Sport leagues and clubs in North America and in Europe implemented different instruments to ensure financial stability in the past. Club revenues often depend on sporting results; especially in Europe. One example of a strategy which helps to cover economic stability is the closed league system in North America. In contrast to the European sport model promotion and relegation do not exist in the North American model (Sloane, 2006). By the non-existence of promotion and relegation clubs are able to plan their future revenues more precisely. Another instrument in the North American model is the revenue sharing. The usage of this instrument is limited in the European model, too. Especially European sports clubs are obliged to implement other instruments. Literature and sports clubs – in North America as well as in Europe – discussed and applied different strategies – like the strategy of diversification (Paul & Sturm, 2004) or the development of a strong brand (Glaaden & Milne, 1999; Couvelare & Richelieu, 2005) – in the last years. In addition to the typically applied strategies of sports clubs companies of other industries activate further measurements like derivatives in their financial governance. The aim of this study is to present to what extent derivatives can help sports clubs to stabilize their revenues. At first the efficiency of these instruments will be analyzed by using the example of European soccer clubs. In a second step it will be discussed, if these findings can be transferred to North American sports clubs.

The theory of risk management is based on ideas by Modigliani and Miller (1958). They say that in a perfect market company’s value cannot be influenced – neither positively nor negatively – by risk management. However, the assumption of the existence of a perfect market is not maintainable in reality because of information asymmetries or transaction costs. Risk management justifies itself because of this. In the context of the shareholder value theorem the main arguments for risk management were delivered by Bessembinder (1991) as well as Smith and Stulz (1985) for financial distress and Froot, Scharfstein and Stein (1993) as well as Stulz (1990) for investment policy.

In a first step results from European soccer clubs are presented. These demonstrate how efficient derivatives are in European soccer clubs. In a second step it will be discussed if these instruments are also an alternative for North American sports clubs. Three different derivatives – options, futures and swaps – were analyzed for the three main sources of revenue of European soccer clubs. To evaluate the efficiency of derivatives in the context of risk management two criteria were chosen and observed. The first is the comparison of changes of revenues (broadcasting, commercial and matchday) with and without derivatives. Secondly the change of volatility of revenues with and without derivatives is taken into account. At this point the main differences between different derivatives are illustrated. The data came from different annual financial statements of soccer clubs as well as different studies conducted by Deloitte. Altogether, seventeen European Soccer clubs – five clubs each from England and Germany, four Italian, two Spanish clubs and one club from France – were selected.

The results show that options are the best alternative. On average they reduce the volatility of soccer clubs by 17.08% and leave revenues quasi unchanged (-1.05%). Compared to that futures and swaps reduce the revenues on the one hand and raise the volatility of revenues on the other hand. All in all only options are a real alternative in risk management of European soccer clubs. For North American sports clubs these findings result in the recommendation that derivatives should be analyzed in their context. Regarding the mode of function of the three derivatives it is expected that the results are nearly similar to those of European soccer clubs.