A Contingent Resource-Based Theory of Professional Sport Club Strategy

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The aim of this study is to apply and develop contingent resource-based theory to test if and why the value of professional sport club resources, such as players and stadiums, effects sporting and commercial performance, and whether this relationship is contingent on competitive environment factors, such as competitive balance and league revenues.

The Premier League of England and Wales generated revenue of £2.4 billion in 2011/12, making it the most remunerative professional soccer league (Deloitte, 2013). The 20 member clubs own, manage and control resources that enable them to gain and sustain this performance. Over £3.3 billion has been allocated to stadium expenditure since the formation of the Premier League in 1992/93, while £1.658 billion was assigned to player wages and £564 million to transfer fees in 2011/12.

The rewards and punishments for sporting and commercial success and failure are substantial. For example, Manchester United generated record revenues of £320 million in 2011/12, from which they returned an operating profit of £84 million, while Chelsea received an incremental £49 million from winning the UEFA Champions League. Membership of the Premier League is estimated to be worth up to £60 million per season to those clubs promoted from the Football League Championship. However, only seven clubs have been permanent members of the League, with eleven of the relegated clubs having undergone insolvency proceedings subsequent to their demotion.

Furthermore, the competitive environment in which clubs compete has changed discernibly from 1992/93 to 2011/12. These environment effects encompass sporting environment factors such as changing competitive balance (Schmidt and Berri, 2001; Dorian Owen et al, 2007), and commercial environment factors such as the growth of Premier League and UEFA Champions League broadcast rights revenue (Buraimo et al, 2006). This means that clubs may have to acquire, accumulate and divest of resources over time so that they are moderated by, or fit, the competitive environment.

Drawing on resource-based theory (Wernerfelt, 1984; Barney, 1991), the value of the professional sport club resources explains some of the variance in competitive performance. These resources include, for example, human resources, such as players (Lewis, 2003), coaches (Bell et al, 2013; Berri et al, 2009) and managers (Berri and Brook, 2010; Holcomb et al, 2009; Moliterno and Wiersema, 2007), and physical resources such as stadiums (Leadley and Zygmont, 2005; Rascher et al, 2012; Syzmanski and Kuypers, 1999).

However, resource-based theory is subject to considerable criticism, including the limitation that it is static and neglects temporal effects (Henderson and Mitchell, 1997; Porter, 1991; Priem and Butler, 2001; Rouse and Daellenbach, 1999; Teece, 2007) and that environment effects are omitted (Holcomb et al, 2009; Porter, 1991; Priem and Butler, 2001; Rouse and Daellenbach, 1999).

Contingency theory posits that firm performance results from the fit between the characteristics of the firm to contingences such as the environment in which the firm competes (Donaldson 2001; Fiedler, 1967; Thompson, 1967). Contingent resource-based theory, which complements resource-based theory with contingency theory, enables the analysis of internal firm effects and external industry effects on the performance of firms (Brush and Artz, 1999; Miller and Shamsie, 1996).

The purpose, therefore, of this study is to test if and why the resources and capabilities of professional soccer clubs effects their sporting and commercial performance, and whether these effects are contingent on competitive environment factors.

A quantitative research method is adopted for this empirical study. The comparative and dynamic model necessitates the collection and analysis of panel data. A cross-sectional sample of 52 soccer clubs is used to encompass all levels
of resources and performance, thus reducing large-company and survivor bias (Makadok, 1998). The panel dataset is compiled from a 20-year observation period from the formation of the Premier League in 1992/93 to 2010/11. This provides a panel dataset of 1,092 observations.

The study comprises two stages. First, the predictor model tests the effects of club resources on performance with a regression model, and the Granger test of causality to infer causal effects. Second, a contingency model is developed, with a hierarchical regression model to test the moderating effects of environment factors on the resources-to-performance relationship (Frazier et al, 2004) and, then, deviation analysis for measuring the effect of the degree of fit between resources and environment on the performance of clubs (Donaldson, 2001).

This study is intended to contribute to theory and practice. It augments resource-based theory by analysing the comparative and dynamic effects of multiple bundles of resources and capabilities on financial and non-financial performance outcomes. Moreover, contingent resource-based theory is developed with the empirical testing of the moderating and fit effects of different types of environment factors, with the detection of effects over a continuous observation period rather than discrete eras. It is anticipated that the methodology and findings can be applied by practitioners to explain and predict the performance of professional sport clubs, and facilitate resource management decision-making in changing competitive environments.