

Competitive balance: what challenges to a central concept of sports economics?

Definition

Competitive balance has always been at the heart of sports economists' thinking. In fact, in professional team sport championships, the spectacle is produced by two competing teams and its attractiveness depends on the balance of forces present. This means that the more balanced the competition, the greater the interest for the fans and the higher the revenue for the league. This is why improving competitive balance is seen by most analysts as a legitimate goal.

Whomever the authors of reference are, it would seem that the common point of all the definitions put forward relates to the sporting quality of the teams: competitive balance is the distribution of the sporting quality between the teams in a league. Remember that the sporting quality produced by a team is equated with the percentage of wins it achieves. It is therefore assumed that if the percentage of victories is well distributed amongst all the teams then this reflects a balance of power. However, to produce this quality of output, inputs are needed that are largely made up of sporting talent (in addition to infrastructure and administrative and sporting facilities). One might therefore think that it is sufficient for a league to regulate the distribution of sporting talent between the clubs to achieve a competitive balance, but the reality is much more complex.

Competitive balance can be seen as a public good that benefits all players, which implies that clubs should be able to achieve a maximum of victories and the highest ranking while not unbalancing the league too much by doing so. This means that, as with all public goods, there is a high risk of free riders, i.e., clubs that would like to take advantage of the financial benefits of the improved competitive balance but do not pay the price. This is why a system of regulation of certain markets has been envisaged to avoid the abuses caused by the clubs' desires to maximise their victories. In concrete terms, instruments are used to limit the mobility of players (reserve clause, rookie draft, transfer regulations, etc.), to limit the wage bill, and to establish revenue-sharing arrangements. Based on economic theory and the experiences of both the United States and Europe, a debate exists amongst economists as to the real effectiveness of all these instruments. But to test such effectiveness, a reliable measure of competitive balance is needed.

A difficult and contested measure

The measurement of competitive balance raises many controversies amongst economists, as no instrument is perfect. Very often, the distribution of sporting quality is apprehended through the calculation of an index of concentration or dispersion of victories at the end of the sporting season. This ex-post measure of competitive equity has been the subject of much debate amongst economists:

- First of all, there is the choice of the statistical indicator best able to reflect the reality of the evolution of competitive balance: Lorenz curve, mean deviation index, concentration index, Herfindahl index, etc. The most commonly used criterion is the ratio of the standard deviation of the actual percentage of wins to the theoretical standard deviation. This measure has been the subject of many criticisms. Indeed, beyond a measure of the dispersion of the effective performances around the ideal theoretical situation, it would be necessary to verify whether, from one year to the next, the same teams or not are at the top of the ranking. It would be perfectly possible to have a very balanced and close championship with a low dispersion index, but in which the top places are always taken by the same teams. This is the current situation in the English Premier League.
- Then there is the consideration of the temporal dimension of the analysis. The economic literature has dealt with this uncertainty in three temporal dimensions: the match; the season; the long term. These three analyses are interesting, but in our opinion, it is the analysis of competitive balance at the level of the sporting season that is most relevant. The sports season in terms of the uncertainty of outcome will be more or less attractive depending on the strategy of acquiring sports talent adopted by each club. This strategy itself depends on the rules laid down by the League to go up, down or access lucrative competitions. It is therefore a question of determining the economic basis on which the player purchase or transfer policy is decided. It is recognised that professional team sport leagues in Europe consist of three segments: four or five top teams competing for the championship and a place in European competitions; the middle group, whose clubs are fighting in the knowledge that they cannot win the league; the bottom group, whose clubs are fighting to avoid relegation to the lower division. Despite the ever-present uncertainty, each club will invest in sporting talent according to the size of its home market, which makes it possible to understand, on average, the maintenance of a competitive

imbalance. Here we find a well-established result that there is a conflict between the individual interests of the clubs and the collective interest of the league. It is, therefore, necessary to know whether a regulation of the effort of each club by the league would improve the achievement of competitive balance.

- Finally, there is the question of the relevance of such an indicator of dispersion or concentration of victories, which would not reflect the profound nature of sporting competition. Indeed, it is possible to distinguish two concepts: competitive balance, which measures the quality of the teams, and competitive intensity, which measures the durability of the confrontation. The competitive balance may deteriorate but the interest of the competition is elsewhere and the competitive intensity compensates for the previous deterioration. This intensity can come from numerous factors: local derbies, old disputes between teams, the stakes of a European selection or the stakes of relegation to a lower division. This qualitative competitive intensity is of course much more difficult to measure but also to formulate than the classic quantitative conception of competitive balance (distribution of sports victories). This is why, beyond the difficulties of measurement, we must also look at the factors of competitive imbalance and the means of combating it.

The factors of economic imbalance

- ***Market size***

Economic studies carried out in Europe largely show that the richer a club is, the higher its probability of reaching the top of the standings. Given these results, one might think that since a club's wealth often depends largely on the wealth of the territory that supports it, the sporting performance of clubs will ultimately depend on the economic health of the host cities. Nevertheless, there is no clear relationship between the size of a market and the performance of its team. This certainly reflects the fact that this relationship is the result of the interaction of multiple variables. It appears that the local economic potential largely determines the amount of sponsorship, merchandising and media resources the club has available to it. Thus, with a consequent budget, the club can buy the best players available and maximise its wins. But, beyond this simple linear relationship, other feedback loops with multiplier effects can be set up and such amplification effects will be different for different clubs. In the end, the general relationship between local economic potential

and sports results is not easy to test because of the overall complexity of the interactions, but also because not all these causalities are automatic. If we take the example of France and the Ligue 1 football league, it appears that there is no linear relationship between the economic weight of cities and their sports ranking beyond the two obvious cases: the richest cities that regularly obtain good sports results; the smallest cities that succeed with varying degrees of difficulty in maintaining their position in the bottom half of the table. Between these two borderline cases, the non-linearity of the relationship is verified with the situation of the richer cities, which are clearly under-ranked. This means that while economic wealth is a necessary condition for being highly ranked in sports, it is not a sufficient condition. Conversely, the case of small cities that are regularly over-ranked confirms the complexity of the relationship or the need to take into account other factors that explain sports performance. In order to understand these French paradoxes, it is necessary to take into consideration the regulatory instruments that have been implemented to try to maintain a competitive balance. This balance would certainly have been upset to the benefit of the most powerful cities if the market had been allowed to operate freely. This means that regulatory instruments, such as the redistribution of broadcasting rights, can reduce the consequences of the differences in wealth on the sports ranking and improve the competitive balance of the championships.

- ***Financial doping***

The wealth of a club can also come from the massive injection of capital from rich investors as we have seen in the case of Chelsea, Manchester City or Paris Saint Germain. This would create a virtuous circle for the richest clubs that could be self-generating: the injection of external capital allows for increased spending on salaries and transfers leading to the concentration of sporting talent and success. Competitive imbalance is the result of real financial doping in favour of the biggest clubs. Conversely, there is a vicious circle for the smaller clubs who are fighting to avoid relegation. Therefore, we have to ask ourselves how we can fight against this logic of competitive imbalance, which only profits too few clubs. Spain is a good example of a duopoly concentrating most of the sporting talent and victories (Barcelona and Madrid) and on the other side the majority of clubs experiencing considerable financial difficulties. It will also be necessary to answer a paradox: how to understand the social acceptability of the current system despite the damage to sporting integrity caused by this financial doping?

In the end, the local economic potential, the instruments of regulation of the sporting sector and competitive balance are closely

linked without it being possible to establish general laws that are indisputable. However, strong trends appear. First, there is a positive relationship between local economic potential and sports results, especially when the market functions freely. In this case, the clubs in the richest territories largely dominate the others. Also, market regulation instruments and income redistribution methods can be used to improve competitive balance. The French example shows that such instruments can be effective at the national level, but at the same time, they can jeopardise the international competitiveness of clubs. It is becoming increasingly clear that a solution to the financial crisis affecting many European clubs will come from the political ability to set up European bodies to coordinate and regulate national leagues. In terms of competitive balance at the European level, too many free riders exist willing to take advantage of this situation without paying the cost. Moreover, this raises the whole problem of the risk of setting up closed private leagues at the European level.

Further information:

Wladimir ANDREFF et Stefan SZYMANSKI (eds), *Handbook on the Economics of sport*, Edward Elgar, Cheltenham, 2006.

Jérémie BASTIEN, *Le football professionnel européen dans un système capitaliste financiarisé en crise : une approche régulationniste des facteurs de changement institutionnel*, Thèse de sciences économiques, Université de Reims Champagne-Ardenne, 2017.

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