GAMBLING IN PROFESSIONAL SPORT: THE ENABLING ROLE OF 'REGULATORY LEGITIMACY'

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ABSTRACT

Purpose: This article seeks to explain why organisations remain vulnerable to financial failure despite increasing financial regulation to improve governance. Using a case study of gambling and regulation in professional football in England, it introduces the concept of 'regulatory legitimacy' to show how this enables football clubs to gamble.

Design/methodology/approach: The article quantifies the extent to which football clubs in the Championship of the English Football League (EFL) adopt a conventionally economically irrational decision to run a loss-making budget in the hope of achieving sporting success. The article postulates criteria for evidence of this form of gambling by overspending on playing talent with data from the clubs' published financial statements. A pay-off matrix is developed to compare the intended and actual outcomes.

Findings: The research finds that this strategy was both prevalent and the most successful to achieve promotion.

Originality/value: This article makes three contributions. The first is the quantification of the prevalence of this form of gambling. The second is the finding that, despite regulations to limit spending on wages, gambling is rational in the non-economic sense because it is almost a necessary strategy to achieve promotion if the club had not been relegated from the Premier League in the previous season. The third contribution is the development of the concept of 'regulatory legitimacy' as a way to understand the process through which regulations are implemented yet are ineffective at curbing financial gambling.

Keywords: Gambling; financial regulation; professional football; regulatory legitimacy.

Article classification: Research paper

INTRODUCTION

"The Championship is not financially sustainable, it's a bubble waiting to burst……there are Championship clubs chasing that Premier League dream and when the gamble doesn't come off somebody has to foot the bill and if they can't afford it, the club could end up in administration"

David Sharpe, former Wigan Athletic chairman (reported by the BBC)[1]

"With the support and backing of the owner we took what was, in essence, a financial gamble on securing immediate promotion."

Newcastle United Press Release, 18 May 2018[2]

Aston Villa have "gone to the casino, rolled the dice and it hasn't worked"

Mark Ansell, former Aston Villa finance director (reported by the BBC)[3]

Financial crises, whether at organisational level or at the level of a particular industry, occur in large part due to excessive financial risk taking which is a form of gambling. The role of financial regulation is to put in place constraints to regulate corporate governance and to

[1] BBC (12 December 2019). Championship 'bubble waiting to burst' with clubs posting record losses in Premier League 'gamble'. Retrieved from: https://www.bbc.co.uk/sport/football/50674331 (Accessed 26 August 2020)

[2] Accounts filed for year ended 30th June 2017. Retrieved from: https://www.nufc.co.uk/news/latest-news/accounts-year-ending-30-june-2017 (Accessed 6 August 2021)

[3] BBC (6 June 2018). Aston Villa: Former finance director Mark Ansell says club gambled on Premier League return. Retrieved from: https://www.bbc.co.uk/sport/football/44382488 (Accessed 28 June 2021)

minimise financial risk taking through gambling (Sorensen & Miller, 2017). The imposition of financial regulation is therefore an important element and mechanism used in contemporary governance systems to minimise risk and has an impact on organisational behaviour (e.g. Marsden, 2010: Vibert, 2014; De Vita, G. & Luo, 2018). Governance crises, often linked to financial failings (Wearing, 2005), expose industry sectors and act as a catalyst for regulatory reform (Hancher and Moran, 1989), including enhanced financial regulation. For example, following the global financial crisis in 2008, changes to the regulatory framework in the US led to more resilience on the part of the banks (Tarullo, 2019). It is evident, therefore, that accounting and financial regulation seeks to curb excessive financial gambling, and thus enhance corporate governance, at both the level of the firm and more widely across an industry (Kumar and Zattoni, 2016).

Despite the imposition of enhanced financial regulation, corporate governance failures persist. Understanding why this is the case is the aim of this article. This article focuses on the professional football industry in the UK. In keeping with arguments that sport represents a microcosm of society (e.g. Wolfe et al., 2005; Day et el., 2012), we argue that understanding governance in sport can provide a platform to explore and develop insights into mainstream governance and regulation (e.g. Breitbarth et al., 2015). Within the professional football industry in the UK, a persistent cycle of financial failures and systemic crises exist (Hamil and Walters, 2010). Deloitte (2019) cites 59 cases of insolvency involving 47 clubs in England from 1992 to 2019. Despite this, there are relatively few clubs that go out of business as football trades on its status as one of the most powerful cultural and social assets in the country (Hamil and Walters, 2010). Storm and Nielsen (2012) argue that the paradox of a high survival rate of football clubs, despite persistent deficits and growing debts, can be explained by the 'soft' budget constraints that football clubs operate within.

A number of scholars have sought to understand the reasons for financial crises. Szymanski (2012) tests the hypothesis of exuberant spending or demand shock, such as the collapse of the ITV Digital contract in 2002, as alternative causes of insolvency of English football clubs and finds support for the latter. This research was extended by Scelles et al., (2016) to examine insolvency in the top three divisions in France which also found that "… demand (attendance) shocks can account for insolvency to a significant degree." (ibid., p. 1). The industry – like many other sectors facing corporate governance failures – has introduced regulations aimed at curbing excessive financial gambling. As such, there exists a considerable body of work reviewing the implications of changes to financial regulations in professional football as a response to financial crisis. For example, analysis has focused on the operation of the salary cost management protocol (Evans et al., 2019), or Financial Fair Play Regulations (FFP) (e.g. Dimitripoulous & Tsagkanos, 2012; Peeters & Szymanski, 2014; Plumley et al., 2019). Others have shown differences between countries across Europe (e.g. Acero et al, 2017), demonstrating that where there is stronger regulation on club finances (for example in Germany), there are significantly fewer cases of financial mismanagement. In the context of English football however, what is lacking is explanation of why, despite increasing financial regulation (as has been seen in other countries such as Germany), the sector remains extremely vulnerable to financial failure.

This study focuses on the Championship of the English Football League (EFL), the second tier league of professional football. The aim of this study is twofold: firstly, it will quantify the extent of financial gambling by owners of clubs in the Championship of the English Football League (EFL) by overspending on playing talent, and the effectiveness of this strategy in achieving sporting success. Whilst an amount of spending on wages is required of a professional football club, this paper considers limits for this spending such that spending in excess of these limits constitutes an excessive financial risk by the club owner. Data for this analysis is taken from the financial accounts of the clubs. What is particularly interesting is that there are financial regulations in place in the Championship, and so the second aim of the article is to postulate why these regulations appear to have not resulted in curtailing excessive financial gambling. The analysis draws on legitimacy theory and applies this to financial regulation to help us to understand what has happened.

The study makes three contributions. The first two are specific to the literature on sports governance and regulation. First, it quantifies the extent to which football clubs gamble by taking excessive financial risks and uses a pay-off matrix to compare the intended and actual outcomes. Despite analysis of the incentives to overspend, however, there has been no attempt to quantify the extent to which football clubs take excessive financial risks by overspending on playing talent nor any understanding of the effectiveness of this strategy in achieving sporting success. This is a significant oversight in the literature which this paper seeks to address. Second, it finds that the decision to overspend on wages is entirely rational in the context of seeking to get promoted. Whilst the positive relationship between wage spending and success in football has been well established (Smith and Szymanski, 1997) the necessity to spend in excess of income in order to achieve sporting success has not. The third contribution has broader implications for the study of financial regulation and the impact upon firm-level governance. Here, our analysis extends ongoing debates on the effectiveness of financial regulation by introducing the concept of 'regulatory legitimacy' as a way to understand the process through which regulations are implemented. This we define as the imposition of financial regulation designed to ensure that it is accepted by those within the institutional environment but also minimises the level of constraint on those it seeks to regulate, thus allowing for excessive financial risk taking.

The following section provides a brief overview of governance and financial regulation in football to provide context for this study. Subsequent sections present the method and data employed and the results. A discussion of these results is given before the article concludes.

GOVERNANCE AND FINANCIAL REGULATION IN PROFESSIONAL FOOTBALL IN ENGLAND

During the 1990s, poor financial performance by a number of clubs in the Premier League and Football League led to increasing concerns over standards of club-level corporate governance and concurrently, the ability of the football authorities to provide effective regulation. Consequently, there were a series of reports from the end of the 1990s that called for improved standards of club governance and recommended the football authorities introduce greater controls and a stronger regulatory framework to improve club governance. For example, the Smith Report (1997) made a number of recommendations aimed at improving standards of financial regulation including the need for the Football Association to implement a compliance and monitoring unit with statutory powers. Two years later, the fourth report of the Football Task Force on Commercial Issues (1999) similarly recommended the setting up of a Financial Compliance Unit aimed at ensuring the long-term stability of clubs. It was at this time that academic research into governance and regulation of football started to grow (e.g. Hamil et al., 2004)

There have been a number of other reports that also made recommendations to improve club governance through enhanced regulation. The annual surveys of corporate governance practices repeatedly stated that there were areas where football clubs could improve governance practices and stressed the need for the football authorities to implement stronger regulatory measures (e.g. Football Governance Research Centre, 2006). Concerns over player costs, debt and uncertainty over TV revenues prompted the Parliamentary All Party Football Group to undertake an enquiry into football finances in 2004 (APPFG, 2004), with subsequent Government reports led by the Department for Culture, Media and Sport arguing the need for enhanced financial regulation (House of Commons Culture, Media and Sport Committee, 2011; 2013).

The response by the football authorities to financial instability and increasing institutional pressure was to introduce financial regulation rather than to be subjected to direct government intervention. Hamil and Walters (2013) identified regulatory measures including salary cost management schemes, sporting sanctions for financial mismanagement, and enhanced financial transparency as measures of financial regulation brought in by the football authorities in England to improve club finances. At a European level, “Financial Fair Play” (FFP) rules were introduced by UEFA with effect from the 2011/12 season for European football club competitions. They require that clubs wishing to participate in UEFA’s club competitions must meet a set of criteria, with a view to improving the quality of management at European football clubs (UEFA, 2020). More recently, the EFL introduced regulations called Fair Play rules, which applied to clubs in the Championship. They were replaced by Profit and

Sustainability rules from the start of the 2016/17 season and these remain in effect to date[4]. In both cases the rules are based on spending that affects the profit (before tax) of the club. This suggests that wage spending, rather than the related spending on transfer fees (which are generally amortised over the duration of the contracts) is the main variable of concern (although we also recognise that transfer fees play a part in football club profitability).

Despite this response from the football authorities, there have been continued calls for independent financial regulation. For example, Hamil (2014) called for the introduction of more robust financial regulation to address chronic, and highly destabilising, loss-making by Football League clubs in his analysis of the financial health of Football League clubs over the 2011-2013 period. Some have even questioned the effectiveness of the regulations brought in by the football authorities. For example, Evans et al., (2019) provide empirical testing of the effectiveness of financial regulation implemented in League Two (the fourth tier league) in the EFL. They found that, contrary to the intention, the regulation failed to significantly improve the profitability or the solvency of football clubs in the league. Their analysis concludes that the introduction of the regulation was in part a 'legitimising exercise' instigated by the EFL to garner support within the institutional environment.

METHOD

This paper quantifies the hitherto unquantified extent of gambling by the owners of clubs in the EFL Championship to achieve sporting success and compares the intended and actual outcomes. The study assesses only those clubs that were in the Championship in the

[4] https://www.efl.com/-more/governance/efl-rules--regulations/appendix-5---financial-fair-play-regulations/ (Accessed 19 February 2020).

previous season. Each season the league consists of clubs that were in the league in the previous season, those that were relegated from the Premier League in the previous season and those that were promoted from League One in the previous season. The clubs that joined the league as a result of relegation are excluded because they are expected to require a period to adjust their wage structure to be consistent with their income in a lower league. The promoted clubs from League One are excluded because it is expected that they will need to increase their wage spend to adjust to competition at a higher level league. The intent to gamble is assumed in cases for clubs that were in the league in the previous season and where all of the following conditions hold for the club in relation to the previous season:

1) Wage spend increased
2) Wage spend increased by more than revenue increased
3) Wage spend increased by more than profit before tax increased

The assumption is that, in addition to clubs that reduce wage spend, clubs that increase wage spend are not gambling if the wage spend increase was supported by increased revenue or an increase in profit. The former allows for wage increases to be met by, for example, new commercial income. The latter allows, for example, for profit on the sale of players or exceptional income from, for example, the sale of the stadium or a reduction in operating costs. In these cases the club is viewed as not gambling.

The analysis considers the extent of gambling both in terms of the number of individual club season instances and in terms of the number of individual clubs that were in the Championship for a least one period of consecutive seasons in the study period. The following four propositions relating to the incentive of the club owners to gamble are considered. These propositions imply a pay-off matrix which is shown in Table I.

1. Clubs that secured a play-off place (i.e. 3rd to 6th in previous season) may consider increased wage spending with the intention of achieving an automatic promotion in the current season.
2. Clubs that finished outside the promotion or play-off places but finished in the top half of the league (i.e. 7th to 12th in the previous season) may consider increased wage spending with the intention of achieving at least a play-off place (on the assumption that by finishing in the top half of the league they have a more realistic probability of promotion than relegation).
3. Clubs that finished in the lower half of the league but not in the bottom six places (i.e. 13th to 18th in the previous season) may consider increased wage spending with the intention of achieving either a play-off place or avoiding relegation.
4. Clubs that finished within three places of relegation (i.e. 19th to 21st in the previous season) may consider increased wage spending with the intention of avoiding relegation. It is recognised that this proposition is based on an arbitrary cut-off point and in practice may be overridden by specific considerations of the clubs in or above these positions.

INSERT TABLE I

The extent of gambling is assessed in relation to each of the propositions (above). Whether that gambling paid off is assessed with the pay-off matrix for the gamblers and whether the gamblers were more successful than non-gamblers is assessed by comparing the pay-off matrix for gamblers with that for non-gamblers. Whilst neither the financial accounts of the clubs nor the EFL provide the transparency required to assess the compliance of clubs with their financial regulations, the data extracted from the financial accounts of the clubs is used to compare the incidence of gambling with the corresponding period of regulation.

DATA

The primary data source for the study is the financial statements and related notes to the accounts which have been obtained from the statutory financial accounts filed at Companies House[5] by the clubs in the Championship for financial periods corresponding to each of the fifteen seasons from 2004/05 to 2018/19 inclusive. There are 48 clubs in the study data set. Whilst 55 clubs participated in the Championship during the fifteen seasons of the study 4 clubs (Newcastle United, MK Dons, Southend United and Yeovil Town) are excluded because they were not in the Championship in any of their prior seasons and data was not available for any of the seasons that another 3 of the clubs (Luton Town, Colchester United and Portsmouth) were in the league. Figure 1 shows the frequency distribution of club seasons for the 48 clubs in the data set, demonstrating that some of these clubs appeared more regularly than others in the EFL Championship during the fifteen seasons with one, Ipswich Town, having been in the Championship for this entire period (other clubs have either been promoted, relegated, or both).

INSERT FIGURE 1

The 48 clubs in the study produced 256 observations. There are two reasons why they may understate the extent of gambling in the Championship in the following analysis. First,

[5] Companies House is the United Kingdom's registrar of companies and is an executive agency of Her Majesty's Government

whilst the 55 clubs potentially produce 270 observations (excluding seasons following either promotion or relegation into the Championship for the current season) there are a number of instances where it was not possible to get financial data for particular clubs. In many of these cases, those clubs that have been excluded from the analysis because of missing financial data went into administration. This suggests these clubs may have gambled unsuccessfully although this cannot be confirmed due to the failure to provide financial accounts. The second reason why the following analysis may understate the extent of gambling by club owners in the Championship is the exclusion of the 'new joiners' to the league who could also have overspent on wages in order to compete.

ANALYSIS AND RESULTS

What was the extent of gambling?

Table II shows that at least 5 of the potential 18 clubs in the study each season gambled in every one of the fifteen seasons. Overall, of the 256 club seasons in the study (i.e. in the Championship in the previous season with available data), the club owners gambled in 45% (116). Note that even if it is assumed that the club owners gambled in none of the club seasons omitted from the study the evidence shows that the club owners gambled in at least 32% of all possible (360) club seasons in the study period.

INSERT TABLE II

Figure 2 shows that the relative incidence of gambling each season for the clubs included in the study and the trend which was fairly constant around an average of 45% over the study period. In every season at least 28% of clubs gambled. There were 3 seasons when approximately 70% of the clubs in the league gambled and 6 seasons when 35% or less of the clubs in the league gambled.

INSERT FIGURE 2

Table III shows that the proportion of gamblers is highest for those clubs that finished outside the promotion or play-off places but finished in the top half of the league in the previous season (Proposition II). However, there was a similar level of incidence for those clubs that finished in the lower half of the league in the previous season (Propositions III and IV). Perhaps surprisingly, the percentage of gamblers is lowest for clubs that secured a play-off place in the previous season (Proposition I). This suggests that these owners may be more inclined to consider that they already have an acceptable chance of promotion in the current season and consequently they are slightly less inclined to gamble with an increase in wage spend than other clubs are.

INSERT TABLE III

Table IV shows how widespread gambling was for the individual clubs that competed in the Championship in the study period. Of these 55 clubs 48 are included in the study and 87% (42) of those gambled in one or more of the seasons that they were in the Championship (or at least 76% of all 55 clubs that were in the Championship in the study period).

INSERT TABLE IV

Figure 3 presents the frequency of gambling by the 48 individual clubs (in the study). For example, 3 clubs were in the study for 5 of their seasons (with a previous season in the Championship) and they both gambled in 2 of those seasons. Figure 3 shows that 6 clubs gambled in all of their second seasons in the Championship but 4 were each only in the study for one pair of consecutive seasons and the other 2 were only in the study for two pairs of consecutive seasons. Most of the clubs that did not gamble (5 of 6) were also only in the Championship for one period of two consecutive seasons. The one club that was in the study for the most (15) seasons gambled in the most (6) seasons.

INSERT FIGURE 3

Did gambling pay-off?

Table V shows that gambling clearly paid off in 32% (37) of the instances in which club owners gambled, that is the 28 instances that clubs achieved promotion (Zone A) and the 9 instances when, although the club was not promoted, it succeeded in avoiding relegation despite being in the 3 places above relegation in the previous season (Zone B).

INSERT TABLE V

Almost a third (5 of 17) of the attempts to gain promotion by gambling by clubs that narrowly missed promotion in the previous season (Proposition I) were successful and almost two thirds (12 of 19) of the attempts to avoid relegation by gambling by clubs that narrowly avoided relegation in the previous season (Proposition IV) were also successful (even resulting in promotion in 3 instances!). It could also be considered that in a further 14% (15) club seasons, for the clubs which had been in the lower half of the league but not in the greatest danger zone for relegation (Proposition III) whilst not moving to a higher group, the club was also successful if their ambition was to avoid relegation (Zone C).

For the 10% (12) club seasons when gamblers were relegated gambling clearly did not pay off (Zone F). In both the 32% (37) of club seasons when the gamblers failed to progress to a higher group (Zone E) and the 13% (15) of club seasons the gamblers did progress to a higher group but did not achieve promotion (Zone D) it can also be concluded that gambling did not pay off in that season. The propensity of each of the 42 individual clubs that gambled to gamble (i.e. the number of seasons they gambled relative to the total number of seasons they were in the Championship in the current and previous season) and the effective success of their gambling, that is the number of seasons when they either achieved promotion (Zone A) or avoided relegation (Zone B), is shown in Figure 4. Each number in Figure 4 refers to the number of clubs with the combination of propensity and effectiveness. For example, 3 clubs gambled in all (1.0 on the horizontal axis) of their seasons (with a previous season in the Championship) and they were all unsuccessful with all their attempts to either gain promotion or avoid relegation (0.00 on the vertical axis).

INSERT FIGURE 4

Figure 4 shows that for the 42 clubs that gambled the strategy was successful in at least one season for 60% (25) of the clubs. 17% (7) of them even had a 100% success record when they gambled. However, the gambling strategy was never successful for the other 40% (17) of clubs that gambled on at least one occasion.

Was the success of gamblers explained by the relative wage spend alone?

All the clubs in the league were ranked according to their wage spend in the current season. Clubs with no available wage data for the current season were excluded so the ranking for the other clubs in seasons where there is missing data are the highest position that they could have been in a ranking by wage spend. Table VI presents the wage ranking and status in terms of the analysis of gamblers for all 45 clubs that were promoted in the study period.

INSERT TABLE VI

Table VI shows that whilst 5 of the gamblers that achieved one of the three promotion positions were, as might have been expected, in the top 3 of the wage ranking for the season, 23 gamblers achieved promotion even though the extent of their 'gamble' was not sufficient to make them one of the top three wage spenders in the league in that season. Furthermore, although 14 of these gamblers were in the top 6 of the wage ranking in those seasons, corresponding perhaps to a sufficient gamble to achieve promotion via the play-off system, 12 clubs were able to achieve promotion with an even lower wage ranking, and 6 were not even in the top 10 of the wage ranking for the season. This suggests that whilst gambling is an effective strategy to achieve sporting success the effect is not attributable to the simple conclusion that it is the result of relative wage spending.

Were gamblers more successful than non-gamblers?

Comparing Table VII with Table V it can be seen that gambling was a far more successful strategy than not gambling to achieve promotion. Whilst promotion was achieved in 24% (28) of the club seasons in which club owner gambled (Table V, Zone A), less than 3% (4) of the non-gamblers achieved promotion (Table VII, Zone A). Relegation occurred in 11% (12) of the seasons in which club owners gambled compared to 12% (17) of the seasons in which club owners did not gamble (Zone F).

INSERT TABLE VII

The dominance of the gambling strategy for promotion is further evidenced by consideration of the 45 promotion opportunities to the Premier League in the study period. Of these 62% (28) were achieved with a gambling strategy whilst only 10% (4) were achieved by clubs that had been in the Championship in the previous season and did not gamble in the season that they were promoted. Furthermore, the clubs that narrowly missed promotion in the previous season and gambled (Proposition I) were twice as successful in gaining promotion than those that did not (i.e. 35% (6 of 17) of the clubs that gambled compared to 17% (4 of 24) that did not).

For the clubs that finished outside the promotion or play-off places in the previous season (Propositions II, III and IV) none of the non-gamblers were successful in winning promotion but 22% (22 of 99) of the gamblers were successful in winning promotion. However, there was very little difference in between the gamblers and non-gamblers in avoiding relegation. 10% (12 of 116) of gamblers and 12% (17 of 140) were relegated and of those that narrowly avoided relegation in the previous season (Proposition IV) approximately two thirds (12 of 19 and 15 of 22 respectively) of both were successful in avoiding relegation.

Were the results affected by the type or absence of a financial regulatory regime?

Table VIII shows that in the seven seasons with no financial regulation clubs (with available data) gambled in 48% of the seasons. In the five seasons with Fair Play rules this reduced to 41% but in the following two seasons, with the Profitability and Sustainability rules, the incidence of gambling increased to 50%. Overall, in the eight seasons with financial regulation clubs (with available data) gambled in 44% of the seasons.

INSERT TABLE VIII

These results suggest some restraint by club owners when the Fair Play regulation was operative but that the Profit and Sustainability regulation has been less, if at all, effective in restraining the number of clubs gambling. It may be considered, however, that had the EFL not introduced the financial regulations the incidence of gambling by club owners would have been even greater as the financial incentive to be promoted to the Premier League increased over the period, and particularly when the Premier League agreed new contracts, on behalf of all the teams in the league, with broadcasters for the three year periods from the 2013/14 and again from the 2016/17 seasons. Income from these centrally negotiated contracts with broadcasters is received by the Premier League and then disbursed to clubs in accordance with the Premier League rules. Figure 5 superimposes the total disbursement by the Premier League to Premier League clubs (expressed as a percentage of the 2018/19 total) onto the graph showing the percentage of gamblers each season (from Figure 2). The vertical lines indicate the seasons when the Fair Play (2011/12) and Profit and Sustainability (2016/17) financial regulations were introduced.

INSERT FIGURE 5

With a short period between the introduction of the regulations and a significant increase in the disbursements it is difficult to separate the influence of the increased incentive from any effect of the regulation introduced by the EFL with any significant level of confidence. However, it can be observed that in the first two seasons that were regulated (2011/12 and 2012/13) the level of disbursement to Premier League clubs was similar to the preceding period and so was the relative incidence of gambling. In those two seasons the average percentage of gamblers to non-gamblers was 52% whereas in the previous seven seasons when there was no financial regulation the average was 48%. This suggests that initially the regulation had no significant binding effect on the relative incidence of gambling.

However, over the following three seasons (from 2013/14 to 2015/16) the level of disbursements increased and the incidence of gambling reduced. As there had been no change in the regulation in this period it suggests that the regulation was not the reason for the reduction in the incidence of gambling. The introduction of the Profit and Sustainability regulation coincided with a second significant increase in the level of disbursements to Premier League clubs (from 2016/17) but again, with observations for only three seasons it is not possible to draw any significant conclusion about the effect of the regulation, although the increase in the incidence of gambling in 2017/18 again suggests that the regulation had no significant binding effect on the relative incidence of gambling.

DISCUSSION

The literature to date has not focused on the extent of gambling 'per se' by club owners in a league competition. This may be an important omission as the more clubs gamble the more likely they are to experience financial distress. Whilst it is known that the relative wage spend of clubs is a significant determinant of sporting success (Smith and Szymanski, 1997) this article goes further by showing the incidence of wage spend that are a result of gambling by club owners and uses a pay-off matrix to compare the intended and actual outcomes. This further adds to the understanding in the sports economics literature of what motivates football club owners. This article also suggests that far from being an example of "irrational" exuberance (Szymanski, 2012) the decision to increase wage spending and gamble is entirely "rational" in the context of seeking to get promoted. The results show that gambling was both endemic and an almost necessary (but not sufficient) strategy to gain promotion for clubs that were in the Championship in the previous season.

In addition, the article furthers discussion on financial regulation in professional sport. The analysis has shown that, although there are a few 'extreme' cases reported of clubs breaching the financial regulations[6], the financial regulation implemented by the EFL did little to reduce the incidence of gambling in the Championship, with 45% of clubs gambling each season (on average). This would seem to be a relatively high risk approach to the maintenance of financial stability and the evidence suggests that clubs did not regard the regulation applied by the EFL as a significant deterrent to gambling on success. Thus it was not a surprise that another club (Bolton Wanderers) entered into administration in 2019.

[6] The 2015 accounts for AFC Bournemouth disclose a financial fair play penalty of £7.615m (which the 2019 accounts show was settled for £4.75m) and the 2018 accounts for QPR show that the club was fined £17m and ordered to pay £3m in costs and to capitalise a further £21.965m of loans. In March 2019, the EFL issued a statement to report that Birmingham City had been deducted 9 points in the 2018/19 season for breaches of the regulation over the three year period from 2015/16 to 2017/18.

We argue that the results of this study suggest that the imposition of regulations by the EFL could be seen to have appeased external stakeholders, such as the media and government for example, by providing legitimacy. Suchman (1995) points out that many researchers employ the term legitimacy, but few define it. He states that legitimacy is a 'generalised perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions' (Suchman, 1995: 574), noting that legitimacy is possessed objectively, although it is created subjectively. This is important when we consider regulation through a legitimacy lens: legitimacy may be granted to regulatory organisations on an objective basis (they are a regulating body for example) but the process of granting legitimacy is done through a subjective process by which the regulatory bodies engage in the process of creating reality through socially constructed stories (Mizruchi and Fein, 1999) that ensure they gain legitimacy within the institutional environment (Selznick, 1996). In the context of financial regulation, this could lead to situations where financial regulatory mechanisms are introduced that simply are not robust or appropriate, but they are accepted due to having legitimacy within the institutional environment.

However, the results also show that the EFL regulations only penalised extreme cases of financial gambling. Although much work on legitimacy is focused on the institutional environment, it is also important to think about legitimacy within particular sectors or even within organisations – i.e. internal legitimacy. Drori and Honig (2013: 347) define internal legitimacy as 'the acceptance or normative validation of an organizational strategy through the consensus of its participants, which acts as a tool that reinforces organizational practices and mobilizes organizational members around a common ethical, strategic or ideological vision'. They also state that the creation of legitimacy is an ongoing process or interplay between external and internal forms. Our findings suggest that the financial regulations implemented by the EFL also had to have *internal* legitimacy, i.e. they were accepted by member clubs (and indeed voted through by member clubs). In the context of financial regulation, this was also something that Evans et al (2019) identified, arguing that the financial regulations that were put in place were part of a "legitimising exercise" that was both acceptable to government and the wider institutional environment, but also acceptable to those organisations that had to abide by the regulations. Their analysis showed that the implications of the regulations were minimal and that they were largely ceremonial (Evans et al, 2019), suggesting pre-eminence was perhaps given to internal legitimacy.

Where external legitimacy means demonstrating a more robust approach to financial regulation, internal legitimacy means ensuring that financial regulation is not too onerous or constraining, allowing clubs to continue to behave (and gamble) in much the same way as before. We argue that the combination of external and internal legitimacy in relation to financial regulation led to 'regulatory legitimacy'; a situation that we define as the imposition of financial regulation designed to ensure that it is accepted by those within the institutional environment but also minimises the level of constraint on those it seeks to regulate, thus allowing for excessive financial gambling. In this sense, regulatory legitimacy plays an enabling role in financial gambling and can be seen as counterproductive to protecting football clubs from financial gambling.

CONCLUSION

This research has evidenced that gambling has continued to occur in the EFL Championship, despite financial regulations, and thus postulates that 'regulatory legitimacy' - a combination of both internal and external legitimacy – is a way to understand and explain why financial regulation has had minimal impact on football club behaviour. The policy implication is that the financial regulation is not sufficiently effective in achieving the financial sustainability of football clubs which have a rational incentive to overspend on playing talent despite the potential consequences of failing to achieve their sporting objective. To the extent that the financial regulation is a legitimating mechanism for the EFL change towards a more restrictive form of financial regulation rests on the notion of internal legitimacy and the extent to which this is accepted (and voted through) by member clubs.

Existing financial regulation imposed by either UEFA, the Premier League or the EFL directly targets either the profitability or wage spending of clubs. One option to go beyond 'regulatory legitimacy' to reduce the incidence of gambling in the EFL by tightening the limits that are applied. Another option would be to replace the existing regulation with regulation that directly targets the liquidity of football clubs with a minimum threshold limit. This approach might potentially be more effective as ultimately, as with other financial 'bubbles', it is a lack of cash that makes the financial position of a business unsustainable. By setting a minimum threshold limit for the liquidity maintained by clubs this might be another mechanism through which the EFL could more effectively embed financial sustainability into football clubs. We suggest that this option should form the basis for further research.

These two options are also potentially ways forward for the sector in light of the recent fan-led review of the governance of English football that has recommended the Government create a new independent regulator for English football. This raises the potential for regulatory changes which would be to overcome the issue we have identified, regulatory legitimacy, which has minimised the level of constraint on football club behaviour and has allowed for gambling through excessive financial risk taking. Whether an independent regulator will be created remains to be seen, and if so, will it have the power to put in place more stringent regulation that ensures football clubs are more financially sustainable, potentially in line with the two suggestions above? These are key questions concerning the future regulation of the industry.

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