

Competitive Balance and Free Agency in the English Top Division

Morten Kringstad, Trondheim Business School
Bill Gerrard, University of Leeds, UK (Advisor)

**Session 19: Economics
Presentation (25-minute)**

Friday, June 1, 2007

3:20 PM - 3:45 PM

Since the seminal paper by Rottenberg (1956), the concept of competitive balance has been central in the literature on the business and economics of professional team sports. The impact of changes in player market and product market regulations on competitive balance has been one of the most important areas of research. The starting point is Rottenberg's invariance proposition that free agency and reserve clause systems should result in the same competitive balance, *ceteris paribus*, with the impact of the two systems being confined to the income distribution between team owners and players. The empirical literature on the effects on competitive balance after changes from reserve clause systems to free agency has been concentrated on one league, the MLB. Literature review of the consequences on competitive balance after introducing free agency shows that different results can be found (Eckard, 2001 and Szymanski, 2003), but also that results might depend on definitions of competitive balance, empirical methods, and differences in time periods. Apart from Maxcy and Mondello (2006), there has been little empirical analysis of changes in the players' labour market restrictions in the three other major leagues. This is also the case in research on European soccer, even if the Bosman ruling (that introduced a free agency system in European soccer) occurred more than ten years ago.

This current study is concerned with the effects on competitive balance caused by changes in transfer market regulations in the FA Premier League in England (and its predecessors), the leading professional soccer league in the world in terms of financial size. After the Second World War the English professional soccer leagues have undergone a number of changes in the transfer market regulations. Competitive balance in the top division in English soccer has diminished after the Second World War period, both win dispersion and performance persistence. The trends in competitive balance reported in the study are consistent with other studies of competitive balance in the FA Premier League (see, for example, Michie and Oughton, 2005).

The English professional soccer league was formed in 1888/89. The retain-and-transfer system for restricting player movements between teams was introduced in the first few years of the league (Sloane, 1969). This transfer system was very similar to the reserve clause system in the MLB (Szymanski and Zimbalist, 2005), and lasted largely unchanged until 1963. In principle the retain-and-transfer system was abolished in 1963 following a court ruling that it represented a restriction on trade. However, in practice, the system continued with little modification. A significant move towards free agency came in 1978, when the so-called "freedom of contract" system was introduced. Out-of-contract players could now choose which team to play for, but not without restrictions, since the player's former team could claim financial compensation from the player's new team in the form of a transfer fee in most circumstances. (A tribunal system was created to provide independent arbitration on transfer fees in cases in which teams failed to agree the level of compensation.) The consequences for English soccer after the Bosman verdict in December 1995 was total free agency on international (i.e. cross-border) transfers and the opening of the domestic players' labour market to all players within the European Union area (including associated members of the EU). In 1998 English soccer introduced free agency also for domestic transfers. The current system (Bosman II) with transfer windows was introduced prior to the 2002/03 season in English soccer.

This paper follows the methodology of Maxcy (2002) in the MLB and Maxcy and Mondello (2006) in the other North American major leagues, using OLS regression to analyse the effects of changes in transfer market regulations, after controlling other labour market regulations and league structure, on competitive balance in the English top division in soccer. As in Maxcy (2002) and Maxcy and Mondello (2006), two dimensions of competitive balance are investigated. These are the win dispersion, measured by the Quirk and Fort (1992) competitive balance ratio (actual standard deviation on idealised standard deviation), and performance persistence, measured by Spearman's rank correlation coefficient (adjusted for a promotion-and-relegation league). Both measures are used as dependent variables in the regression analysis. The independent variables are the different regulations of the transfer market, maximum wage, revenue sharing, point score system, restructuring of the UEFA Champions League, the number of teams in the division, the number of teams to be relegated, the structure of distribution of revenues from sale of TV-rights, and a time variable. The data sample consists of all after Second World War seasons in the top division of English soccer (1946/47-2005/06).

Dummy variables are used to model changes in the transfer systems using the retain-and-transfer regime as the base regime. The preliminary results from the OLS estimations show that the level of relationship between transfer market regulations and competitive balance is dependent on the precise definition of competitive balance. It is found that performance persistence

2007 North American Society for Sport Management Conference (NASSM 2007)

increases as soon as English professional soccer modified the retain-and-transfer system and that the recent period with the highest level of free agency exhibits the greatest change in competitive balance compared with the period of the retain-and-transfer system. The same analysis using the Quirk and Fort competitive balance ratio shows that the changes in transfer market systems have not had the same degree of influence on the dispersion of sporting outcome. However, the "freedom of contract" period is shown to significantly weaken competitive balance relative to the retain-and-transfer system. There are some indications that the period after the introduction of domestic free agency had lower competitive balance but the decrease is not very significant, and is dependent on the precise definitions of the control variables.

The results indicate that the two dimensions of competitive balance used in this study have different levels of sensitivity to changes in transfer market systems. Performance persistence increases when moving away from the retain-and-transfer system, while the end-of-season win dispersion has tended to increase more gradually. The interpretation from these findings can be that when going away from the reserve clause system, teams have a greater chance to find its "natural" position in the league, and have weaker alterations from season to season than in a retain-and-transfer system. On the other side, differences in sporting outcome between teams in the top division in general have not changed much because of changed transfer systems. The latter means that, when comparing with descriptive analyses by the same variable, other factors might be better determinants for explaining the diminished competitive balance during the sample period. Here the increased number of teams to qualify for the lucrative post-season UEFA Champions League might be a relevant variable in combination with the changed regulations in the transfer market after the Bosman verdict.