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GAMBLING TO ACHIEVE SUCCESS IN PROFESSIONAL SPORT: THE CASE OF THE EFL CHAMPIONSHIP – A BUBBLE WAITING TO BURST?

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Abstract

This article quantifies the extent of clubs in the Championship of the English Football League (EFL) adopting the conventionally economically irrational decision to run a loss-making budget in the hope of achieving sporting success. It finds that this strategy was both prevalent and the most successful to achieve promotion.

The research makes three contributions to the sports literature. The first is the quantification of the prevalence of this form of gambling. The second is the finding that, despite regulations to limit spending on wages, this gambling is rational in the non-economic sense because it is almost a necessary strategy to achieve promotion if the club had not been relegated from the Premier League in the previous season. The third extends debate suggesting that financial regulation in professional sports leagues can be viewed through the lens of internal legitimacy, whereby regulations are implemented in such a way as to be accepted by member clubs and have minimal impact on behaviour. It also suggests that regulation which directly targets the liquidity of football clubs with a minimum threshold limit might be more effective in ensuring their financial sustainability than the profit or wage restraints that have been applied hitherto as ultimately, as with other financial 'bubbles', it is a lack of cash that makes the financial position of a business unsustainable.

Gambling to achieve success in professional sport: the case of the EFL Championship – a bubble waiting to burst?

1. Introduction

"The Championship is not financially sustainable, it's a bubble waiting to burst……there are Championship clubs chasing that Premier League dream and when the gamble doesn't come off somebody has to foot the bill and if they can't afford it, the club could end up in administration"

Former Wigan Athletic chairman David Sharpe (reported by the BBC)[1]

Aston Villa have "gone to the casino, rolled the dice and it hasn't worked"

Former club finance director Mark Ansell (reported by the BBC)[2]

The aim of this study is to quantify the extent of 'gambling' by owners of clubs in the Championship of the English Football League (EFL), the second tier league of professional football in England, by overspending on playing talent, and the effectiveness of this strategy in achieving sporting success. Whilst an amount of spending on wages is required of a professional football club, this paper considers limits for this spending such that spending in excess of these limits constitutes, in the language of the industry, a 'gamble' by the club owner.

The definition of gambling is "to do something that involves risks that might result in loss of money or failure, hoping to get money or achieve success"[3]. In the event that the bet

[1] BBC (12 December 2019). Championship 'bubble waiting to burst' with clubs posting record losses in Premier League 'gamble'. https://www.bbc.co.uk/sport/football/50674331 (Accessed 26 August 2020)

[2] BBC (6 June 2018). Aston Villa: Former finance director Mark Ansell says club gambled on Premier League return. https://www.bbc.co.uk/sport/football/44382488 (Accessed 28 June 2021)

[3] https://dictionary.cambridge.org/dictionary/english/gamble (Accessed 20 November 2020)

fails, and the stake money is lost, the consequences for the loser may be manageable. However, the loss of a stake that is too large for the loser to manage can have consequential effects for others. Both situations are a result of gambling and the study does not differentiate between situations where failed bets are 'affordable', in the sense that the club owners can absorb any loss, and situations where they are not affordable and there are consequences for other parties.

The Championship is an appropriate setting in which to examine the prevalence of 'gambling' by club owners as there is a strong incentive for the owners of football clubs in the Championship, the second tier league of professional football in England, to 'gamble' by spending more on wages than their current income is expected to sustain in order to attract talent which could increase the probability of a sporting and financial pay-off from promotion to the first tier Premier League. This creates a dynamic, akin to an arms race (Hamil and Walters, 2010) whereby it is 'rational' for clubs to lose money by overspending in order to have a greater, or even any, realistic expectation of competing successfully to win promotion.

The financial incentive is due to the significant positive differential in income, in large part due to the difference in income distributed from centralised broadcasting rights, between football clubs in the first and second tier leagues of professional football in England. The lowest payment distributed to the clubs in the Premier League, for total broadcasting rights for the 2018/19 season, for example, was £96m[4]. Whereas, in the second tier league, the Championship, the highest disclosed revenue for disbursements by the English Football League (EFL) and other media activity revenue for a club in the league was £72m and only 6 clubs in the Championship disclosed revenue for disbursements and other media activity of more than £10m[5].

[4] www.premierleague.com/news/ 1225126 (Accessed 26 August 2020)

[5] Source: Company accounts for all clubs in the league with available data.

This raises two main concerns. The first is that 'unaffordable' overspending may cause financial distress for the football club and this could result in non-payment of the club's debts or even the collapse of the football club with all the resulting financial, social and sporting consequences. The second is that even if a club is able to finance the deficit, the amount is sufficiently large to be considered as resulting in an 'undue' advantage in the sporting competition. In this case the integrity of the sporting competition is undermined by the 'off field' economic competition for financial resource. The term 'financial doping' was used by UEFA Chief Executive Lars-Christer Olsen to describe this situation[6].

Data for the study is taken from the financial accounts of the clubs. As the EFL regulations relate to financial variables that do not correspond exactly to the publicly reported accounting data this lack of transparency prevents a valid independent assessment of whether clubs that are considered to have gambled also complied with the EFL regulations, and hence the study is unable to relate the practice of gambling to the effectiveness, or otherwise, of the regulation in either design or implementation.

The study makes three contributions to the literature. First, it quantifies the extent to which football clubs gamble and uses a pay-off matrix to compare the intended and actual outcomes. Second, it finds that the decision to gamble by overspending on wages is entirely rational in the context of seeking to get promoted. Whilst the positive relationship between wage spending and success in football has been well established (Smith and Szymanski, 1997) the necessity to spend in excess of income in order to achieve sporting success has not. Third, the analysis extends ongoing debates on the effectiveness of financial regulation in professional

[6] UEFA.com (25 March 2004). Club licensing vital, says Olsen.

http://www.uefa.org/news/newsid=157594.html (Accessed 17 March 2013) sport. If the EFL (as the regulator) had been serious about changing club management behaviour, about discouraging loss-making amongst clubs, through financial regulation it would have devised regulation that would allow clubs that don't gamble to have a realistic chance of being promoted. The empirical analysis in this paper demonstrates that this is clearly not the case, which supports the contention that regulation in professional sports leagues can be viewed through the lens of internal legitimacy, whereby regulations are implemented in such a way as to be accepted by member clubs but have minimal impact on behaviour.

The following section provides a brief overview of the literature relating to the financial sustainability and financial regulation of football clubs. Subsequent sections present the method and data employed and the results. A discussion of these results is given before the article concludes.

2. Literature review

Financial sustainability of professional football clubs

Deloitte (2019) cites 59 cases of insolvency involving 47 clubs in England from 1992 to 2019. This does not include Bury which entered into insolvency proceedings in 2019 and was expelled from the EFL in August of that year although the club had been promoted to League One of the EFL in the previous season. However, in all other cases the club survived, except for Aldershot FC which failed in 1992. In this case the supporters quickly formed Aldershot Town AFC instead but that too entered into insolvency proceedings in 2019. This experience led Kuper & Szymanski (2009) to observe that "In most industries a bad business goes bankrupt, but football clubs almost never do" (ibid., p. 106). Hamil & Walters argue that, in effect, football trades on its status as one of the most powerful cultural and social assets in the country. Storm and Nielsen (2012) argue that the paradox of a high survival rate of football clubs, despite persistent deficits and growing debts, can be explained by the 'soft' budget constraints that football clubs operate within. "In short, decision makers and managers expecting bailouts or support in case of financial trouble ex post have strong incentives to increase expenditure above the initial budget, leaving the additional costs, that is firm deficits, for the principal to pay, thus resulting in a softening of their budget constraints." (ibid., p. 189).

A major concern now for the football industry is that a club could experience a financial crisis and it would be on a scale that is too large for stakeholders to save the club. Hamil and Walters (2010) make the point that, whilst football clubs have often been rescued by new owners in the past, this is less likely to be an option now because the potential size of the gap (created by a super-benefactor) is greater than in the past and that there are likely to be fewer potential super-benefactors willing or able (in the current economic environment) to step in. The cause of insolvency of football clubs was the subject of research by Beech et al (2008, 2010). They identified five situations ("archetypes") characteristically associated with the insolvency of football clubs in England: clubs that have failed to cope with relegation; clubs that have failed to pay monies due to the government; clubs that have seen 'soft' debt become 'hard' debt; clubs that have lost the ownership of their stadium; and the 'repeat offenders'. Szymanski (2012) tests the hypothesis of exuberant spending or demand shock, such as the collapse of the ITV Digital contract in 2002, as alternative causes of insolvency of English football clubs and finds support for the latter. This research was extended by Scelles, Szymanski and Dermit-Ricard (2016) to examine insolvency in the top three divisions in France which also found that "… demand (attendance) shocks can account for insolvency to a significant degree." (ibid., p. 1).

Dietl, Franck and Lang (2008) conclude that the following factors enhance the incentives for football clubs in professional sports leagues to "overinvest":

1) A stronger correlation between talent investments and league performance
2) A more unequal distribution of the league's revenue
3) An additional exogenous prize (e.g. participation to international competition) awarded to the winner of the domestic championship
4) A system of promotion and relegation
5) An increased inequality between first and second division of a domestic league

Despite this analysis of the incentives to overspend, however, there has been no attempt to quantify the extent to which football clubs gamble by overspending on playing talent nor any understanding of the effectiveness of this strategy in achieving sporting success. This is a significant oversight in the literature which this paper seeks to address.

Financial regulation of professional football leagues

The regulatory response to the financial instability of football clubs has been the introduction of financial regulation. At a European level, "Financial Fair Play" (FFP) rules were introduced by UEFA with effect from the 2011/12 season for European football club competitions. They require that clubs wishing to participate in UEFA's club competitions must meet a set of criteria, with a view to improving the quality of management at European football clubs (UEFA, 2020). At the same time the EFL introduced regulations called Fair Play rules, which applied to clubs in the Championship. They were replaced by Profit and Sustainability rules from the start of the 2016/17 season and these remain in effect to date[7]. In both cases the rules are based on spending that affects the profit (before tax) of the club. This suggests that wage spending, rather than the related spending on transfer fees (which are generally amortised over the duration of the contracts) is the main variable of concern (although we also recognise

[7] https://www.efl.com/-more/governance/efl-rules--regulations/appendix-5---financial-fair-play-regulations/ (Accessed 19 February 2020).

that transfer fees play a part in football club profitability). Hamil (2014) called for the introduction of more robust financial regulation to address chronic, and highly destabilising, loss-making by Football League clubs in his analysis of the financial health of Football League clubs over the 2011-2013 period.

Evans et al (2019) provide empirical testing of the effectiveness of financial regulation implemented in League Two (the fourth tier league) in the EFL. They found that, contrary to the intention, the regulation failed to significantly improve the profitability or the solvency of football clubs in the league. The analysis suggests that the introduction of the regulation was in part a 'legitimising exercise' instigated by the EFL to garner support within the institutional environment.

3. Method

This paper quantifies the hitherto unquantified extent of gambling by the owners of clubs in the EFL Championship to achieve sporting success and compares the intended and actual outcomes. The study assesses only those clubs that were in the Championship in the previous season. Each season the league consists of clubs that were in the league in the previous season, those that were relegated from the Premier League in the previous season and those that were promoted from League One in the previous season. The clubs that joined the league as a result of relegation are excluded because they are expected to require a period to adjust their wage structure to be consistent with their income in a lower league. The promoted clubs from League One are excluded because it is expected that they will need to increase their wage spend to adjust to competition at a higher level league. The intent to gamble is assumed in cases for clubs that were in the league in the previous season and where all of the following conditions hold for the club in relation to the previous season:

1) Wage spend increased

2) Wage spend increased by more than revenue increased

3) Wage spend increased by more than profit before tax increased

The assumption is that, in addition to clubs that reduce wage spend, clubs that increase wage spend are not gambling if the wage spend increase was supported by increased revenue or an increase in profit. The former allows for wage increases to be met by, for example, new commercial income. The latter allows, for example, for profit on the sale of players or exceptional income from, for example, the sale of the stadium or a reduction in operating costs. In these cases the club is viewed as not gambling.

The analysis considers the extent of gambling both in terms of the number of individual club season instances and in terms of the number of individual clubs that were in the Championship for a least one period of consecutive seasons in the study period. The following four propositions relating to the incentive of the club owners to gamble are considered. These propositions imply a pay-off matrix which is shown in Table I.

1. Clubs that secured a play-off place (i.e. 3rd to 6th in previous season) may consider increased wage spending with the intention of achieving an automatic promotion in the current season.
2. Clubs that finished outside the promotion or play-off places but finished in the top half of the league (i.e. 7th to 12th in the previous season) may consider increased wage spending with the intention of achieving at least a play-off place (on the assumption that by finishing in the top half of the league they have a more realistic probability of promotion than relegation).

3. Clubs that finished in the lower half of the league but not in the bottom six places (i.e. 13th to 18th in the previous season) may consider increased wage spending with the intention of achieving either a play-off place or avoiding relegation.
4. Clubs that finished within three places of relegation (i.e. 19th to 21st in the previous season) may consider increased wage spending with the intention of avoiding relegation. It is recognised that this proposition is based on an arbitrary cut-off point and in practice may be overridden by specific considerations of the clubs in or above these positions.

Table I. Pay-off matrix

Proposition	Championship position previous season	Outcome in current season						
		1st or 2nd	Play-off winner	3rd to 6th *	7th to 12th	13th to 18th	19th to 21st	22nd to 24th
I	3rd to 6th *	A	A	E	E	E	E	F
II	7th to 12th	A	A	D	E	E	E	F
III	13th to 18th	A	A	D	D	C	C	F
IV	19th to 21st	A	A	B	B	B	B	F

*Excluding club promoted via play-off

Key:

Zone A: Gambling clearly paid off as club promoted

Zone B: Gambling clearly paid off as club avoided relegation having previously finished in the 19th to 21st positions

Zone C: Gambling paid off for clubs previously finishing in the 13th to 18th positions if their ambition was to avoid relegation

Zone D: Gambling did not pay off in the current season as although the club did progress to a higher group it failed to achieve promotion

Zone E: Gambling did not pay off as club failed to progress to a higher group

Zone F: Gambling clearly did not pay off as club relegated

The extent of gambling is assessed in relation to each of the propositions (above). Whether that gambling paid off is assessed with the pay-off matrix for the gamblers and whether the gamblers were more successful than non-gamblers is assessed by comparing the pay-off matrix for gamblers with that for non-gamblers. Whilst neither the financial accounts of the clubs nor the EFL provide the transparency required to assess the compliance of clubs with their financial regulations, the data extracted from the financial accounts of the clubs is used to compare the incidence of gambling with the corresponding period of regulation.

4. Data

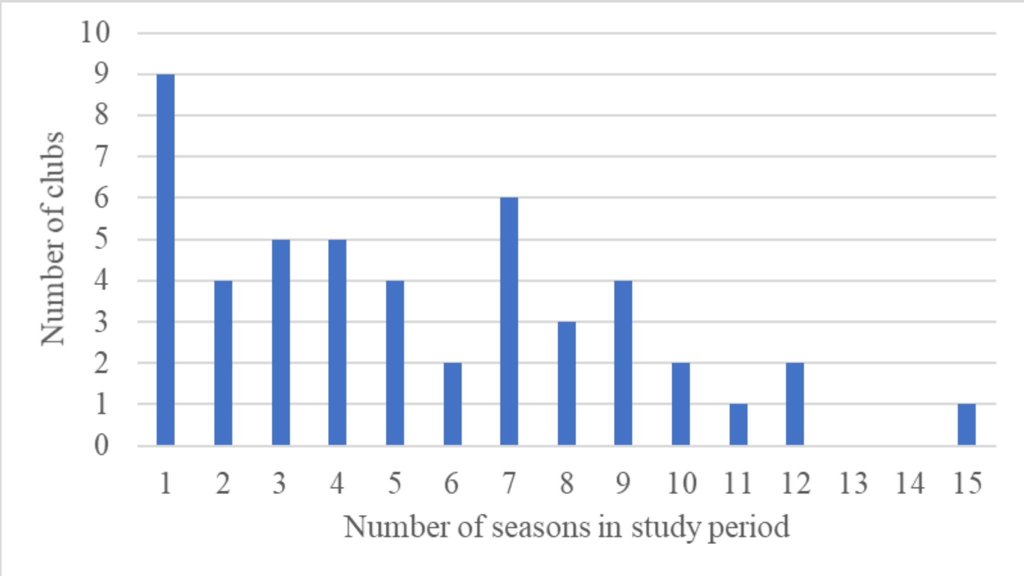
The primary data source for the study is the financial statements and related notes to the accounts which have been obtained from the statutory financial accounts filed at Companies House[8] by the clubs in the Championship for financial periods corresponding to each of the fifteen seasons from 2004/05 to 2018/19 inclusive.

There are 48 clubs in the study data set. Whilst 55 clubs participated in the Championship during the fifteen seasons of the study 4 clubs (Newcastle United, MK Dons, Southend United and Yeovil Town) are excluded because they were not in the Championship in any of their prior seasons and data was not available for any of the seasons that another 3 of

[8] Companies House is the United Kingdom's registrar of companies and is an executive agency of Her Majesty's Government

the clubs (Luton Town, Colchester United and Portsmouth) were in the league. Figure 1 shows the frequency distribution of club seasons for the 48 clubs.

Figure 1. Frequency distribution of club seasons in the study by number of clubs



It can be seen that one club (Ipswich Town) participated in the Championship in all of the seasons in the study period and 9 clubs participated in the league only for a single (and preceding) season.

The 48 clubs in the study produced 256 observations. There are two reasons why they may understate the extent of gambling in the Championship in the following analysis. First, whilst the 55 clubs potentially produce 270 observations (excluding seasons following either promotion or relegation into the Championship for the current season) the circumstances around 11 of the 14 instances of missing data suggest that they may also be related to a period of gambling by the club owners. 9 of those appear to be related to financial distress experienced by the clubs. Luton Town, Colchester United and Portsmouth are excluded because they had no available data for the single season that each of them were in the Championship. However, all 3 observations were for seasons in which these teams were relegated and in 2 of the cases (Luton Town, 2007 and Portsmouth, 2012) the club also went into administration in that year.

This suggests that these clubs may have gambled unsuccessfully although this cannot be confirmed from the financial accounts of the clubs.

The other 8 missing observations are for clubs included in the study for more than one season but which had one or more seasons when there was no available data. In 6 of these cases the cause of the lack of data may be related to the clubs entering into administration which again suggests that the absence of data is the result of unsuccessful gambles by the club owners. In 2018/19 Bolton Wanderers was placed in administration and no accounts are available for the 2018/19 season. Crystal Palace finished 5th, 15th and 21st in the league in the consecutive seasons from 2008/09 to 2010/11 respectively but failed to provide accounts for these seasons and in 2010 the club was placed in administration. A further 2 observations are missing as Leeds United entered in administration in 2007 and no accounts are available for the 2006/07 season and Rotherham United entered in administration in 2006 and no accounts are available for the 2004/05 season. In the other 2 cases (Derby County and Sheffield Wednesday), although not having any apparent financial distress, both have overdue accounts for the 2018/19 season and in both cases there is a dispute relating to their accounting practice which could have disguised an overspending on wages.

The 3 cases where there is missing data but this does not suggest an intent to gamble in these seasons are for Rotherham United for the 2015/16 season, Barnsley for the 2007/08 season and Crystal Palace preceding the 2006.07 season. Rotherham United was promoted from League One in the 2013/14 season and changed its accounting period from a year end on 31 December 2014 to a year end on 30 June 2015. Consequently, data is only available for 6 months for the 2014/15 season and that is not comparable with the data available for the 2015/16 season on a like-for-like basis. However, Rotherham United reported a profit before tax of £167,212 for the year ended 31 December 2014 but a loss before tax for the following two periods of £732,175 for the 6 months ending 30 June 2015 and £1,457,991 for the year ending 30 June 2016. This was a result of the club increasing its wage spend as a percentage of its revenue in each period from 49% to 63% and then 74% in the successive periods. Whilst this indicates increasing ambition from the club owners it does not clearly suggest an intention to gamble to achieve success. Data is missing for Barnsley in 2007/08 as they filed abbreviated accounts which did not disclose wage spending but this does not suggest an intention to gamble to achieve success. Accounts were not located for Crystal Palace for the comparative season prior to the 2006/07 season.

The second reason why the following analysis may understate the extent of gambling by club owners in the Championship is the exclusion of the 'new joiners' to the league who could also have overspent on wages.

5. Analysis and results

What was the extent of gambling?

Table II shows that at least 5 of the potential 18 clubs in the study each season gambled in every one of the fifteen seasons. Overall, of the 256 club seasons in the study (i.e. in the Championship in the previous season with available data), the club owners gambled in 45% (116). Note that even if it is assumed that the club owners gambled in none of the club seasons omitted from the study the evidence shows that the club owners gambled in at least 32% of all possible (360) club seasons in the study period.

Table II. Analysis of total club seasons

	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	Total
Gamblers	5	9	5	11	12	5	9	10	8	7	5	6	6	12	6	116
Non-gamblers	12	9	10	5	5	12	8	7	10	11	13	11	12	6	9	140
In study	17	18	15	16	17	17	17	17	18	18	18	17	18	18	15	256
No data	1	0	3	2	1	1	1	1	0	0	0	1	0	0	3	14
Potential	18	18	18	18	18	18	18	18	18	18	18	18	18	18	18	270
Ex-PL	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	45
Ex-L1	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	45
Total	24	24	24	24	24	24	24	24	24	24	24	24	24	24	24	360

Where:

- Ex-PL refers to teams relegated from the Premier League in the previous season
- Ex-L1 refers to teams promoted from League One in the previous season

Figure 2 shows that the relative incidence of gambling each season for the clubs included in the study and the trend which was fairly constant around an average of 45% over the study period. In every season at least 28% of clubs gambled. There were 3 seasons when approximately 70% of the clubs in the league gambled and 6 seasons when 35% or less of the clubs in the league gambled.

Figure 2. Relative incidence of gambling each season

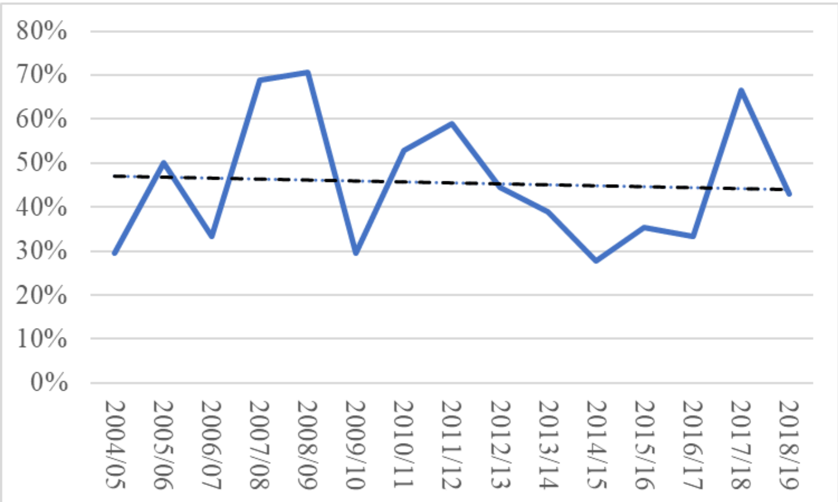


Table III shows that the proportion of gamblers is highest for those clubs that finished outside the promotion or play-off places but finished in the top half of the league in the previous season (Proposition II). However, there was a similar level of incidence for those clubs that finished in the lower half of the league in the previous season (Propositions III and IV). Perhaps surprisingly, the percentage of gamblers is lowest for clubs that secured a play-off place in the previous season (Proposition I). This suggests that these owners may be more inclined to consider that they already have an acceptable chance of promotion in the current season and consequently they are slightly less inclined to gamble with an increase in wage spend than other clubs are.

Table III. 'Gamblers' by proposition

Proposition	Championship position previous season	Seasons in study	Non-gamblers	Gamblers	Gamblers % of seasons in study
I	3rd to 6th *	41	24	17	41%
II	7th to 12th	88	47	41	47%
III	13th to 18th	86	47	39	45%
IV	19th to 21st	41	22	19	46%
	Total	256	140	116	45%

*Excluding club promoted via play-off

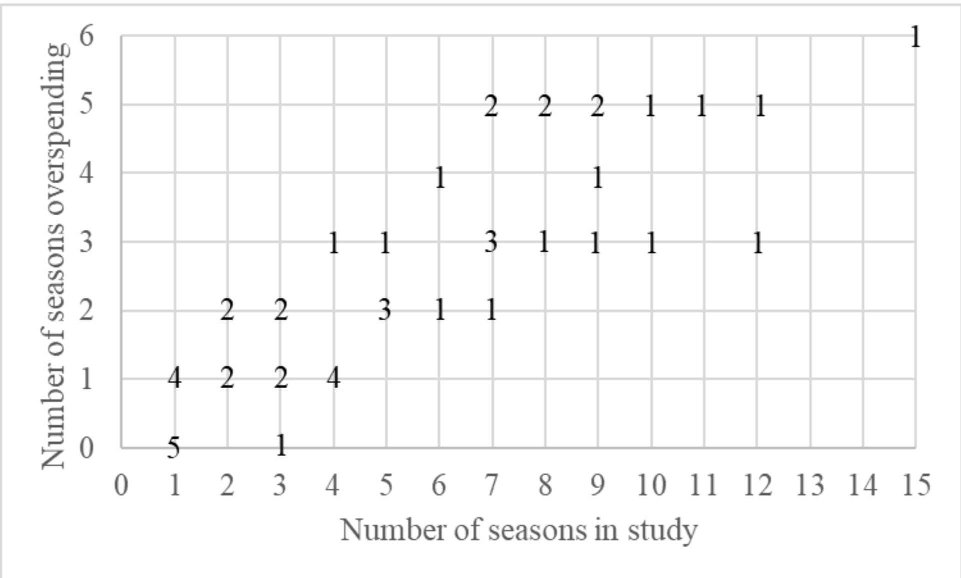
Table IV shows how widespread gambling was for the individual clubs that competed in the Championship in the study period. Of these 55 clubs 48 are included in the study and 87% (42) of those gambled in one or more of the seasons that they were in the Championship (or at least 76% of all 55 clubs that were in the Championship in the study period).

Table IV. Analysis of total clubs

	Number of clubs
Gamblers	42
Non-gamblers	6
In study	48
Not in Championship in previous season	4
No data	3
Total	55

Figure 3 presents the frequency of gambling by the 48 individual clubs (in the study). For example, 3 clubs were in the study for 5 of their seasons (with a previous season in the Championship) and they both gambled in 2 of those seasons. Figure 3 shows that 6 clubs gambled in all of their second seasons in the Championship but 4 were each only in the study for one pair of consecutive seasons and the other 2 were only in the study for two pairs of consecutive seasons. Most of the clubs that did not gamble (5 of 6) were also only in the Championship for one period of two consecutive seasons. The one club that was in the study for the most (15) seasons gambled in the most (6) seasons.

Figure 3. Frequency of gambling by individual clubs



Did gambling pay-off?

Table V shows that gambling clearly paid off in 32% (37) of the instances in which club owners gambled, that is the 28 instances that clubs achieved promotion (Zone A) and the 9 instances when, although the club was not promoted, it succeeded in avoiding relegation despite being in the 3 places above relegation in the previous season (Zone B).

Table V. Pay-off for gamblers

Proposition	Championship position previous season	Outcome in current season							Total
		1st or 2nd	Play-off winner	3rd to 6th *	7th to 12th	13th to 18th	19th to 21st	22nd to 24th	
I	3rd to 6th *	4	2	2	5	0	4	0	17
II	7th to 12th	10	1	3	13	9	4	1	41
III	13th to 18th	4	4	3	9	10	5	4	39
IV	19th to 21st	0	3	3	1	3	2	7	19
	Total	18	10	11	28	22	15	12	116

*Excluding club promoted via play-off

Almost a third (5 of 17) of the attempts to gain promotion by gambling by clubs that narrowly missed promotion in the previous season (Proposition I) were successful and almost two thirds (12 of 19) of the attempts to avoid relegation by gambling by clubs that narrowly avoided relegation in the previous season (Proposition IV) were also successful (even resulting in promotion in 3 instances!). It could also be considered that in a further 14% (15) club seasons, for the clubs which had been in the lower half of the league but not in the greatest danger zone for relegation (Proposition III) whilst not moving to a higher group, the club was also successful if their ambition was to avoid relegation (Zone C).

For the 10% (12) club seasons when gamblers were relegated gambling clearly did not pay off (Zone F). In both the 32% (37) of club seasons when the gamblers failed to progress to a higher group (Zone E) and the 13% (15) of club seasons the gamblers did progress to a higher group but did not achieve promotion (Zone D) it can also be concluded that gambling did not pay off in that season. The propensity of each of the 42 individual clubs that gambled to gamble (i.e. the number of seasons they gambled relative to the total number of seasons they were in the Championship in the current and previous season) and the effective success of their gambling, that is the number of seasons when they either achieved promotion (Zone A) or avoided relegation (Zone B), is shown in Figure 4. Each number in Figure 4 refers to the number of clubs with the combination of propensity and effectiveness. For example, 3 clubs gambled in all (1.0 on the horizontal axis) of their seasons (with a previous season in the Championship) and they were all unsuccessful with all their attempts to either gain promotion or avoid relegation (0.00 on the vertical axis).

Figure 4. Number of clubs' gambling propensity and effectiveness

Figure 4 shows that for the 42 clubs that gambled the strategy was successful in at least one season for 60% (25) of the clubs. 17% (7) of them even had a 100% success record when they gambled. However, the gambling strategy was never successful for the other 40% (17) of clubs that gambled on at least one occasion.

Was the success of gamblers explained by the relative wage spend alone?

All the clubs in the league were ranked according to their wage spend in the current season. Clubs with no available wage data for the current season were excluded so the ranking for the other clubs in seasons where there is missing data are the highest position that they could have been in a ranking by wage spend. Table VI presents the wage ranking and status in terms of the analysis of gamblers for all 45 clubs that were promoted in the study period.

Table VI. Number of gambling clubs promoted by wage spend rank

Wage spend rank	Number of Gamblers
1	1
2	2
3	2
4	4
5	2
6	6
7	0
8	1
9	2
10	2
11	1
12	3
13	1
14	0
15	1
Total	28

Table VI shows that whilst 5 of the gamblers that achieved one of the three promotion positions were, as might have been expected, in the top 3 of the wage ranking for the season, 23 gamblers achieved promotion even though the extent of their 'gamble' was not sufficient to make them one of the top three wage spenders in the league in that season. Furthermore, although 14 of these gamblers were in the top 6 of the wage ranking in those seasons, corresponding perhaps to a sufficient gamble to achieve promotion via the play-off system, 12 clubs were able to achieve promotion with an even lower wage ranking, and 6 were not even in the top 10 of the wage ranking for the season. This suggests that whilst gambling is an effective strategy to achieve sporting success the effect is not attributable to the simple conclusion that it is the result of relative wage spending.

Were gamblers more successful than non-gamblers?

Comparing Table VII with Table V it can be seen that gambling was a far more successful strategy than not gambling to achieve promotion. Whilst promotion was achieved in 24% (28) of the club seasons in which club owner gambled (Table 5, Zone A), less than 3% (4) of the non-gamblers achieved promotion (Table 7, Zone A). Relegation occurred in 11% (12) of the seasons in which club owners gambled compared to 12% (17) of the seasons in which club owners did not gamble (Zone F).

Table VII. Pay-off for non-gamblers

Proposition	Championship position previous season	Outcome in current season							Total
		1st or 2nd	Play-off winner	3rd to 6th *	7th to 12th	13th to 18th	19th to 21st	22nd to 24th	
I	3rd to 6th *	3	1	5	7	6	1	1	24
II	7th to 12th	0	0	11	13	14	4	5	47
III	13th to 18th	0	0	4	9	20	10	4	47
IV	19th to 21st	0	0	1	4	8	2	7	22
	Total	3	1	21	33	48	17	17	140

* Excluding club promoted via play-off

The dominance of the gambling strategy for promotion is further evidenced by consideration of the 45 promotion opportunities to the Premier League in the study period. Of these 62% (28) were achieved with a gambling strategy whilst only 10% (4) were achieved by clubs that had been in the Championship in the previous season and did not gamble in the season that they were promoted. Furthermore, the clubs that narrowly missed promotion in the previous season and gambled (Proposition I) were twice as successful in gaining promotion than those that did not (i.e. 35% (6 of 17) of the clubs that gambled compared to 17% (4 of 24) that did not).

For the clubs that finished outside the promotion or play-off places in the previous season (Propositions II, III and IV) none of the non-gamblers were successful in winning promotion but 22% (22 of 99) of the gamblers were successful in winning promotion. However, there was very little difference in between the gamblers and non-gamblers in avoiding relegation. 10% (12 of 116) of gamblers and 12% (17 of 140) were relegated and of those that narrowly avoided relegation in the previous season (Proposition IV) approximately two thirds (12 of 19 and 15 of 22 respectively) of both were successful in avoiding relegation.

Were the results affected by the type or absence of a financial regulatory regime?

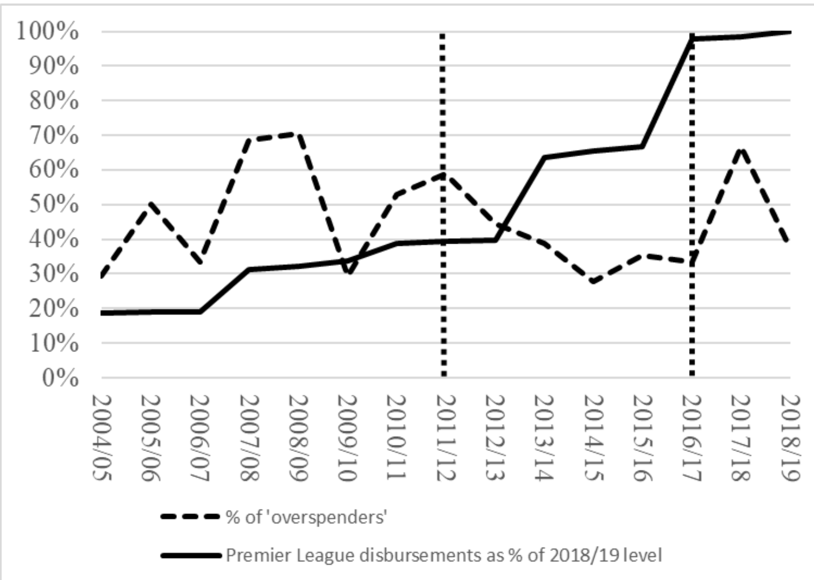
Table VIII shows that in the seven seasons with no financial regulation clubs (with available data) gambled in 48% of the seasons. In the five seasons with Fair Play rules this reduced to 41% but in the following two seasons, with the Profitability and Sustainability rules, the incidence of gambling increased to 50%. Overall, in the eight seasons with financial regulation clubs (with available data) gambled in 44% of the seasons.

Table VIII. Incidence of gambling by regulatory regime

Regulatory regime	Seasons in study	Club seasons gambling	% Total with data
None	117	56	48%
Fair Play	88	36	41%
Profit and Sustainability	51	24	47%
Total	256	116	45%

These results suggest some restraint by club owners when the Fair Play regulation was operative but that the Profit and Sustainability regulation has been less, if at all, effective in restraining the number of clubs gambling. It may be considered, however, that had the EFL not introduced the financial regulations the incidence of gambling by club owners would have been even greater as the financial incentive to be promoted to the Premier League increased over the period, and particularly when the Premier League agreed new contracts, on behalf of all the teams in the league, with broadcasters for the three year periods from the 2013/14 and again from the 2016/17 seasons. Income from these centrally negotiated contracts with broadcasters is received by the Premier League and then disbursed to clubs in accordance with the Premier League rules. Figure 5 superimposes the total disbursement by the Premier League to Premier League clubs (expressed as a percentage of the 2018/19 total) onto the graph showing the percentage of gamblers each season (from Figure 2). The vertical lines indicate the seasons when the Fair Play (2011/12) and Profit and Sustainability (2016/17) financial regulations were introduced.

Figure 5. Percentage of gamblers in the Championship and disbursements by the Premier League to Premier League clubs*



* Source: Premier League

With a short period between the introduction of the regulations and a significant increase in the disbursements it is difficult to separate the influence of the increased incentive from any effect of the regulation introduced by the EFL with any significant level of confidence. However, it can be observed that in the first two seasons that were regulated (2011/12 and 2012/13) the level of disbursement to Premier League clubs was similar to the preceding period and so was the relative incidence of gambling. In those two seasons the average percentage of gamblers to non-gamblers was 52% whereas in the previous seven seasons when there was no financial regulation the average was 48%. This suggests that initially the regulation had no significant binding effect on the relative incidence of gambling.

However, over the following three seasons (from 2013/14 to 2015/16) the level of disbursements increased and the incidence of gambling reduced. As there had been no change in the regulation in this period it suggests that the regulation was not the reason for the reduction in the incidence of gambling. The introduction of the Profit and Sustainability regulation coincided with a second significant increase in the level of disbursements to Premier League clubs (from 2016/17) but again, with observations for only three seasons it is not possible to draw any significant conclusion about the effect of the regulation, although the increase in the incidence of gambling in 2017/18 again suggests that the regulation had no significant binding effect on the relative incidence of gambling.

6. Discussion

The literature to date has not focused on the extent of gambling ‘per se’ by club owners in a league competition. This may be an important omission as the more clubs gamble the more likely they are to experience financial distress. Whilst it is known that the relative wage spend of clubs is a significant determinant of sporting success (Smith and Szymanski, 1997) this article goes further by showing the incidence of wage spend that are a result of gambling by club owners and uses a pay-off matrix to compare the intended and actual outcomes. This further adds to the understanding in the sports economics literature of what motivates football club owners.

This article also suggests that far from being an example of "irrational" exuberance (Szymanski, 2012) the decision to increase wage spending and gamble is entirely "rational" in the context of seeking to get promoted. The results show that gambling was both prevalent and an almost necessary (but not sufficient) strategy to gain promotion for clubs that were in the Championship in the previous season.

In addition, the article furthers discussion on financial regulation in professional sport. The analysis has shown that, although there are a few 'extreme' cases reported of clubs breaching the financial regulations[9], the financial regulation implemented by the EFL did little to reduce the incidence of gambling in the Championship, with 45% of clubs gambling each season (on average). This would seem to be a relatively high risk approach to the maintenance of financial stability and the evidence suggests that clubs did not regard the regulation applied by the EFL as a significant deterrent to gambling on success. Thus it was not a surprise that another club (Bolton Wanderers) entered into administration in 2019.

We argue that the results of this study suggest that the EFL could be seen to have appeased some clubs by putting in place regulation that ensured that only extreme cases would

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[9] The 2015 accounts for AFC Bournemouth disclose a financial fair play penalty of £7.615m (which the 2019 accounts show was settled for £4.75m) and the 2018 accounts for QPR show that the club was fined £17m and ordered to pay £3m in costs and to capitalise a further £21.965m of loans. In March 2019, the EFL issued a statement to report that Birmingham City had been deducted 9 points in the 2018/19 season for breaches of the regulation over the three year period from 2015/16 to 2017/18.

be penalised. This suggests that financial regulation also has to have *internal* legitimacy[10]. This aligns with the arguments made by Walters and Hamil (2013), that football clubs have not traditionally supported the idea of regulation, and therefore to ensure that regulation is accepted (and indeed voted through by member clubs) it has to be seen to be legitimate. Where external legitimacy means demonstrating a more robust approach to financial regulation, internal legitimacy means ensuring that financial regulation is not too onerous or constraining, allowing clubs to continue to behave (and gamble) in much the same way as before. This research has evidenced that gambling has continued to occur in the EFL Championship, despite financial regulations, and thus suggests there were (and are) dynamic processes at play between external and internal legitimising.

7. Conclusion

The policy implication from the extent of the gambling behaviour identified by this study is that the financial regulation is not sufficiently effective in achieving the financial sustainability of football clubs which have a rational incentive to overspend on playing talent despite the potential consequences of failing to achieve their sporting objective. To the extent that the financial regulation is a legitimating mechanism for the EFL change towards a more restrictive form of financial regulation rests on the notion of internal legitimacy and the extent to which this is accepted (and voted through) by member clubs.

[10] Internal legitimacy is defined as “the acceptance or normative validation of an organizational strategy through the consensus of its participants, which acts as a tool that reinforces organizational practices and mobilizes organizational members around a common ethical, strategic or ideological vision” (Drori & Honig, 2013, p. 347).

Existing financial regulation imposed by either UEFA, the Premier League or the EFL directly targets either the profitability or wage spending of clubs. One option to go beyond a ‘legitimising exercise’ is to reduce the incidence of gambling in the EFL by tightening the limits that are applied. Another option would be to replace the existing regulation with regulation that directly targets the liquidity of football clubs with a minimum threshold limit. This approach might be more effective in ensuring their financial sustainability than the profit or wage restraints that have been applied hitherto as ultimately, as with other financial ‘bubbles’, it is a lack of cash that makes the financial position of a business unsustainable.

as ultimately, as with other financial ‘bubbles’, it is a lack of cash that makes the financial position of a business unsustainable. By setting a minimum threshold limit for the liquidity maintained by clubs this might be another mechanism through which the EFL could more effectively embed financial sustainability into football clubs. We suggest that this option should form the basis for further research.

The extent to which individual clubs have overspent on wages and the intent of the club owners, in doing so, to gamble on this to achieve their sporting ambition has not been addressed by this study but the extensive practice of overspending on wages identified in this study suggests that further research is needed to consider this particular way of looking at the behaviour of club owners in the EFL Championship.

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