Parachute payments in English football: Softening the landing or distorting the balance?

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Parachute Payments in English Football; Softening the Landing or Distorting the Balance?

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Abstract

This paper examines the impact of parachute payments in English league football in relation to the competitive balance of the second tier (the Championship). League results and parachute payment fees data were collected for the 11 seasons between 2006/07 and 2016/17. Overall competitive balance was analysed as well as specific aspects of competition that are fundamental to the league - promotion, survival and relegation. Our results show that an increase in the number of clubs with parachute payments and the overall value of these payments coincides with a reduction in competitive balance in the Championship. Furthermore, clubs with parachute payments are twice as likely to be promoted to the English Premier League and considerably less likely to suffer further relegation to the third tier (League 1). The paper therefore proposes either a re-distribution of parachute payments, the abolition of them completely, or a handicap points system to improve competitive balance.

Keywords: competition, competitive balance, professional team sports, sport finance, English Premier League

Introduction

The English domestic football league system is comprised of many different levels (tiers 1-8 are generally the most recognised). However, within this system there are four main professional leagues; the English Premier League, the Championship, League 1 and League 2 (anything below this level is officially classed as 'non-league'). The Championship in England is the country's second tier domestic league competition. Promotion from this league means entry into England's elite professional football league, the Premier League. At the time of writing, the English Premier League (hereafter referred to as the EPL) was the highest revenue generating league in European football grossing €4.4billion in 2014/15, €2billion ahead of its nearest rival the Bundesliga in Germany (Deloitte, 2016). Whilst the gap between the 'big five' leagues (England, Germany, Spain, Italy and France) and other leading European leagues continues to widen, the Championship is still relatively high on the list in revenue terms. Indeed, according to the latest figures available, the league is currently in the top ten revenue generating leagues in Europe with total revenues of £548m (Deloitte, 2016). This is due primarily to the broadcasting deals in place for EPL clubs and the central distribution mechanism to the lower leagues. The new EPL broadcasting deal that commenced at the beginning of the 2016/17 season is worth £5.1billion in UK rights alone, representing a 70% increase on the previous £3billion deal. In light of this increase, the club that finished bottom in the EPL in 2016/17 (Sunderland) earned £100million in broadcasting revenue under the current distribution mechanism. This figure - which is purely broadcasting income - is higher than the total revenue of the majority of clubs across the 'big five' European leagues - further underling the EPL's status as the richest league in world football.

The financial benefits and rewards of competing at the top table (i.e. the Premier League of respective European leagues) make it easy to see why clubs in the lower leagues aspire to gain promotion and compete in the elite league competition, especially when they

can increase their revenue tenfold. However, the reality of being relegated from the elite league is a dramatic fall in revenue and the possibility of financial distress for the clubs involved. To mitigate this risk, parachute payments are distributed to over half of the top leagues in Europe according to a report from the European Professional Football Leagues (2010). The aim of these parachute payments is primarily to soften the financial blow of relegated clubs no longer having access to the broadcasting money available to clubs in the top league. Of the leagues that distribute parachute payments, the EPL distributions to relegated clubs are substantially higher than others across Europe. Under the new broadcasting deal, parachute payments will total around £90million spread out across a three year period following relegation. For example, the three clubs relegated in 2015/16 season (Aston Villa, Newcastle United and Norwich City) each earned £40.9million for a year one parachute payment whilst competing in the Championship in 2016/17. To place this into further context, for the year end 2015, for the ten clubs in receipt of parachute payments (ranging from c.£10million-£25million each), these amounts comprised over half of their total combined revenue (Deloitte, 2016). Additionally, the average wages/revenue ratio for Championship clubs is currently 99%, with nine Championship clubs having wage costs greater than total revenue (Deloitte, 2016).

This suggests that clubs competing in the Championship are overspending in an attempt to reach the EPL although such levels of spending, particularly on player wages, poses a significant risk to clubs' medium to long-term viability with serious implications on the requirement for owner funding. Overspending in football is not necessarily a new phenomenon. Indeed, there have been a number of papers that have commented on this factor particularly where overspending has led to insolvency events in England and France (e.g. Scelles, Szymanski and Dermit-Richard, 2016; Szymanski, 2012). However, there has been much discussion over recent seasons about the effect of parachute payments on the

competitive balance of the Championship and how this links to the perception of overspending Championship clubs. Deloitte (2016) have stated that on-pitch competition remains intense in this division, although there is yet to be any scientific evidence to prove this point. Furthermore, there is little doubt that the parachute payments awarded to clubs that are relegated does provide them with a financial advantage over the majority of clubs in the division. A substantial amount of sports economics literature highlights the importance of competitive balance in league competitions. Indeed, the uncertainty of outcome hypothesis (UOH), pioneered by Rottenberg (1956) and Neale (1964), is an integral component of sports economics and suggests that increasingly imbalanced sports competitions have the potential to negatively influence fan interest and, consequently, stadium attendance and TV viewership figures (Pawlowski, 2013). As such, it can be argued that without competitive balance, the 'product' (i.e. the football match) is less attractive. A less attractive 'product' subsequently cannot command a high price at market value so it is imperative that sports competitions and leagues remain competitively balanced with a degree of uncertainty of outcome.

It is acknowledged that there is also academic literature that refutes this claim when considering the concept of competitive intensity (e.g. Andreff & Scelles, 2015; Scelles, Durand, Bonnal, Goyeau & Andreff, 2013a, 2013b, 2016) although it must be noted that a full review of this literature is outside the scope of this paper given the focus of the enquiry. Indeed, Fort and Maxcy (2003) argued that there are two distinct strands of competitive balance research, namely ACB (analysis of competitive balance) and UoH (uncertainty of outcome hypothesis). The primary focus of ACB is to track trends in competitive balance over time and it is solely focused on sporting competition. UoH differs slightly as its primary focus is to consider the impact that competitive balance has on spectators and attendance figures. It is the former that this paper is concerned with and the literature review is positioned in such a way to reflect this.

Thus, the primary aim of this paper is to attempt to provide empirical evidence on the debate surrounding competitive balance in the Championship by analysing whether or not the parachute payments awarded to clubs that are relegated have an effect on the competitive balance of the league itself. To the authors' knowledge, this is the first paper of its kind to consider the issue of competitive balance in relation to parachute payments. As such, the paper directly contributes to the growing field of sports economics literature. Furthermore, the findings of the paper have implications at policy level for both clubs and governing bodies with a view to safeguarding the prestige and viability of its domestic league competitions. The paper now presents the theoretical background to the study as well as previous literature on competitive balance in professional team sports before outlining the methodological approach taken. Following this, results are presented and discussed before the paper concludes with some recommendations.

Theoretical framework and literature review

The origins of competitive balance can be traced to literature on the economic structure of professional team sports and the joint nature of production. Most of the theoretical literature in this area covers the debate between the operating objectives of North American versus European team sports leagues and this forms the conceptual framework for our study. However, a full review of this literature is not deemed necessary here as the discussion will be well known to scholars in the field. Readers are referred to Dobson and Goddard (2011), Leach and Szymanski (2015) and Wilson, Plumley and Barrett (2015) for confirmation of this received theory. Consequently, the remainder of the literature review focuses on competitive balance literature and elements of English football that are relevant to our paper such as the escalation in broadcasting rights deals and parachute payments.

Competitive balance

As previously stated, there are two main streams of competitive balance research (Fort and Maxcy, 2003), namely ACB and UoH. Essentially, the concept of uncertainty of outcome, first pioneered by Rottenberg (1956) and Neale (1964), requires competition to be close to equal (i.e. either team in any one match has an equal chance of winning that match). Literature has argued that the premise of uncertainty of outcome can also have a significant effect on gate attendance and, more broadly, television viewing figures. For example, as the probability of either team winning approaches one, it is possible that gate receipts may fall substantially. Morrow (2003) believed this to be a significant problem for the football industry stating that if viewers perceive games as one-sided then viewing figures may fall accordingly. However, there is also evidence to the contrary, with some empirical studies suggesting that the majority of spectators prefer to see the home team play either an inferior team, where a win outcome is more likely (Buraimo & Simmons, 2008), or a perceived high-quality 'big' team with a strong brand, such as Bayern Munich in an example from the German Bundesliga (Pawlowski &Anders, 2012).

There are similar contradictions in the literature regarding competitive balance research. For example, Pawlowski (2013) states that it may be that the empirical evidence is 'wrong' because the proxies used to measure competitive balance are inadequate. In contrast, even if the empirical evidence is 'right', it does not necessarily show that competitive balance is irrelevant to football fans but rather that the variations in competitive balance that have actually been observed have not been large enough to affect demand. Pawlowski (2013) poses that a crucial question, from a fans perspective, is how unbalanced does a football league have to be before it matters? In the present day football industry, particularly in the major European leagues it appears that we are yet to see a tipping point. Match-day attendances remain high (the EPL has stadium capacity utilisation of 95%) and broadcasting rights deals continue to grow suggesting that football is still an attractive product to many

different forms of consumers across the globe. In light of this attractiveness, it is crucial that league organisers maintain some level of competitive balance, both within leagues and between leagues, in order to sustain interest and, subsequently, revenues.

Much like the early origins of sports economics literature, initial competitive balance literature focused on sports leagues in North America, primarily in Major League Baseball, but also in the National Basketball Association, the National Football League and the National Ice Hockey League (for examples see: Maxcy & Mondello, 2006; Zimbalist, 2002). Analysis on these leagues was a logical choice given that the framing of the league structures in North America were devised with competitive balance in mind and the majority of literature analysing these leagues does find high competitive balance. More recent studies have analysed the concept of competitive balance in relation to professional team sports in Europe, most notably in football but occasionally in other sports such as rugby union (e.g. Williams, 2012). Previous research examining competitive balance in football has almost exclusively focused on the so called 'big five leagues' (England, France, Germany, Italy and Spain) with one or two papers focusing on smaller leagues such as Austria and Switzerland (e.g. Pawlowski & Nalbantis, 2015). A further piece of research combines the above by analysing competitive balance across the entire football league structure (four divisions) in English football (Plumley, Ramchandani and Wilson, 2017). Aside from these papers, it appears that little attention has been given to football leagues in other European countries (Ramchandani, 2012). In relation to the findings of these studies, some detected no significant changes in competitive balance across European leagues (e.g., Goossens, 2006: German, French and Spanish first divisions; Groot, 2008: French and Spanish first divisions; Koning, 2000: Dutch first division; Michie & Oughton, 2004: French first division; Szymanski, 2001: English first division), whilst others reported a decline in competitive

balance (Goossens, 2006: English and Italian first divisions; Groot, 2008: English, German, Italian and Dutch first divisions; Montes, Sala-Garrido & Usai, 2014: Spanish first division).

There is also one further study of note that examines the competitive balance in relation to the UEFA Champions League (the flagship competition of club European football) (Plumley & Flint, 2015). In respect of this paper, the authors find that there are flaws in the ranking and seeding system used by UEFA and that, historically, the group stages of the Champions League have seen competitive imbalance. Furthermore, the seeding system continues to benefit the 'bigger' clubs in Europe and provides them with a greater opportunity of progression to the knockout rounds of the competition, thus, as the authors' state, maintaining the 'status quo' of the competition (Plumley & Flint, 2015).

Broadcasting and the growth of commercial revenues

Morrow (2003) proposed that football's relationship with TV is a paradox. On the one hand, television has been responsible for substantially increasing the revenues available in the game as a whole. At the same time it is those very revenues, or rather the manner in which they are shared out, that has most undermined competitive league balance and has led to the emergence of financially dominant leagues and financially dominant super clubs (Morrow, 2003). Noll (2007) offers a similar argument, stating that television has vastly increased the revenues of the most popular sports and that most likely, increased television exposure has spurred growth in live attendance at matches and other sources of revenue as well (see Allan, 2004; Baimbridge, Cameron & Dawson, 1995, 1996; Forrest, Simmons & Szymanski, 2004; Forrest, Simmons & Buraimo, 2005; Forrest & Simmons, 2006; Garcia & Rodriguez, 2002; Kuypers, 1996; Patton & Cooke, 2005; Price & Sen, 2003).

This has been evidenced in the way in which television revenues are distributed across different European leagues. In countries such as Spain for example, the distribution

mechanism has in the past been highly polarised, with clubs being able to negotiate their own deals with the broadcasters meaning that Real Madrid and Barcelona have been able to monopolise the market in recent years. Indeed, 2016-17, is the first multi-year rights cycle in Spain in which the rights have been sold collectively. There are other European leagues that distribute their broadcasting revenues more equally such as Austria, Bulgaria and Switzerland (EPFL, 2010). However, in relation to the 'big five' leagues in Europe, the EPL have distributed their revenues more equally than others in recent years, although the model still favours EPL clubs more so than clubs in the lower leagues in the UK. At the time of writing, fifty per cent of broadcasting rights in the EPL is divided equally among the clubs, twenty five per cent is distributed as merit payments (i.e. the higher the club finishes in the table, the more it receives), and twenty five per cent is on the basis of the number of appearances on television (Deloitte, 2015). This formula results in higher payments to the more successful clubs yet it is considerably fairer than the system in Spain's La Liga, for example, where Barcelona and Real Madrid alone earn almost half (48%) of the total revenue from broadcasting rights for the league under the previous rights cycle.

Major football broadcasting rights contracts have escalated substantially in recent years in English football. The first television contract signed in 1983 for just £5.2m (Gratton & Taylor, 2000) seems remarkably nondescript in relation to the more recent deals. In the years 2001-2004 domestic TV rights in the EPL were worth £450m which by the end of the 2007-2009 deal had escalated to £1.7 billion. Despite commentators stating that it would be dangerous to assume that such increases could continue unabated (Beech, 2010) the value rose again in 2012 to £3 billion only for the record to be broken once again with a new deal in place for 2016-2019 worth £5.1 billion in UK rights alone which equates to a 70% increase on the previous deal (Swiss Ramble, 2015). The continual increase in broadcasting rights

appears to have expanded the gap between the EPL and the rest of the football league in the UK, particularly because clubs receive parachute payments if they are relegated from the EPL.

Whilst the majority of European football leagues have collective agreements in place for the sales of their broadcast rights, some are less equally distributed than others. The EPL has one of the most equal broadcast rights distribution system compared to its counterparts in Spain and Italy for example, yet there is still a substantial difference in the broadcast revenue paid to the club that finishes first in the EPL versus the club that finishes bottom. By way of an example, for the latest figures available, in 2016/17 EPL champions Chelsea received around £50million more from broadcasting rights fees than Sunderland who finished bottom of the table. This system is in contrast to the American team sport model, where in some sports broadcasting rights are distributed equally between all member clubs in the league. The primary focus of this approach is to maintain competitive balance within American sport leagues. It is clear that the broadcast distribution system in the EPL and the advent of parachute payments, despite being one of the most equal in European football, has altered the financial gap between the EPL and the football league in the present day English football industry.

Solidarity and parachute payments

In most European football leagues there are two forms of payment distributed from the highest standing league to the leagues and clubs below. These are solidarity payments and parachute payments and they are normally linked to the broadcasting rights deals negotiated by individual countries. This section will detail how these payments differ between different leagues in Europe before concluding with what we term as the 'unintended consequence' of parachute payments in English football.

Recently, in light of the new broadcasting deal signed for English football that covers 2016-2019 the EPL increased solidarity payments to the Football League and also introduced a mechanism that links the payments, which are made to all Championship, League One and League Two clubs, to the value of EPL broadcasting revenue. From 2016/17 onwards Football League clubs will receive solidarity payments which amount to a percentage of the value of a year 3 parachute payment. This is distributed as follows; Championship clubs will each receive 30% of the value of a year 3 parachute payment, League One clubs will each receive 4.5% and League Two clubs will each receive 3%. Under the new deal it is estimated that parachute payments will total c. £42million in year 1, c. £34million in year 2 and c. £15million in year 3, assuming the distribution mechanism remains similar to the previous deal. This means that 30% of a year 3 payment would then providing solidarity payments totalling around £4.5million for Championship clubs, £0.68million for League One clubs and £0.45million for League Two clubs.

The purpose of parachute payments in the EPL is to ensure that a club can cope with reduced income from not being part of the EPL and also the fact that many of the players remaining at the club will still be under contract on what is most likely to be higher wages that are often attributable to EPL players. In recent years, the value of parachute payments has increased primarily as a result of the growth in broadcasting rights deals (see table 1). Under the new broadcasting deal from 2016/17 onwards, parachute payments will be distributed to relegated clubs over a three-year period with the values equating to 55% of the equally distributed amount of media rights revenue for each EPL club in year 1, 45% of the equal share of broadcast revenue paid to EPL clubs in year 2, and 20% of the equal share of broadcast revenue paid to EPL clubs in year 3. Furthermore, promoted clubs that only last one year in the EPL will only receive parachute payments for years 1 and 2 post relegation. This means that parachute payments to individual clubs would be worth around £42million in

year 1, £34million in year 2 and £15million in year 3. In contrast, under the previous arrangement for the previous cycle, clubs received £48million in total across 4 years. For the latest figures available, the EPL distributed £219million in parachute payments in 2016/17 to eight clubs at an average of £27.4million per club.

Given the new parachute payments and solidarity payments in the EPL and Football League it is clear that there is a revenue disparity. Each club receives an estimated £4.5million in solidarity payments yet the three relegated clubs from the EPL will earn over six times that alone in parachute payments. Additionally, the majority of Championship clubs earn on average around £10-15million in revenue which is also dwarfed by a first year parachute payment. As such, the 'unintended consequence' of parachute payments may be that they are distorting the competitive balance in the Championship owing to a less equal revenue model amongst the 24 clubs.

By way of a comparison, it is also important to consider the amount of parachute payments distributed throughout other European leagues. One of the EPL's closest competitors in revenue terms, Serie A in Italy, provides parachute payments of €5million for the first season and €2.5million for the second season providing a club has been in Serie A for two or more seasons in a row prior to relegation. Of the others, neither Spain nor Germany offer parachute payments to clubs relegated from the top league and there is a greater financial disparity when considering some of the smaller European leagues. In Austria, for example, relegated clubs receive €110,000 in parachute payments if they conform to certain criteria and Denmark only offer marginally more with €300,000 paid to each club in parachute payments (EPFL, 2010).

The figures and discussion above prove that of the major leagues in European football, the EPL provides the greatest amount of parachute payments which is funded primarily

through its broadcasting rights deals. Furthermore, the EPL distributes most of that money to its member clubs with the additional parachute payments distorting the financial picture, in revenue terms, of the Football League Championship directly below. As such, the Football League Championship is a natural selection of focus for this study and we attempt to contribute to the academic literature on the debate by being the first paper of its kind, to the author's knowledge, to examine whether or not parachute payments affect the competitive balance of leagues. There have been a number of papers that have mentioned parachute payments although these have tended to focus on how parachute payments affect the finances of the clubs in general (e.g. Buraimo, Simmons & Szymanski, 2006; Moore & Levermore, 2012), how the regulatory structure affects broadcasting rights deals and attendance (e.g. Forrest, Simmons & Szymanski, 2004; Sloane, 2015) and how the regulatory framework is viewed from a legal perspective (e.g. Serby, 2014). This study goes beyond the findings of these papers to consider whether or not parachute payments are affecting the competitive balance of the Football League Championship in English professional football.

Research Questions

This research had three aims. First, to examine the extent to which parachute payments widen or bridge the financial gap in the Championship between clubs that receive them and those that do not. Second, to analyse whether the overall competitive balance in the Championship is affected by the parachute payment system taking into account the prevalence and value of these payments. Third, to compare the performances of clubs in receipt of parachute payments and those without in terms of promotion to the Premier League (the top tier) and relegation to League 1 (the third tier) as well as the points differential between parachute payment clubs and other clubs in the Championship.

Methods

The time frame for the analysis was the eleven Championship seasons from 2006/07 to 2016/17. This time frame was chosen based on the availability of data about parachute payments made to clubs relegated from the Premier League, which was sourced via direct correspondence with the Premier League. It also coincides with the last three broadcasting cycles in the EPL and football league. Table 1 shows the number of Championship clubs in receipt of parachute payments (out of 24) in each of the eleven seasons and the total value of these payments.

<Table 1 about here>

Turnover figures for clubs that competed in the Championship at any point in the time period under consideration were obtained from their annual accounts (up until the end of the 2014/15 season owing to the availability of financial information which was sourced from Deloitte's annual review of football finance publication). Championship results for each season between 2006/07 to 2016/17 were collated from the English Football League website. Overall competitive balance of each season was measured using Michie and Oughton's (2004) Herfindahl Index of Competitive Balance (HICB), which was derived based on the number of points achieved by all clubs in the Championship in each season. We explicitly excluded any points deductions imposed on teams as this would have the potential to artificially skew the results of the research. For example, in the 2011/12 season Portsmouth were given a 10-point deduction for entering administration and their final points total in the official league table was 40. However, they achieved 50 points based on their results which was the figure used in our analysis.

There are a variety of measurement techniques when considering competitive balance in professional team sports and each has their own respective strengths and weaknesses (see Mills and Fort, 2014; Owen and King, 2015). Fort et al. (2016) review the empirical literature

on competitive balance including game and season uncertainty, primarily in the context of North American sports leagues. The most commonly used measure in studies of competitive balance in North American sports leagues, where drawn games are rare or non-existent, is the standard deviation of team winning percentage within a season. In sports like football, where drawn games are possible and common, winning percentage might be a biased indicator (Pawlowski et al., 2010). This paper utilises Mitchie and Oughton's (2004) Herfindahl index of competitive balance (HICB) which is an industry standard measure adapted from Herfindahl-Hirschman Index. This measure has been used in previous academic research focusing on football leagues (see for example, Lenten, 2008; Pawlowski et al., 2010; Plumley et al. 2017).

HICB scores were calculated using the formula (HHI / (1/N)) x 100, where HHI is the sum of the squares of the points share for each club contesting a league in a given season and N is the number of teams in that particular league and season. For a perfectly balanced league of any size, the index takes a value of 100. As the index rises, competitive balance declines. Pearson's correlation coefficient (r) was used to examine the pattern of HICB in the Championship over time as well as in relation to the prevalence of clubs with parachute payments and their total value. Time in this context refers to the seasons under review (so 2006/07 = 1, 2007/08 = 2 and so on). Additional statistical tests were conducted to compare the promotion and relegation rates of clubs with and without parachute payments (z-test) and the points differential between parachute payment clubs and other clubs in the Championship (independent t-test).

Results

Club revenues

We first examined the revenues of clubs competing in the Championship that were in receipt of parachute payments compared with the revenues of other clubs competing in that league. This comparison was based on nine seasons for which annual accounts of the relevant clubs were available at the time of writing (from 2006/07 to 2014/15). We found that the average revenue generated per Championship club in receipt of parachute payments was £29.6m per annum. Around 44% of this amount was attributable to the value of the parachute payment (£12.8m per club) and 56% was from other sources (£16.7m).

On a standardised basis then, the average 'normal' (excluding parachute payment) revenue for clubs receiving parachute payment in the Championship was 23% (£3.9m) more than corresponding figure for other clubs in the league (£16.7m v £12.8m). Consequently, when we factor in the average value of parachute payments this financial gap is magnified further. The overall revenue per parachute payment club averaged across the nine seasons (£29.6m) was more than double the corresponding amount generated by other clubs (£12.8m). Hence it would appear that parachute payments offer clubs that are eligible to receive them a relative competitive advantage over other clubs in the sense that they can be used to offset player transfer fees and wages.

As shown in Table 2, in most cases (2006/07 - 2011/12) the parachute payments serve to widen the financial gap between parachute and non-parachute clubs. There are two occurrences (seasons 2012/13 and 2013/14) where the average revenue of clubs without parachute payments (excluding parachute payments for the clubs that had them) was higher although once parachute payments are accounted for then there has historically been a significant financial gap between parachute and non-parachute clubs. It is possible that this financial gap will increase in the future given the increase in parachute payments under the new broadcasting deal.

< Table 2 about here>

Competitive balance

In lieu of the previous findings, it is reasonable to conceive that parachute payments may distort the level of competitive balance in the Championship by virtue of providing certain clubs with greater financial resources with which to operate despite football industry analysts Deloitte in their annual review of football finance publications insisting that the Championship remains a competitive league. We build on this argument by analysing the overall competitive balance for each season of the Championship (measured using HICB) between 2006/07 and 2016/17, relative to the number of clubs in the league in receipt of parachute payments as well as the value of these payments.

Figure 1 shows the HICB scores for each season of the Championship in this time frame. The most balanced season using this indicator was 2012/13 (102.4) with the most imbalanced season being 2014/15 (107.2).

<Figure 1 about here>

Over the last 11 seasons, there has been a moderately strong decline in competitive balance over time in the Championship as indicated by the upward slope of HICB scores ($r = 0.66$). Even with a relatively small number of observations, this trend is also statistically significant ($p = 0.03$). Conversely, there has been a strong and statistically significant increase in both the number of clubs with parachute payments ($r = 0.79$, $p = 0.00$) and the total value of these payments ($r = 0.93$, $p < 0.01$) over time. The data underpinning these results is shown in Table 1 in the methods section. Even though the number of clubs in the Championship with parachute payments and their total value has increased over time, it is still only a minority of clubs that receive them. The most number of clubs in the

Championship to receive parachute payments in any one season was ten in 2014/15, which equates to 42% of all clubs in the league in that year.

Both the number of clubs with parachute payments and the total value of those payments are strongly correlated with HICB and these associations are statistically significant ($r = 0.694$, $p = 0.018$; and $r = 0.753$, $p = 0.007$ respectively). In other words, an increase in the number of clubs with parachute payments and in the overall value of these payments coincides with a reduction in competitive balance in the Championship.

Comparative performance

The previous analysis has focussed on how the overall level of competitive balance of the Championship has changed over time accounting for the relative influence of parachute payments made to clubs relegated from the Premier League. We now analyse the performance of clubs with parachute payments compared with those without in terms of the likelihood of being promoted to the top tier of English football (the Premier League), remaining in the second tier (the Championship) and being relegated to the third tier (League 1). This comparative analysis is presented in Figure 2.

<Figure 2 about here>

Overall nearly one in five Championship clubs in receipt of parachute payments in a given season gained promotion to the Premier League in the same year (i.e. they competed in the Premier League in the following season), either directly or via the play-offs. This statistic was as high as 40% in 2009/10. The 2010/11 season was the solitary occasion in the 11 year time frame under consideration when no clubs with parachute payments were promoted to the Premier League. Only four clubs in that season were in receipt of a parachute payment. For Championship clubs without parachute payments, the highest promotion rate was 15% (in

2010/11), which is less than the overall promotion rate for clubs with parachute payments. Clubs with parachute payments were almost twice as likely to be promoted to the Premier League compared to clubs without (18.7% v 10.0%) and the difference between these two proportions was found to be statistically significant ($z = 1.968$, $p = 0.048$).

Similarly, less than one in ten Championship clubs with parachute payments were relegated to League 1 (9.5%). The corresponding statistic for clubs without parachute payments was around 13.7%. The likelihood of relegation from the Championship was lower in the case of clubs with parachute payments compared to other clubs, although the difference between the relegation rates was not statistically significant at conventional levels ($z = -0.932$, $p = 0.352$). In five of the 11 seasons examined, no clubs with parachute payments were relegated from the Championship, whereas at least one club without these payments has been relegated to League 1 in every season.

When comparing the number of points won by parachute payment clubs (n=74) with those won by other clubs (n=190) in the Championship averaged across the 11 seasons, the mean difference was around five points (65.92 ± 15.31 points and 62.36 ± 13.57 points respectively). Using an independent samples t-test, this difference was found to be statistically significant ($t(262) = 2.362$, $p = 0.019$).

Discussion

In relation to overall competitive balance our findings are consistent with the findings of Goossens (2006), Groot (2008) and Montes et al. (2014) in the extant literature who all reported a decline in competitive balance in the English, Italian, German, Dutch and Spanish first divisions through their empirical work. Furthermore, the statistically significant results in relation to the number of clubs with parachute payments and the total value of those payments that are strongly correlated with HICB presents novel findings in relation to the

research agenda and poses some interesting discussion points that could be considered at policy level when measured against the theoretical underpinning sport leagues and competition.

If an increase in parachute payments is coinciding with a reduction in competitive balance in the Championship then there is an argument to suggest that this is conflicting with the fundamental principles of sport leagues such as uncertainty of outcome as pioneered by sport economists such as Rottenberg (1956) and Neale (1964). Furthermore, Leach and Szymanski (2015) and Dobson and Goddard (2011) stated that the elimination of competition within a sports league is not healthy for the continuing success of that league owing to the joint nature of production in professional team sports. Subsequently, there is evidence to suggest that the league(s) and governing bodies in England would be advised to re-visit the distribution mechanisms in relation to parachute payments in order to safeguard the levels of competition within the Championship in particular.

In relation to comparative performance these findings provide evidence to support the view that parachute payments provide clubs in the Championship that receive them with a competitive financial advantage, which is in turn reflected in their performance in the league relative to other clubs.

There is an argument here to suggest that, within the parameters of the English domestic football league system, the English Premier League is itself in fact creating a monopoly when compared with the other leagues in the system, a fact that Dobson and Goddard (2011) outlined was detrimental to the long-term viability of sport leagues. Our findings indicate that even if a club is relegated from the EPL it still has a higher chance on average of returning to that league over other clubs in the Championship owing in part to parachute payments. In the same way that Plumley and Flint (2015) argued that the seeding

and ranking system in the UEFA Champions League was maintaining the status quo, one could argue that the EPL is also maintaining the status quo in respect of the clubs that occupy the places within the league. The evidence so far suggests that it is very difficult for a non-EPL club to gain promotion to that league and this will only be further compounded by future increases in parachute payments.

A further finding in relation to comparative performance was that there was a statistically significant difference in the mean number of points won by those clubs in receipt of parachute payments and those that are not. This mean difference was around five points in total. With this in mind, there could be a proposal here for a handicap system to be applied in the Championship which may negate the financial advantage gained by clubs in receipt of parachute payments and improve competitive balance. For example, if the mean differential in terms of points gained by clubs in receipt of parachute payments is five points, we propose a handicap system whereby relegated clubs select either to have parachute payments and begin on minus five points or to not have the parachute payments and begin on zero points like all other clubs in the league. To the author's knowledge, this is not something that has been discussed before within the English football league system.

Conclusion

In conclusion, our paper presents three main findings. First, the descriptive analysis of clubs' finances indicates that parachute payments offer clubs that are eligible to receive them a relative financial competitive advantage over other clubs in the sense that they can be used to offset player transfer fees and wages. Second, in relation to the competitive balance of the Championship, we have provided empirical evidence that an increase in the number of clubs with parachute payments and the overall value of these payments coincides with a reduction in competition in the league. Furthermore, the competitive balance of the league in general

has declined in recent years. Third, in relation to comparative performance, Championship clubs with parachute payments are twice as likely to be promoted to the EPL compared to clubs without and considerably less likely to suffer further relegation to League One compared with other clubs in the league. These findings not only extend the evidence base of competitive balance in professional team sports but also contribute to the academic literature in a novel way, primarily by being the first paper of its kind to examine parachute payments in relation to competitive balance.

As such, there are three main recommendations that we propose could be implemented at policy level to potentially safeguard the long-term viability of the league structure in English professional football. First, a re-distribution of parachute payments is recommended to bridge the financial gap between the leagues. Solidarity payments paid to Championship, League 1 and League 2 clubs are dwarfed by parachute payments and also by the central broadcasting money to EPL clubs which creates an immediate financial disparity between the EPL and Football League. A more equal distribution of the broadcasting rights, suggested by Noll (2007) in relation to improving competitive balance of leagues, would possibly begin to bridge the financial gap between some clubs.

Second, the implementation of a handicap system could offer a solution to give clubs the choice as to whether they want to receive parachute payments and take a points deduction or whether or not they really need the parachute payment in the first place and are happy to refuse payment and start the league season in the same position (in terms of points) as other clubs in the league. This concept is exploratory in nature and has some flaws but it would provide a novel aspect to competition and might make league governance structures think more deeply about the purpose of parachute payments if clubs were to refuse them.

Third, we propose an abolition of the parachute payment system entirely. Its premise in the early years was to soften the financial blow of relegation but in light of increasing broadcasting fees all it appears to have done is to give relegated teams a significant financial advantage over their competitors which often transfers into a competitive advantage on the pitch, thus making it extremely difficult for clubs not in receipt of parachute payments to gain promotion to the EPL. Our paper confirms this theory through statistically significant results and presents a strong evidence base for the abolition of the current system.

The practical problem with such recommendations is that there are power issues at governance level within the English game and also power struggles at individual clubs particularly within the EPL. The Football Association (FA) is the governing body of English football and holds jurisdiction over the EPL and Football League which are merely competition organisers. However, both the EPL and Football League have their own rulebooks that participants must adhere too. This creates a power struggle because the EPL has essentially created a self-regulating league through the collective selling of its own broadcasting rights and commercial deals which has also led to self-sustaining powerful 'super clubs' that monopolise the market to some extent. While ever this structure exists, it is difficult to imagine a point at which the financial balance would begin to be redressed. A further caveat is that even if certain regulations in terms of league structure and distribution mechanisms were altered, it is conceivable that the financially dominant super clubs within the EPL would breakaway and form a European Super League (a realistic threat to domestic competitions), thus creating a perceived less attractive product in relation to the EPL itself.

The point of Pawlowski (2013) is a pertinent place to conclude. How unbalanced does a league have to be before it matters? In the English Football League system, it appears that we are yet to reach a tipping point and there is an argument to suggest that if broadcasting rights deals continue to rise then there will only be further imbalance in the future. This is all

very well, providing English football maintains its attractiveness as a product to both its local and global markets, but if competitive balance really is a fundamental premise of league structure and competition then the evidence suggests that a change in tactics may be required.

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