

# Competitiveness and sustainable operation in Hungarian football

## Abstract of PhD Thesis

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## **I. INTRODUCTION**

Competitiveness is a question of the Hungarian economy and the Hungarian society, which has been examined and debated with sharp optics, and in many cases highly controversial. The opinions on the competitiveness of Hungarian (club) football are fundamentally about money: the lack of money and the resulting ineffectiveness of sport are explained. But this material issue is only one (of course not negligible) aspect. We do not have to be a world-beater or a champion just because we want to achieve such a goal that is realistic for others only - without the proper capabilities. The dissertation of the author is an attempt to understand what stage the Hungarian professional club football stands at, what is its target system and the business and operational framework in which competitiveness can be handled properly and where sustainability is not a fiction.

### **I. / A. CONCEPTUAL ELEMENTS OF THE SUSTAINABLE BUSINESS MODEL OF TEAMSPORT**

#### ***Role in the entertainment industry***

European club football is an entertainer. Due to the regular live broadcasts, it has been in direct competition with other entertainment TV shows for the attention of TV viewers and the

media. The capability to raise awareness reflected in audience ratings and advertiser activity defines the broadcasting rights level. Their magnitude amplified the business and competition processes of European football.

### ***Competitive balance***

An important participant in the production of a professional football product is the opponent himself. The operating pendulum of this competitive – collaborative behavior is the formation and maintenance of the so-called competitive balance. Based on the comparison between the American leagues and the English Premier League, the latter's results show dominant players and a less balanced competition than NHL, NBA, MLB, NFL. In the US franchise leagues they created a basis for business operations to provide the boundary conditions necessary in order to maintain the balance of competition.

### ***Competitive balance and sustainability***

The creation of competitive balance and its sustainability, or competition-imbalance depends on 1) the absolute and relative wage cost of the teams; 2) business cooperation which represents the interactions among clubs (joint selling of central rights and the sharing principle); 3) the sports regulation of the

labor market, and in addition 4) the product manufacturing conception.

## **I. / B. PROFESSIONAL CLUB FOOTBALL**

The economic operation of European professional football continuously produces negative results; this operation is unsustainable in the long run. The business performance of professional club football is controversial: its earnings grew despite the economic crisis, as did its cumulative losses. There is a general financial crisis in the sector and the first class clubs are rarely profitable. The outstanding debt of the teams continues to grow; however, they have an abnormally high survival rate and almost always escape from bankruptcy.

*Independent funding from market revenues* – ownership contributions and indirect state subsidies – also create a different competitive environment within the respective tournaments and between the various championships. The processes are strengthened by the mixed prize money system of international club competitions (ChL, EL).

The opportunity for clubs to play games in national and international championships in the same season increases the gap between the clubs' financial strength. The systemic

problems and the weakness of financial management produce a constant and significant loss. European top clubs are, however, unprofitable in terms of revenue generation compared to American leagues.

### ***Competitive imbalance in club football***

While American leagues are pursuing a profit-maximizing strategy, European club football represents a victory-maximizing strategy and measures performance in the number of championship wins.

### ***Competitive balance in domestic and international championships***

The term competitive balance has to be highlighted at the level of international club football as well because clubs with very different revenue generating and finance abilities compete with each other in the championships themselves or among championships at international stage. They compete for the championship title and the opportunity to enter the international championship. Those who can perform at an international level can get “external” revenues guaranteed by UEFA independently of their own market.

### ***Lack of business performance in club football***

European football generated €16 billion in revenue in 2014, in a disproportionate manner. The “big five” championships and the emerging new player, the Russian championship, represent 76% of the revenue. A quarter of the total European revenue is shared by the first-class championship of the remaining 48 countries. The average club incomes of the European championships are also vary greatly.

### ***Unsustainable business model***

According to the traditional European interpretation, European clubs pursue a victory-maximizing strategy, and their stars are considered the insurers of victories. These clubs are overspending, unlike overseas franchise clubs. However, one of the players involved in European football – often because of the perceived or real interests of the state and the local government – in the vast majority of cases, rescues the insolvent teams.

It is time to review the traditional interpretation and to understand the paradox that distinguishes the sector in a decisive way. For this reason, UEFA has introduced the Fair Play (FFP) requirement as the first step in preventing financial instability in the sector and to prevent the growing gap among the clubs and

championships. The legitimate aim of the regulation is to create a frame for which spending can be kept under control.

## **I. / C. MOVING TOWARDS SUSTAINABILITY**

### ***Two levels of value creation***

Ensuring competitive balance and sustainable business operations for US leagues is achieved through horizontal co-operation. European club football (also) relies on vertical regulation, in which the international federation, the national federations and the leagues form the business processes of football. In this complex regulatory and operational system, the challenges related to the competitive balance, competitiveness and business sustainability of professional club-level football must be handled at all levels for all UEFA-defined football markets.

One of the focal points of the dual value creation of football is the club. The other scene is the clubs' community, the league, where "each match serves as the input for the ultimate meta production for the championship itself." In order to make the league more attractive, the dominance of certain teams must be avoided. This dual value creation process differs from other

economic sectors' competition concept which allows any kinds of dominance.

In the European football pyramid scheme, UEFA is both a regulator and a tournament organizer. The same role characterizes the individual national federations also. The financial independence highlights the different interests between the central vertical administrative regulatory body and the leading championships' owners, the latter of which form their interests through horizontal consensus. UEFA, with the vertical introduction of FFP, declared that it intended to create a financial equilibrium and opted for the salary cap of franchise leagues, ignoring its systemic goals and additional tools.

### ***Sports embedding***

In Europe, as in Hungary, despite the business motivations that are in operation, football has been a conscious community and shaper of society from its founding, expressing the identity of a given community. By boosting business processes, a solid fan base and loyalty become a determining factor in the lives of football clubs. Thanks to television broadcasts, the concept of the fan has become more and more subtle: besides local fans, new demographic groups and groups of people have appeared.



## ***II. OBJECTIVE AND RESEARCH QUESTION***

The goal of this dissertation is to reveal elements that are possible and accessible to Hungarian football's sports business regarding competitiveness, to identify stakeholders and influencing actors (keeping in mind challenges related to the entertainment industry and the changes in the European sports model).

### ***Phase 1: Interpretation framework***

Due to the complexity and unfinished nature of the research aims to formulate research questions aimed at exploration and understanding.

### ***Phase 2: Market size, market positioning***

The estimation is based on the market position of Hungarian club football and a benchmark-based interpretation.

### ***Phase 3: Is the probable breakthrough point true?***

It is a question of whether practitioners consider the research topic – there has been recognizable progress made in the interpretation of corporate governance by clubs – as a possible breakthrough point of view of in the same or different way of the research. Do they consider the influence of this corporate

governance to be significant? How do they identify the elements of corporate operations?

***Phase 4: MLSZ and MLS***

Since 2011, MLSZ has been pursuing a conscious sport development practice following its own strategic principles. Although the reduced NB I, as part of this strategy, was successful from a business point of view, the number of spectators has dropped. The clubs operate as a business venture; MLSZ is funded as a non-governmental organization. With the contradictions inherent in the efforts of owners and officials, how and in what way can they be dissolved with respect to the MLS model and operation?

***Phase 5: Why do they attend football matches?***

Why don't the clubs have any fan mobilization power or how could they have any kind of them despite the fact that the majority of fans do not have fan support experience gained by generations of generations.

***III. METHODS, SAMPLE, SAMPLING***

The exploratory research uses the multi-phase "grounded theory" concept-forming method, which approaches the

conceptualization of interrelated questions and the responses to them in order to get closer to the essential contexts. With the help of a "well-founded theory", the research is built upon step by step, with the consecutive, consistent application of multiple cognitive methods.

1) The creation of an understandable framework to base the analysis on the joint application of two dimensions (market structure levels and revenue-based market standardization). 2) Expert estimation and benchmarking. 3) Expert interviews with a semi-structured guide line guidance with federal-level operational leaders, as well as close-knit professionals (n = 7). Subsequently, organizational audits based on validated audit criteria (n = 4) are performed by the first and second class club's operational managers. 4) Expert in-depth interviews with economists dealing with the business issues of professional football (n = 5) who do not have direct working relationships in professional club football; typically it is not the orders of the industry which determine their existence, indirectly, but they are in constant contact with the sphere and they were not interviewees in either of the earlier phases of the research series. 5) Online questionnaire research on 18-19 October 2016 at *National Sport Online*. The range of respondents is not

representative, but the 4,770-person number allows a deeper analysis.

#### ***IV. RESULTS***

##### ***Phase 1: Interpretation framework***

68.5% of European club football revenue is generated from TOP markets and 27.1% from Large markets. It is clear that the prospects for the feasibility of sectoral goals are also to be understood from the perspective of Medium-Small-Micro markets (such as Hungary), which represent two-thirds of the 53 member states.

##### ***Phase 2: Market size, market positioning***

One of the decisive indicators of competitiveness is market potential – the theoretical possible total sales of a given product – which fundamentally influences the value of a player's stock issued by clubs and individual national championships.

The examined leagues are competitive with the business strength of the third and fourth benchmark championships based on their market-based total revenue as determined by expert estimates.

### ***Phase 3: Is the probable breakout point true?***

The total income of the Hungarian football NB I determines its competitiveness at the domestic and international level, the likelihood of Hungarian clubs' access to the ChL or the EL, and the likelihood of being placed in the group stage. By achieving the average income of benchmark leagues, in theory, it would become inevitable to answer, what system and club model can use this amount at club and championship level: a) From the maximized revenue, it is necessary to reduce the number of teams and move towards the same club model. b) The map of Hungarian football needs to be reorganized based on the clubs of cities of two hundred thousand people or more.

c) The concept, strategy and credibility are lacking. Without the vision and the message, there can be no community to build; but the lack of community and support camps most clearly reflects the unsustainability of the current operating system of the sector. As owners and managers, it should be seen that, in addition to present conditions, no profitable organizations can be established. The football industry's protocols offer recognition of the impact of the human factor, but in the Hungarian club

football practice essentially the same personnel in place as it was years and decade ago.

Earlier rumors that there was a lack of financial resources have mostly disappeared, since the last four to five years have seen significant amounts of money flowing into football. However, the system itself cannot guarantee that these funds will be consciously, professionally and efficiently utilized by the stakeholders. It is no coincidence that the static state is more perceptible than the forward-looking processes. Ownership behavior which seeks out the possibility of maximizing the use of state resources has become a feature, undermining the intention to rely on market coordination.

The role of the national federation is indispensable in the reorganization of club football in Hungary and the description and uniform introduction of a business and operational model (strategic goals and the expectations of the majority financing association) is a task that is to be carried out over and over again throughout the whole. Contrary to expectations, all validation audits were blocked at issues concerning organizational goals: some points of the audit with closed questions could be solved by choosing the right answer. This did not happen in any of the

interviews: explanations were given at each point; explanations, interpretations and explications of proprietary intentions – but factual answers were not. The formalization of their mission, vision, and strategic goals did not appear. The same is true for financial and profitability goals as well as organizational goals.

#### ***Phase 4: MLSZ and MLS***

It cannot be avoided that clubs and club owners, by virtue of the nature of team sports – and in order to create common business interests – are able to maximize the earnings of the sport and the club outside of the field and to keep spending at a level defined by industry standards for the sake of sustainable operations. The emergence of joint ownership interests and the emergence of the common aims of regulation is a horizontal one, so it implies a cooperative operation based on the interest common interests of the owners. It is an intellectual and innovative issue whether the vertical regulation, operation and funding based on a vertical regulation system why, how and by whom will get a horizontal dimension.

At the same time, a wider experts' base with its own innovative and practical approaches and solutions is practically not involved into the domestic sector's work, despite the fact that

the sector and its governing body has outstanding financial resources. The federation shapes the industry, relying on its own internal resources, consistently channeling them vertically into one direction.

It will be a major turning point in the debate about vertical and / or horizontal coordination when a business model framework for individual clubs and clubs as a whole is presented which is different from the present one.

***Vertical and / or horizontal coordination, catalyst role of MLSZ***

In the "big five" markets, alongside federations with vertical operations and in partnership with them, the clubs of the first-class championships formed their own horizontal leagues. The Hungarian institutional system operates in accordance with the traditional vertical European model. However, some of the experts interviewed expect MLSZ to outperform its traditional benchmark activities, even if it otherwise distorts the market. Beyond the fact that the federation provides significant resources to the industry, it would be necessary for the federation to pressure the stakeholders (owners and organizations) for professional advancement.



It is clear that such an amount of money similar to the current one could not be channeled in by a horizontal organized league. However, subsidies received through the federation should be significantly reduced over time. Horizontality could in principle work, but it cannot be created without MLSZ. It would be also useful for the federation to move backwards, providing space for horizontal cooperation, but it would also be necessary for clubs to be able to formulate and represent their own interests.

### ***Standardized business model***

The target system reflecting the central concept, standards and expectations (MLSZ strategy) is the high level of central funding and market conditions that make it possible to implement it, raising the question of whether there is a need for efficient and standard-based clubs. The issue goes hand in hand with the MLS model's industry-building steps. Some of the experts do not see the need for standardization. Of course, the question would not matter if teams could generate spectators.

### ***Phase 5: Why do they attend football matches?***

88.9% of respondents know that there is at least a county football club in their area of residence. Almost half of the respondents (44%) live in the host cities of the NB I

championship, but only a quarter of respondents (24%) can name and recognize the players in the NB I clubs (24%)!

## **V. CONCLUSIONS**

Hungarian club football wants to be competitive in such the kind of sports business which is characterized by multi-level and unbalanced struggle and, additionally, an unsustainable business model; in addition, it lives by the axiom of "money scores goals".

Estimated earnings from the Hungarian Championships are able to compete with the market-based financial resources of English League One and League Two. In contrast, the objectives of the owners and non-market funding sources are aimed at to competing in the international arena – without the formulation of realistic goals and organizational operations.

The corporate operations of each club as well as the results of the competitions for customers are fundamentally influenced by the owners' vision of a football business, their sports profession and business view, and the identification of the resources needed to achieve success.

The role of the football governing body in market development and its involvement in making the stakeholders operational is

inevitable, but the stakeholders also formulate their desire about the federation that federation "stepping back" from this role. This means that the observation of this process which contains the above-mentioned federation's aspirations parallel with the role of the football governing body in Major League Soccer (MLS) is indispensable.

The author sought out a pattern in some of the non-domestic business systems, looking for a sustainable business model. In light of these various processes, it can be said that the Hungarian way of thinking has difficulties in breaking away from its familiar patterns. As part of the European interconnected system, it is not at all impossible to become familiar with rational models and adopt their solutions. The hypothesis was confirmed by the international literature; despite the many decisive differences, the American franchise leagues have become a model for both the leading international clubs (and their owners) and the European federation.

## **VI. LIST OF THE AUTHOR'S OWN PUBLICATIONS –** publications related to the dissertation

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**Kassay, L.** (2016a): The Financial Fair Play Regulation of European Football – Questions of Implementation from a Middle Market Member Perspective. A. Gál, J. Kosiewicz & Sterbenz (Eds): Sport and Social Sciences with Reflection on Practice

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