A(3)_{C144}$	50	34	39
	$I^A(3)_{C100}$	34	23	27
	$I^A(3)_{Cat100}$	17	11	13
Process	$I^A(4)_{C144}$	24	12	19
	$I^A(4)_{C100}$	16	8	13
	$IA(4)_{Cat100}$	17	8	13
Reliability and Credibility	$I^A(5)_{C144}$	24	17	20
	$I^A(5)_{C100}$	16	12	14
	$I^A(5)_{Cat100}$	17	12	14
Assertiveness of the Governing Bodies	$I^A(6)_{C144}$	24	13	16
	$I^A(6)_{C100}$	16	9	11
	$I^A(6)_{Cat100}$	17	9	11
Total Indices	I^A_{C144}	144	92	116
	I^A_{C100}	100	63	79
	I^A_{Cat100}	100	65	85
	I^M_{Cat100}	100	7	34

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Table 5. Individual indices for category 1: '*Structural Basis*'.

Sub-category	Index _{max}	EPL	BL
Legal Framework	6	5	6
Integration of fundamentals of the assessment of financial stability in the legal basis	4	2	4
Index $I^{\wedge}(1)_{C144}$	10	7	10

Note: The number of individual criteria for each sub-category can be identified based on the maximum indices. Since the non-normalized individual indices become apparent from coding and illustrating normalized indices would result in confusion due to rounding, non-normalized individual indices are used.

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Table 6. Summary of the discussion for category 1: '*Structural Basis*'.

	EPL	BL
Strengths	Same accounting obligations	
	Legal basis for the regulation	

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Table 7. Individual indices for category 2: *'Required Guarantees'*.

Sub-category	Index _{max}	EPL	BL
Requirements for securing competition on the short term	4	1	4
Evidence of no overdue payables preceding the season	8	8	8
Index $I^{\wedge}(2)_{C144}$	12	9	12

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Table 8. Summary of the discussion for category 2: *'Required Guarantees'*.

	EPL	BL
Strengths	Comprehensive regulation to avoid overdue payables before the start of the season	
		Institutionalized security deposit
		Demanding evidence of minimum liability insurance
Weaknesses and need for improvement	Implementation of a security deposit, including effective consequences of using it	
	Discussion about the amount of the security deposit	
	Demanding evidence of minimum liability insurance	

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Table 9. Individual indices for category 3: *'Required Documents'*.

Sub-category	Index _{max}	EPL	BL
Required documents regarding historical financial information	14	11	9
Required documents regarding current financial information	10	4	8
Required documents regarding future financial information	14	12	12
Required updated documents during the assessed season	10	5	8
Further required documents	2	2	2
Index $I^A(3)_{C144}$	50	34	39

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Table 10. Summary of the discussion for category 3: '*Required Documents*'.

	EPL	BL
Strengths	Comprehensive documents regarding the historical and future financial information with football-specific entries	
	Break-even calculation of football relevant revenues and expenses at a fair value	Consolidated accounts for all clubs with group structures
	Special qualification of the responsible financial staff required, including a minimum standard	Special qualification of the responsible financial staff required
		Comprehensive updated financial documents during the season
Weaknesses and need for improvement	Break-even calculation irrespective of clubs' operating results	
	Consolidated accounts for <i>all</i> clubs with group structures	Minimum standard for the qualification of the responsible financial staff
	More documents regarding existing debt and liquidity situation (e.g., payables aging report)	Future financial information for periods of less than a year for <i>all</i> clubs
	Updated financial documents during the season for <i>all</i> clubs	

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Table11. Individual indices for category 4: '*Process*'.

Sub-category	Index _{max}	EPL	BL
Formalities regarding the process of the assessment of financial stability	8	4	8
Character and object of the audit	6	5	6
Accounted business ratios	10	3	5
Index $I^{\wedge}(4)_{C144}$	24	12	19

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Table 12. Summary of the discussion for category 4: '*Process*'.

	EPL	BL
Strengths	Obligation to notify the governing body in case of essential changes	
	Consideration of the projected liquidity	
	Consideration of a retrospective long-term break-even result	Consideration of the equity
Weaknesses and need for improvement	More consideration of <i>sustainable</i> ratios (e.g., additional debt ratios and multi-period scenario budgeting)	
	Discussion about considering the <i>strategic flexibility</i> of the clubs in the assessment of long-term ratios	
	Authorization for obtaining information from external institutions	Consideration of a retrospective long-term break-even result
	Entitlement for undertaking Corrections of the calculations	
	Regulation regarding the valuation basis	
	Consideration of equity	

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Table 13. Individual indices for category 5: *'Reliability and Credibility'*.

Sub-category	Index _{max}	EPL	BL
Constellation of the audit assignment of the external auditor	10	8	10
Constellation of the decision-making (league) bodies	8	6	7
Independence of the board deciding on financial stability	6	3	3
Index $I^{\wedge}(5)_{C144}$	24	17	20

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Table 14. Summary of the discussion for category 5: '*Reliability and Credibility*'.

	EPL	BL
Strengths	External audit/review of all documents regarding historical, current and future financial information <i>before</i> the start of the season	
	Strong regulation regarding responsibilities, consistence and qualification requirement of the decision making bodies	
		External audit/review of all updated documents <i>during</i> the season
Weaknesses and need for improvement	Implementation of an external regulatory control body with a composition and appointment independent of the league, the member clubs and the football association	
	External audit/review of all updated documents <i>during</i> the season for <i>all</i> clubs	

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Table 15. Individual indices for category 6: *'Assertiveness of the Governing Bodies'*.

Sub-category	Index _{max}	EPL	BL
Exclusion criteria before the season that clubs have to comply with to prove their financial stability	10	2	3
Obligations during the season in case of doubt regarding the sustainable financial stability of a club	8	6	7
Sanctions before and during the season in case failure to comply with the requirements for assessment and monitoring of financial stability	6	5	6
Index $I^A(6)_{C144}$	24	13	16

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Table 16. Summary of the discussion for category 6: *'Assertiveness of the Governing Bodies'*.

	EPL	BL
Strengths	Obligations during the season in case of doubts regarding the clubs financial stability (e.g., consent before the club signs new players' contracts or wage restrictions)	
	Positive break-even result as an exclusion criterion (as an ultimate sanction)	Positive projected liquidity as an exclusion criterion
Weaknesses and need for improvement	Discussion about sanctions with regards to their motivation, types and date	
	Consideration of more exclusion criteria (e.g. positive projected liquidity, administration procedures, positive equity situation, defined additional debt ratios)	Consideration of more exclusion criteria (e.g. administration procedures, positive equity situation, defined additional debt ratios, positive break-even result)
	Additional obligation to comply with a defined projected result (in case of doubt)	
	Authorization of the governing body to suspend a club	

Figures

Figure 1. Overview of the categories of the comparative analysis (including the number of corresponding sub-categories and criteria).

