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The impact of national policy on European football clubs: An examination of transfer activity

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for the Bachelor of Science in Global Business

by

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ABSTRACT

The objective of this paper is to explore the impact of national policy on European football clubs. In recent years, European football clubs have been breaking the transfer fees record in the transfer market, but there is a big gap in the transfer fees between clubs from different countries, so this paper explored it. Since the response of national policies in one industry is usually the epitome of the economic situation of the whole country, this paper also found the advantages and disadvantages of national policies by studying the impact of national policies on the football industry. This study used literature review and reorganized the secondary data from Deloitte, the Transfer market, Statista and other websites. This study found that in the new liberalism Britain, the football industry environment is loose, the business model is dominated by large investment, the degree of marketization is high but the economic situation is not stable. In a macro-control country like Germany, the business model is within its means, and the financial situation is relatively healthy and stable, but to some extent, it restricts the development. Italy's football clubs are mainly owned by the family business, which is in the state of monopoly of league matches by big clubs, and it caused the Matthew effect. It is important to those businessmen who want to enter the European market because this study takes the football industry as the entry point and can reflect the impact of different national policies on the industrial business model.

Keywords: *Impact, Business model, European Football, National policy, Player transfer*

INTRODUCTION

The industrialization of European professional football began in the 1980s. The privatization of European media led to the change of the traditional structure of professional football and reshaped the commercial development model of professional football (Yang, Zheng & Cong, 2014). According to Deloitte's 2019 report, revenues from the prime leagues have totaled ￡5,240 m, including match-day, broadcasts, and commercial revenue. In terms of player transfers, the primer league clubs' payment is ￡2,352 m (2019).

The commercial operations of these clubs are inextricably linked to the country's culture and government policies. Based on this, this study will take representative football clubs in the major leagues (La Liga, Bundesliga, Premier League, and Serie A) as examples to study the influence of government policies on the business model of European football clubs. Government policies and investments are a pervasive, important, and often positive influence on the business environment and economic development of any industrialized nation (Porter, 2014).

Based on this, this paper selects representative countries in Europe, such as Spain, Italy, Germany, and Britain as the research objects. Through player transfer, the main operating activity of professional football clubs, to explore the different operation models from national policy.

Neoliberalism prevails in Britain, which adopts a loose policy towards the football industry (Davies, 2004). The German government prefers to use macro-control to ensure the healthy development of the football industry (Yang, Zheng & Cong, 2014). The Spanish government's response to regulation is aid (Wladimir & Staudohar, 2006). Italy's football industry is controlled by state capitalism, and family-owned businesses are crucial to its development (Foot, 2007).

LITERATURE REVIEW - BACKGROUND

Some articles have analyzed the current business model of European professional football clubs, but most of them are targeted at a certain league or a specific club.
This research will study the different performances of the business models of the major league football clubs in practical application according to the national policies of different countries. Government policies and investments are a pervasive, important, and often positive influence on the business environment and economic development of any industrialized nation (Porter, 2014).

Besides, the study is conducted based on the subsidiary data and influencing factor, which refers to the strategy, revenue model, (DaSilva & Trkman, 2014) and the nature of business.

National Policy:

Sapir (1993) states that policy is the government to achieve a certain economic purpose and actively or negatively participate in the industry or enterprise business activities. Meier (2007) points out that the different policies of Britain and Germany lead to different development paths of football in the two countries. Germany's macro-control makes the financial situation more stable (Cainelli & Zoboli, 2004), while neo-liberalism leads to the financial instability of English football clubs (Davies, 2004). Besides, Italian football depends on family business and political power (Baroncelli & Caruso, 2011).

Neo-Liberalist:

Influenced by neoliberal economic thought, Britain gradually formed a market capitalist model similar to that of the United States after the 1980s (Clarke). Davies (2004) states that the British government designed and implemented a large-scale privatization policy of state-owned enterprises, and the government tended to act as the "Arbiter of the

liberalized market". Schmidt (2002) states that the effective allocation of resources is realized by the market itself.

England tends to allow various kinds of capital into professional football clubs under certain policies and regulations to realize the commercial operation of the league.

Marco-Control:

Hall and Soskice (2013) explain that Germany's political economy is typical of "Regulated capitalism". Hall and Thelen (2008) state that the country tends to correct the undesirable development that appears in industrial development. Yang, Zheng and Cong (2014) think that in such a political and economic environment, the managers of German professional football tend to solve the problems in the development process of the professional football industry with long-term healthy and fair development ideas. They don't believe in marketization.

State Capitalism:

Cainelli and Zoboli (2004) state that Italy represents a looser model of “State Capitalism”, with a relatively weak regulatory structure and an economy that relies heavily on domestic family businesses. Richardson, Franchino, and Radaelli (2004) also state that this capitalism makes it difficult for foreign capital to enter the country. Foot (2007) explains that political power and family business have shaped the development of professional football in Italy, and the transfer movement has suffered greatly.

Revenue:

Among so many scholars who study the business model of football clubs, Dima (2015) points that the current business model of the European Football Industry is based on three important income, which are media rights, commercial income and matchday revenue. Meanwhile, in the Annual Review of Football Finance 2019, it also reflects that the revenue includes matchday, broadcasting, sponsorship. In addition, the report also looks at player

transfers, investment, stadia and the commercial reality (Deloitte, 2019). These income streams show how European professional football clubs make huge revenues and this will be an important factor in their spending.

Strategy:

Strategy is important for a big football club, by looking up some literature, Callejo and Forcadell (2006) find that Florentino Pérez, who is the chairman of Spanish football club Real Madrid, adopted a new marketing strategy aimed at strengthening the club's brand value. This is a very important case study for the research because Real Madrid won the champions league four times between 2013 and 2018. This is inseparable from their business model.

Demil and Lecocq (2010) state that Arsenal FC replaced the older, traditional professional sports club structure by a new logic of ‘football as business’. These changes have seen the group's turnover multiplied by nearly 650% to over £310m.

The business model that achieves results in both business and competition used by those clubs can provide some useful factors for this research.

Nature of Business:

In many kinds of literature, few analyze the operation mode of football clubs by their nature, Li (2016) has divided European professional football clubs into three categories, membership-based, joint-stock and listed companies. Li (2016) also points out that membership-based is the best model for the successful operation of professional football clubs. A country's football culture and national jurisdictions are important factors that determine the business nature of football clubs. Spanish football clubs mostly use membership-based (Yang, Zheng & Cong, 2014). Statistics show that Bayern Munich in Germany is also a membership-based club (FC Bayern München, 2019). Italian football is the

majority of joint-stock clubs (Baroncelli & Caruso, 2011). Premier League teams are mostly listed companies (Li, 2016).

STATEMENT OF HYPOTHESIS

Because of the differences in government policies, different football clubs follow different business models (Li,2016). Football may now be a new business, with profits, market capitalization and turnover all significant to clubs (Morrow,1999).

Based on the above existing knowledge, we derive the following hypothesis.

Research Question (RQ): What is the impact of national policy on European football clubs: An examination of transfer activity.

H1: Regarding the national policy

1a - Neo-liberalist economics, foreign capital into the football club. Marketization and internationalization bring more revenue, thus increasing the transfer investment

2a - Macro-control, stable finances allow football clubs to make ends meet in the transfer market.

3a - State capitalism. Clubs depend on domestic family business and political power's influence. Transfers or investments are controlled by them.

Regarding the national policy, according to the literature review, the political and economic policies of different countries are different, so the management policies of the football associations of different countries are also different. For example, in Britain, where the neoliberal economy prevails, the football industry is highly commercialized and market-

oriented (Davies, 2004). In Italy, a country dominated by loose state capitalism, family firms control football (Foot, 2007). Germany, with strong macro-control, rarely invests too much in transfer fees, thus maintaining a healthy development (Yang, Zheng & Cong, 2014).

METHODOLOGY

Literature Review - Qualitative and Quantitative Method

Based on the content of this research, review recent journal, thesis and books on the business model of European professional football clubs. European governments implement relevant industrial policies for the national professional football industry (Yang, Zheng & Cong, 2014). Therefore, the study will comprehensively analyze the completed articles, which cover the business models of some representative European football clubs and articles about the structure of the European football industry, the political and economic policies of European countries.

Collecting valid data provided by TransferMarket, Deloitte, Statista and the annual report of European professional football clubs. Through the transfer fee, this study will find the difference between each countries' policies and cultures on the transfer market of major clubs in national leagues over the past years.

ANALYSIS / RESULTS

1.1 Neo-Liberalist

Influenced by neoliberal economic thought, Britain gradually formed a market capitalist model similar to that of the United States after the 1980s (Clarke). Davies (2004) states that the British government designed and implemented a large-scale privatization

policy of state-owned enterprises, and the government tended to act as the "Arbiter of the liberalized market".

Under the influence of neoliberal thought and foreign investment, the commercialization and marketization of English football have become obvious, and the achievements have also made progress. Demil and Lecocq (2010) state that Arsenal FC replaced the older, traditional professional sports club structure by a new logic of ‘football as business’ and these changes have seen the group's turnover multiplied by nearly 650% to over £310m.

English professional football's administrators were among the first in Europe to exploit the economic value of professional football (Davies, 2004). In the late 1990s, as Britain's financial system became more sophisticated and Premier League clubs became more influential around the world, more foreign capital began to flow into Premier League clubs. The British government did not intervene too much in this phenomenon, but regarded foreign investment into the club as a legitimate business activity and only reviewed the capital (Li, 2016). In 1981 the FA allowed professional clubs to hire full-time directors to run their clubs, and in 1992 it allowed League One clubs to set up separate companies wholly owned by each club (Bortolotti & Milella, 2008).

Table 2, shows

Major Stock Holders of Premier League Clubs in 2019/2020 Season	
	Number of clubs
Foreign Capital	12
Local Capital	5
Local Capital and Foreign Capital	3

Table 2: Major stock holders of Premier League clubs in 2019/2020 season
Note: Adapted from “The 12 richest billionaire Premier League club owners, and how they made their fortune”by Lane, B. 17 August 2019. (https://www.businessinsider.com/the-richest-billionaire-premier-league-owners-2019-8)

From the table, foreign capital accounts for three-quarters of the clubs in the premier league. For example, Roman Abramovich owns Chelsea FC (Chelsea, 2019), Sheikh Mansour owns Manchester City FC (Man City, 2019). The influx of foreign groups and individuals has raised the profile of the premier league, which has invested heavily in the transfer market every summer.

Chart 1, shows

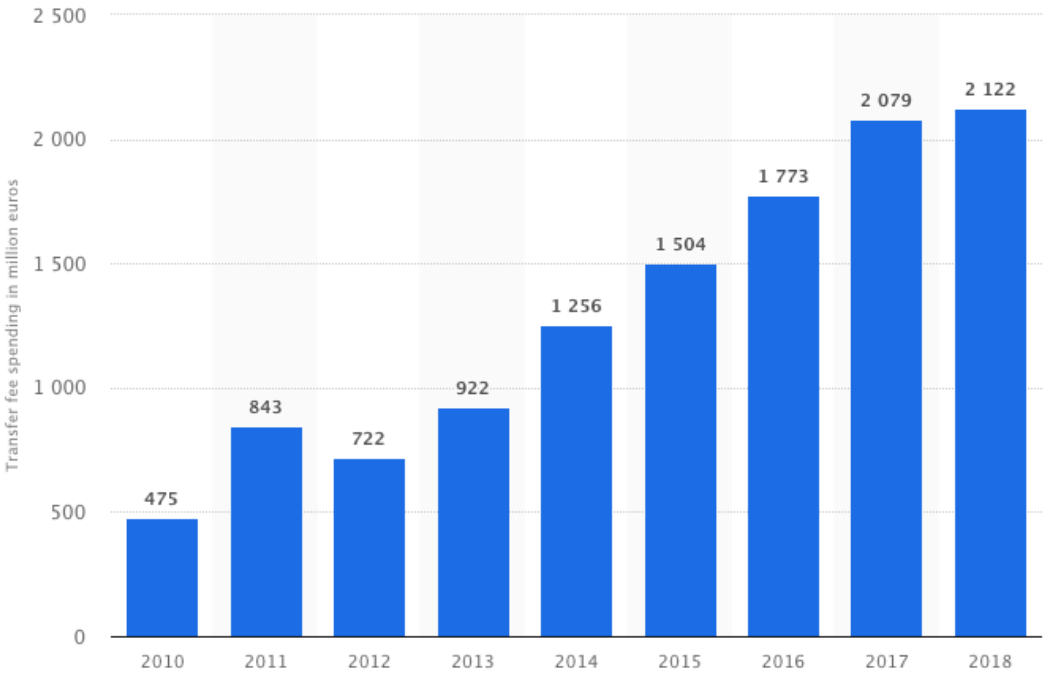

Chart 1: Transfer fee spending of Premier League football clubs from 2010 to 2018 (in million euros)

Note: Reprinted from Statista, Transfer fee spending of Premier League football clubs from 2010 to 2018, (https://www.statista.com/statistics/746589/premier-league-transfer-fee-spending/)

From 2010 to 2018, the transfer fee spending of Premier League clubs increased from €475m to €2122m, increasing by 346.7%. Transfer fees generally show the trend of growth year by year.

Table 4, shows

"Big Five" Leagues' Transfer Balance(Income and Expenditure) from 2015/16-2019/20				
League	Country	Transfer Expenditure	Transfer Income	Total Balance
Premier League	England	£7.65bn	£3.88bn	(4.191,48) mil.£
La Liga	Spain	£3.96bn	£3.36bn	(661,29) mil. £
Bundesliga	Germany	£2.87bn	£2.58bn	(315,64) mil. £
Serie A	Italy	£4.61bn	£3.84bn	(853,93) mil.£
Ligue 1	France	£2.60bn	£2.99bn	440,39 mil. £

Table 4: "Big Five" leagues' transfer balance from 2015/16-2019/2020
Note: Adapted from "Transfer Balance" by TransferMarket, 2019 (https://www.transfermarkt.com/statistik/transfersalden)

From 2015/16 to 2019/20, the Premier League spent the most money on transfers in the "Big Five" leagues, and 1.66 times as much as the second-ranked Serie A. However, the transfer income is not enough to make up for the excessive transfer expenditure, resulting in the high negative balance.

The high expenditure is mainly used for the transfer of high-level foreign athletes. Such business operation mode has affected the development of British native athletes to a certain extent, but the British government and FA have not put forward the requirement of adjusting the owner review system (Andreff & Szymanski, 2013).

According to Chelsea FC (2013), in the summer of 2003, Russian businessman Roman Abramovich paid £120 m for the entire stake in the Chelsea football club. By 2012, Abramovich had invested about £2 b in the team over a period of 9 years, making Chelsea one of the biggest clubs in the transfer market.

Table 3, shows

Major European Football Clubs' Transfer Balance from 2015/16-2019/2020				
Club	Country	Expenditure (million)	Income (million)	Balance (million)
Real Madrid	Spain	€ 62,575.00	€ 44,575.00	€ (18,000.00)
FC Barcelona	Spain	€ 82,435.00	€ 59,505.00	€ (22,930.00)
Bayern Munich	Germany	€ 42,900.00	€ 25,555.00	€ (17,345.00)
Paris Saint-Germain	France	€ 84,560.00	€ 39,900.00	€ (44,660.00)
Juventus FC	Italy	€ 96,333.00	€ 71,004.00	€ (25,329.00)
Inter Milan	Italy	€ 63,885.00	€ 34,326.00	€ (29,559.00)
Manchester United	England	€ 78,110.00	€ 29,477.00	€ (48,633.00)
Manchester City	England	€ 98,589.00	€ 31,724.00	€ (66,865.00)
Chelsea FC*	England	€ 73,880.00	€ 61,399.00	€ (12,481.00)
P.S. Chelsea have been banned from transfer activity by FIFA for the 2019/2020 season.				

Table 3: Major European football clubs' transfer balance from 2015/16-2019/2020
Note: Adapted from "Income and Expenditure" by TransferMarket, 2019 (https://www.transfermarkt.com/statistik/einnahmenausgaben)

In addition, CFG (City Football Group)'s Manchester City has the highest transfer expenditure from 2015/16 to 2019/2020. Another Manchester club has also spent heavily on transfer spending, thanks to the government's relaxed policies.

Table 5, shows

Wage Costs of "Big Five" Professional Football Leagues in Europe 2017-2018, by League		
Wage Costs of "Big Five" European Football Leagues from 2017 to 2018, by League (in million euros)		
	2016/17	2017/18
England	€ 2,894.00	€ 3,217.00
Germany	€ 1,478.00	€ 1,674.00
Spain	€ 1,691.00	€ 2,033.00
Itay	€ 1,401.00	€ 1,472.00
France	€ 1,078.00	€ 1,262.00

Table 5: Wage costs of "Big five" European football league clubs from 2017 to 2018, by league (in million euros)
Note: *Reprinted from Deloitte, Wage costs of "Big five" European football league clubs from 2017 to 2018, by league, retrieved from* (https://www.statista.com/statistics/1022140/european-soccer-wage-costs-by-league/)

Meanwhile, the influx of foreign money has not only made English clubs spend a lot of money on transfer fees but, the table shows, in 2016-18 English clubs spent far more than any other league, even more than twice the salary of the French professional football league.

1.2 Macro-Control

Hall and Soskice (2013) explain that Germany's political economy is typical of "Regulated capitalism". Yang, Zheng and Cong (2014) think that in such a political and economic environment, the managers of German professional football tend to solve the problems in the development process of the professional football industry with long-term healthy and fair development ideas. They don't believe in marketization.

Until 1998, all German sports clubs were “Eingetragener Verein”, a German-style non-profit organization, and all club revenues had to be reinvested in sport (Yang, Zheng & Cong, 2014).

By 1999, the German Football Association, which was dominated by financial stability and the long-term development of the club, issued regulations against the background of rapid growth in television revenues, multiple revenue increases and increasing incentives for commercial operation of the club. This allows the club to set up a company independently of the men professional football team, but the establishment of the organization must have more than 51% of the shares belong to the original club, which enables the German professional football club to retain the characteristics of membership, and fundamentally eliminate the foreign acquisition of clubs and clubs to pursue short-term results while operating in debt (Swieter, 2002).

Although the "50+1" regulation has been questioned by clubs for a long time in Germany, the German government has always supported it and confirmed the rationality of the "50+1" clause through legal form, which to some extent maintains the competition order of the league (Yang, Zheng and Cong, 2014). This is very different from the way the Premier League football clubs use high transfer expenditure and high debt to pursue short-term results.

From Table 4, due to the lower level of development of the Ligue 1, the Bundesliga spends far less on transfers than the other four leagues and has a lower level of debt.

Meanwhile, as the most representative and well-known club in the German football league, Bayern Munich strictly follows the regulation of the German in the transfer operation. According to Bayern Munich (2016), the shareholding of this club is as follows: FC Bayern München eV owns 75 %, Adidas AG owns 8.33%, AUDI AG owns 8.33% and Allianz SE owns 8.33%.

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Of the top five clubs in the league, Bayern Munich spent the least between 2015/16 and 2019/20, and only two-thirds as much as Real Madrid, the second-lowest on transfer expenditure. Despite Chelsea's transfer ban, Bayern Munich also has the lowest debt of those professional football club.

Bayern Munich's business philosophy is to adhere to the principle of "live within your means", coupled with the constraints of German football policy so that the club's economic situation is always in a virtuous circle, the Bundesliga has become the most health economic league in Europe (Li, 2014).

Spain is a country without macro-control as its main policy, and it is even the only country in Europe with major professional football developed countries that do not set up

financial examination for clubs (due to the requirements of UEFA, the relevant authority was established in 2014) (Wladimir & Staudohar, 2006). But Spanish policy is to help clubs deal with the financial health of professional football clubs, as well as tax breaks for foreign players. As table 3 shows, clubs like Barcelona are no less likely than English clubs to spend money on transfers (Yang, Zheng & Cong, 2014).

1.3 State Capitalism

Cainelli and Zoboli (2004) state that Italy represents a looser model of "State Capitalism", with a relatively weak regulatory structure and an economy that relies heavily on domestic family businesses. Richardson, Franchino, and Radaelli (2004) also state that this capitalism makes it difficult for foreign capital to enter the country. Foot (2007) explains that political power and family business have shaped the development of professional football in Italy, and the transfer movement has suffered greatly.

Table 1, shows

Major Stock Holders of Serie A Clubs in 2012/2013 Season	
	Number of clubs
Local Family	8
Local Individual	9
Local Individual and Local Corporations	1
Foreign Capital	2

Table 1: Major stock holders of Serie A clubs in 2012/2013 season
Note: Adapted from "The organization and economics of Italian Serie A: A brief overall view" by Baroncelli, A., & Caruso, R, 2011, Rivista Di Diritto Ed Economia Dello Sport, 7(2), 67–85.

Italian football clubs are largely controlled by local family businesses and individuals. For example, Juventus' Agnelli family, Napoli's De Laurentiis, Lazio's Claudio Lotito and former AC Milan's Silvio Berlusconi all have strong economic and political influence in Italy (SKY Sports).

In Italy, the Agnelli family is a symbol of wealth and glory, people call them the "Royal family". The Agnelli family founded FIAT.

Table 3, shows

Major European Football Clubs' Transfer Balance from 2015/16-2019/2020							
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Juventus FC spent most in the transfer market after Manchester city. The Agnelli family's Juventus, have dominated Serie A in recent years, with few clubs other than Napoli able to challenge them, thanks to their spending on the transfer market. In recent years, Juventus have brought in several of high-priced players, such as Cristiano Ronaldo (€ 117,00 million), Gonzalo Higuaín (€ 90,00 million), Matthijs de Ligt (€ 85,50 million) (Transfermarket).

In addition, because of the interests between the various families, the player trade is also taken into this attribute. Strong teams need young players to accumulate experience, so they transfer players to the weak team, the team from one to the other, each take what they need (Richardson, Franchino & Radaelli, 2004). Take the transfer of Gonzalo Higuaín, who was a big hit in Napoli and was courted by Juventus, who transferred the no longer needed Gonzalo to AC Milan after the arrival of Cristiano Ronaldo (Transfermarket). Similar was Leonardo Bonucci's transfer between Juventus and AC Milan.

Table 4, shows

"Big Five" Leagues' Transfer Balance(Income and Expenditure) from 2015/16-2019/20				
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Italy's Serie A, dominated by family-owned companies and individuals, is the second-largest in terms of spending on transfers in the "Big Five" leagues, although not as big as the foreign-owned and market-oriented English Premier League.

However, other clubs have weak financial backing and less resources, such as the once illustrious Parma, which went bankrupt in 2015 due to financial problems. Until 2017, Jiang Lizhang from China became the club's new President, Parma is getting better (Parma).

Big clubs are getting stronger with strong family business' supporting, while small clubs are getting worse and worse, which will lead to the Matthew effect. Matthew effect refers to the rich get richer and the poor get poorer (Soares, 2011). According to the Serie A, Juventus have won the Scudetto in Serie A for eight years in a row (2019).

CONCLUSIONS AND PRACTICAL IMPLICATIONS

First, The English business model is influenced by the neoliberal policy and has obvious market characteristics. It has become a distinctive feature of English football clubs to invest heavily in the transfer market, driven by foreign investment.

Second, in terms of macro-control, German football is healthier and more stable, and its business model is regulated by national policies. In terms of investment, they live within their means, and they do not advocate excessive market development strategy.

Thirdly, In Italian football, the transfer of players is mainly influenced by the influence of family businesses and individuals. Therefore, some clubs with powerful shareholders, such as Juventus, invest heavily in the transfer market. The business model will also change depending on who owns the club.

From a practical point of view, the implementation of national policies has a similar effect on most industries. In a market-oriented economy, it will develop according to market rules and form competition. And the country regulates the apparent industry, more is healthy and stable development.

LIMITATIONS AND FUTURE RESEARCH

First, market-oriented characteristics oriented to the realization of maximum economic value can promote the rapid development of the industry, but in the absence of policy regulation, the financial instability and unhealthy problems brought by commercialization are also very prominent

Second, although macro-control policies can reduce operational risks and maintain healthy economic growth, these policies also restrict the industry from realizing its maximum economic value to some extent.

Moreover, direct national economic support like Spain cannot solve the fundamental problem. The government still needs to build an industrial structure that meets the requirements of development to ensure the sustainable development of the industry.

Third, the dominance of individual family firms in the industry is likely to lead to monopolies and corruption, such as the Calciopoli scandal in Italian football in 2006. Meanwhile, big clubs like Juventus will be stronger because they occupy more resources and there will be less resources available for small clubs.

In general, this study found that different policies of different countries have different impacts on football clubs' business models and even other industries, but these policies have drawbacks. Next, we can choose to study the causes and solutions to these drawbacks.

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