Strategic Jumps and Competitive Dynamics in Pro Team Sports: Evidence from the English Premier League

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Abstract 2019-292 Room: Napoleon D2

This study uses the twin concepts of strategic groups and mobility barriers (Caves & Porter, 1977) to investigate the competitive process within pro team sports. A strategic group is a grouping of firms pursuing the same competitive strategy within an industry with mobility barriers inhibiting the movement of firms between strategic groups. In the context of pro team sports, the key discriminator between strategic groups is the economic size of teams. The principal research objective is to analyse how some teams have succeeded in overcoming mobility barriers to make “strategic jumps” between strategic groups. It is argued that these strategic jumps can be categorised as either size-augmented jumps or capability-enhancing jumps. The resource-based view (Barney, 1991) and dynamic capabilities approach (Teece, 2007) have focused attention particularly on intellectual capital as a source of sustainable competitive advantage and hence provide a possible explanation of capability-enhancing strategic jumps. This study seeks to: (1) analyse the strategic-group structure of the English Premier League (EPL); (2) identify strategic jumps between strategic groups; and (3) determine whether these strategic jumps were size-augmented jumps or capability-enhancing jumps.

Method

The EPL is the leading domestic soccer league in England and the biggest soccer league globally in revenue size. The data set consists of annual team-level data covering 22 seasons, 1995/96 – 2016/17, with 20 teams competing each season (sample size = 440). Performance is measured by league points, goals scored and goals conceded. Wage costs are sourced from the audited annual company accounts, adjusted pro rata if the reporting period has varied from 12 months. For teams undergoing bankruptcy proceedings during the sample period, wage costs have been sourced from the financial statements published by the court-appointed administrators. Although wage costs include coaches, support staff and business staff, the dominant component is player wage costs. It is widely accepted that total wage costs provide a good proxy for player wage costs (e.g. Szymanski and Smith, 1997). All wage costs are standardised using a mean adjustment to remove the effects of annual wage inflation with 1995/96 as the base year. K-means cluster analysis is used to identify strategic groups with bivariate regression analysis used to estimate sporting efficiency decomposed into attacking efficiency and defensive efficiency.

Key Results

1. Cluster analysis is used to identify six strategic groups – Leaders, Contenders, Established, Survivors, Threatened, Failing
2. The principal mobility barrier between Leaders, Contenders and the rest is economic size (i.e. wage expenditure)
3. There are two examples of size-augmented strategic jumps with both associated by a change of ownership – Abramovich’s acquisition of Chelsea in 2004 and Sheikh Mansour’s acquisition of Manchester City in 2008
4. Bolton Wanderers under the management of Sam Allardyce provide an example of a capability-enhancing strategic jump but the efficiency gains dissipated after Allardyce’s departure
5. Leeds United initially achieved a capability-enhancing strategic jump and attempted to make this permanent by switching to a debt-financed size-enhancing strategy which failed and ultimately led to bankruptcy