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# An Economic Analysis of Foreign Ownership in Professional Sports: Motivation, Success, and Implications for United States Market

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## **INTRODUCTION**

The International Monetary Fund defines globalization as “the increasing integration of economies around the world, particularly through the movement of goods, services, and capital across borders” (Giovanni et al. 2008). Over the past decade, the world has become increasing small and increasingly interconnected. In the corporate realm, because billions of dollars in US assets owned by foreign investors international ownership has become much more common. Social anthropologist from University Oslo, Thomas Hylland Eriksens, explained this general trend well when he said, “the most popular products- weather, books, food, or sports- tend to require little culturally specific knowledge...and transcend local concerns” (Giulianotti and Robertson, 2009). The growth of globalization has made it possible for these cultural aspects to spread and on a broad, international scale. Much like the spread of food and literature across the globe, sports have also expanded, becoming a global form of entertainment. In recent years, the ownership of these teams has become similarly diverse and complex.

When looking at the prevalence of foreign investment, sports present an opportunity to examine what factors make a successful owner due to the access to indicators of success. In addition to financial data, attendance records and win/loss records are clear signs of internal and external achievement.

The common perception of sports ownership is that it is far removed from the cold corporate model. This has become less and less accurate, over the past few decades; professional sports have been in a transition from spectator-driven entertainment to profit-driven enterprise. As sociologist Barry Stuart describes, “As modern sport has

become global in scope it has largely lost its playful character and its professional practice has become both a global media spectacle and a serious and financially significant global business.”

In this study, a number of examples in foreign ownership will be examined across multiple sports: soccer, football, baseball, and basketball. These sports are an excellent focus because annually the leagues, (English Premier League, National Football League, Major League Baseball, and National Basketball Association) individually generate an excess of four billion dollars in revenue. More specifically, individual teams in the EPL, MLB, and NBA that currently are under foreign ownership will be analyzed and the level of success they have had both in generating revenue and wins. In the EPL’s case, this study will attempt to answer why there has been an influx of American owners and what has their effect been on the league? Based on these cases, this thesis aims to find conclusions to these questions: what should we expect for the future of professional leagues in both Britain and the United States, and in the long run will it result in a net benefit or detriment?

The first and most widespread example of foreign investment is found in the English Premier League where eleven of the twenty top flight clubs are owned by foreigners (Reed, 2011). Prior to 2010, there were restrictions on ownership, as long as an individual or group had sufficient funds to support a club they could purchase a team. With this freedom American and international businessmen flocked into the Premier League, purchasing some of the largest and most valuable clubs including Manchester United by Malcolm Glazer (Food Processing, Real Estate), Liverpool by John Henry (Fenway Sports Group) and Arsenal by Stan Kroenke (Property). These American

owners were also accompanied by a wealthy group of international businessmen, Roman Abramovich (Oil) from Russia who purchased Chelsea, and Sheikh Mansour Bin Zayed bin Al Nahyan from United Arab Emirates who bought Manchester City. Within a ten year period, the Premiership had been inundated with foreigners with increasingly large pockets. As these new owners assumed financial control of the clubs they were met by skepticism and anger because these new owners were seen as invaders who did not know the true meaning of the sport. Despite the opposition, all of the Premier League owners have improved or maintained previous success. Throughout the paper I will explain why that has been possible and what motivates these individuals to take on such large investment. Additionally, how in different sports with varying forms of salary caps and ownership regulations why these high levels of success may be more difficult to achieve or sustain elsewhere.

## **REVIEW OF THE LITERATURE:**

Prior to understanding the motivation and success of foreign ownership it is important to understand the environment in which these owners exist. The majority of previous research in sports ownership examines the incentives that are present in owning a franchise. Across all sports leagues, there is what Walter Neale called the “peculiar economics of professional sport” (Fort & Quick, 1995). Neale refers to the paradoxical goal a team owner must face when trying to maximize win-loss ratio and championships, while simultaneously maintaining a league-wide competitive balance where fan support and revenue are maximized. Recent examples such as the crack down on performance enhancing drugs and college sports recruiting practices, American sports leagues show the value placed on integrity and fairness by fans and media.

Taking these many obstacles into account, what about franchise ownership is so enticing to these, typically wealthy businessmen. Previous research suggests there are multiple reasons for individuals assuming a large, risky investment. Assuming an individual motivated by profit-maximizing behavior, there must be some non-pecuniary utility gained through ownership, so that this gain offsets the likely loss in returns (Gamrat & Sauer, 2000). The first return that an owner may receive is the utility gained by taking part in competition. College intramurals and recreational leagues come to mind, where individuals may pay to participate in the competition. The second possible motivating factor for ownership is the prospect of winning the league’s top prize where the over-payment of players is offset by the utility gained by being crowned champion. The Steinbrenner Family follows this model as the owners of the New York Yankees,

where their payroll has exceeded two-hundred million dollars since 2008, outspending the next highest team by nearly forty million dollars which led to a championship on 2009. Supporting this idea, the English Premier Leagues foreign owners have purchased the most profitable and historically successful football clubs, Manchester United, Chelsea, and Manchester City. Similar to an example found in horse racing by Dougan and Snyder (1996), where the talent of the horse results in increased prospect in winning a large pursed races which accounts for an increase in utility. Another model involving thoroughbred racing explains that the return on investment increases with the value of the horse which connects well with owners purchasing high profile clubs in an attempt to minimize investment risk (DeGennaro 2003). It seems in part for this reason, that many of the deep-pocketed owners have flocked to the Premier League where multiple trophy tournaments are present which could define a successful season and salary caps do not limit the ability of owners to purchase high price players.

In addition to these motivating factors, there also is intrinsic value and perks gained by owning a professional club or franchise. The first is the annual operating profits which include game day sales and typically large television contracts. In 2011, the NFL inked an eight year extension with ESPN worth fifteen billion dollars, and this number will likely increase in the future. The second lesser known value for team owners is the federal tax breaks they receive. Owners have the ability to write off large portions of player salaries and depreciate other assets such as season ticket waiting lists and suite revenue. Less directly, there is peripheral value of ownership through generating profits in the owners other endeavors. Team ownership increases recognition and gives a venue for hosting current or perspective clients. There also are financial gains from revenue

sharing, the amount of revenue varies league to league and in a case of a large market team, may even result in a financial loss. Including these annual incentives, the value of sports franchises typically outpaced the growth in the economy at large, making the eventual sale of a team profitable as well (Fort, 2006).

As a fan of a sports team, the goal is clear: maximize wins, minimize losses and win championships while keeping marquee players with star power. The research suggests a more complex concept involving the importance of win/loss ratio as an indicator to championship success. In the short run success indicators, like ticket sales and finishing first hold significant predicting ability. Another measure of success is through the win percentage of a team. Based on work by Whitney (1988), the length of the season is the key determinate when taking these two success measures into account. With a shorter season, like the NFL's sixteen game season, the team which finishes first is more frequently the champion. While longer seasons like in MLB where a season is composed of 164 games, win percentage is a more accurate indicator of franchise success. When examining indicators of success in foreign ownership it is important to examine the length of the season and whether finishing in first place or increased winning percentage can be relied on. For this reason as well, ownership in sports may be more predictable with longer seasons because more than one team may have a high win percentage while only one team will finish in first. The format of the leagues post season also may play a role in the willingness to invest in a particular sport. In MLB, an additional team was added to the playoff system for the 2012 season, allowing ten out of the thirty teams make the playoffs, increasing the likelihood of participating in the post-season and increasing total revenues.

Hand in hand with increasing revenue, expanding demand for a franchise or club is central in sustaining success. The timetable of this success also dictates which metrics should be examined. In the short run, team performance, admission price, and goal scoring are crucial indicators (Dobson & Goddard 1996). In the long run, team performance remains important with local unemployment rate also impacting attendance. This may have a significant impact on the tenure of an owner and which facet they strive to improve. A likely trend would see prolific goal scorers purchased initially while defensive specialists and role players added later (Fort & Quirk 2004). The first type of owner has an objective of profit-maximizing behavior, making its marginal revenue equal to its marginal cost. Many of the American sports leagues are considered to follow this model, partially due to the presence of salary caps. The other type of owner objective is the winning percentage maximizing approach. A common example for this approach is the top teams in the English Premier League where there is no salary cap present and talent can be purchased free of financial restraints. This environment tends to deteriorate league competitiveness and has led to the big four teams in the EPL (Manchester United, Chelsea, Liverpool, Arsenal) who have dominated for the leagues history.

Although foreign ownership in sports appears to result in positive externalities for fans and the organization alike, there is significant data which raises the problems that foreign ownership may cause. There are two examples from the banking realm which yield a different conclusion. The first study focused on increased foreign ownership on Korean Domestic Banks (Yi, Miller & Jeon, 2009). It found that there was no significant increase in loans to large or small companies, neither did it produce any significant cost savings. In addition the relationship between increase in foreign management and

profitability has not been found to be significant. The second study found evidence that suggest a home field advantage for domestic banks regardless of the country the bank is located (Naaborg & Lensink, 2008). In relation to sports ownership, some leagues believe by having foreign owners it will increase international business and profits. These studies suggest foreign ownership may increase doubt by investors as well as placing the organization at a disadvantage.

Overall economic studies on sports ownership suggest an array of reasons which motivates the purchase and ownership of the team. An important reason is the gains of non-pecuniary utility that comes with owning a globally popular sports team. Regardless of the utility gained, team ownership is nonetheless volatile and because leagues name a sole champion each year, ownership becomes that much more daunting. From the owners' perspective, by expanding parameters of success, expanding playoff systems and making the definition of a successful season as broad as possible to maintain fan interest and increase league revenue. This suggests that leagues with the highest percentage of playoff participant would attract the highest level of foreign investment, because as the owner lived further from the team it would be likely that the purchase was in the interest of a successful investment rather than non-pecuniary means. Taking previous research into account, team ownership has been investigated and has shown that there are numerous motivations for ownership. However, the success of foreign ownership across sports has not been examined and could discover trends in sports ownership currently and hold predictive power for sports ownership in the future.

**FRANCHISE HISTORY:****MANCHESTER UNITED:**

As of 2011, Forbes listed Manchester United as the world's most valuable sports franchise (Badenhausen, 2011). As a member of England's Premier League, Manchester United has been one of the most winning clubs in league history. Since the club's founding in 1878, it has won sixteen league titles and three European Championships. Despite the illustrious history, the club has experienced a significant amount of conflict and financial struggle. Through the 1990's John Magnier and JP McManus owned the team and led a power hungry term, at one point trying to remove legendary manager Sir Alex Ferguson stemming from the ownership of a race horse. In 2005, American Malcolm Glazer purchased a majority stake in the club for 800 million pounds. This purchase was met with staunch opposition from Manchester United and soccer fans across the globe. Despite the hostile climate, the club has won the league title every season except one under his ownership. Although the club has been very successful on the field, his financial decisions have been met with harsh criticisms because he has consistently maintained large amounts of debt. Glazer has even taken United on United States tours in an attempt to minimize debt. Glazer has clearly experienced success on the field, what has made him successful at continues Manchester United's storied history or could the club have achieved it without him.

## MANCHESTER CITY

Since the forming of the FA Premier League in 1992, top flight English soccer has been dominated by Manchester United, Chelsea and Arsenal who have won all but one regular season title in its nineteen year history and had failed to place in the top three. Unlike Manchester United, Manchester City's history was neither filled with big name players or immense success. With numerous attempts to stay in the league's top flight, the team had accumulated 305 million pounds of debt. August 2008 represented a new chapter in Manchester City's history when the Abu Dhabi United group, led by Sheikh Mansour bin Zayed Al Nahyan, purchased a majority stake in the football club. Since the purchase, Mansour has outspent league heavy weights such as Manchester United and Chelsea since 2008. He also has brought big name players such Robinho (£32.5 million), Carlos Tevez (£25.5 million), and Sergio Aguero (£38 million). Since Mansour's purchase, he has spent well over 483 million pounds on player purchases alone. The immense spending was met with criticism from league supporters because it appeared that Mansour was attempting to purchase a league title. The next few years seemed to validate Mansour's historic spending. In 2011, Manchester City won their first FA Cup in thirty years and later that year qualified for the UEFA Champions league, which is a tournament to determine the best team in Europe, for the first time in club history. In the 2011-12 season, they look to finish runner up in the Premier League title behind their cross town rivals, Manchester United.

In the case of Mansour, he does not seem to run the team as a profit-seeking individual as previously discussed. Rather Mansour, is after non pecuniary rewards such

as trophies and fame. In a sport that is void of salary caps, this type of owner seems to be more likely because they can commit as many resources as they see fit.

## **CHELSEA**

Since being founded in 1905, Chelsea has had a reputation for signing marquee names and attracting a significant following. Despite the popularity, they were not consistent on the field for much of their history. The worst period for the club began in the seventies and continued into the early eighties when the renovation of their stadium, Stamford Bridge, ran out of financing and a dispute between club ownership and the land holders of the stadium brought club proceedings to a halt. This led to the team being sold to Ken Bates who purchased the team for one pound. Bates went on to settle the stadium dispute, and own Chelsea for twenty-one years, seeing mixed results over that period. In the late nineties and into the two-thousands, Chelsea became beleaguered with debt from a 1997 Eurobond worth 75 million pounds. This led to the sale of the current owner Roman Abramovich, a Russian billionaire who bought the team for 140 million pounds in June of 2003. Abramovich took the traditionally high spending club and began to improve team facilities and spend over 153 million pounds in the transfer market, acquiring new players. The immense spending immediately resulted in success going from a 15-11 season to winning thirty-six games and placing fourth in the Premier League. Possibly his most important contribution to the club was his removal of all debt accumulated by Bates, when the team was near financial failure. Under Abramovich's ownership Chelsea has claimed three league titles second only to Manchester United in that span. The future of Abramovich's ownership seems to hold two certainties, he will

continue to spend millions on players and Chelsea will always be relevant in league title conversations.

## **THE SEATTLE MARINERS**

In comparison to most major league baseball franchises, the Mariners have experienced a short and turbulent history. Baseball in Seattle first began with the Seattle Pilots which played their inaugural season in 1970, but only lasted in the city until 1976 when they could simply not support a team financially. Major League Baseball was forced to purchase the bankrupt Pilots for \$10.8 million and proceeded to move them to Milwaukee in hopes of a better financial climate. The city of Seattle filed a lawsuit and MLB gave in, promising Seattle a baseball team the following season. In 1977, the Seattle Mariners played their first season and for the next sixteen years the Mariners failed to make a playoff appearance under two different ownership groups. Both made of a collaboration of American businessmen that unsuccessfully ran the franchise until 1992 when a group lead by Hiroshi Yamauchi, the founder and CEO of Nintendo, became majority owner. To gain his majority share, he proposed a purchase of 125 million dollars, which first had to be approved by the other twenty-nine league owners (Malkin, 1992). After support from the then Senator Slade Gordon the sale was approved and Yamauchi became the first professional team in the United States to have a foreign majority owner. MLB ownership rules did prevent foreign owners from running day to day operations, which limited Yamauchi's influence to strictly financial. For Mariners ownership and state politicians, the purchase represented a firming of the organizations foundation and would keep the team in the area for many years to come. Gordon was

quoted in the Seattle Times shortly after the sale saying, “The Mariners are really our team,” referring to the teams newly found financial stability.

In 2004, Hiroshi Yamauchi sold a 67 million stake to Nintendo of America Inc. which ended his thirteen season run as majority owner (Puget Sound Business Journal, 2004). From a business perspective he was a successful owner who brought stability to a franchise financially and competitively. However, under his ownership the franchise experienced some impressive successes, winning the division three times and making the post-season four times, including tying the Major League record for wins in a season in 2001.

As compared to typical ownership in American professional sports, this model gives a stereotypical example of what many in the press and public think foreign ownership would bring. Yamauchi gave the franchise financial stability which played a key role in keeping the team in Seattle. However, over his thirteen year tenure, never attended a game which shows his investment as purely financial not as a competitive experiment. This may concern American fans because many of the teams are owned by individuals with local interests and are a visible member of the organization.

## **THE NEW JERSEY NETS**

The New Jersey Nets have had a long history reaching back to the American Basketball Association (ABA). Recently, the Nets had seen playoff success, reaching the playoffs six consecutive seasons between 2001 and 2006. After none of these post-season appearances resulted in a championship, the team attempted to rebuild both the team and

its arena. The Nets found themselves the lone tenant in the aging Continental Airlines Arena after the New Jersey Devils moved into the Prudential Center, a state of the art arena in nearby Newark. As attempts continued to move the team to a new arena in Brooklyn, lawsuits and regulations delayed the project and top players began to leave, like all-star point guard Jason Kidd. As the 2008 season came to an end, the franchise saw a possible bright light in the form of a Russian multi billionaire, Mikhail Prokhorov. After approval by the NBA May of 2012, the \$200 million sale represented only the second example of foreign ownership in United States professional sports. The investment was multi-faceted making Prokhorov the 80% owner of the team and a 45% stake in the soon to be finished, Barclays Center in Brooklyn. As well as a 20% stake in the Atlantic Yards Development Company, which controls the real estate surrounding the arena (Nets Daily, 2011).

Prokhorov's success as a NBA team owner has yet to be seen, as the team and city of Brooklyn wait for the completion of the arena. Through two seasons the Nets have been dreadful on the court, finishing tied for the fifth worst record in NBA history in 2010 and winning only 29% of their games the following year. Financially, revenues, as estimated by Forbes, the Nets have declined from a high of 102 million in 2007 to 89 million in 2010. Combining poor financial performance with the league's lowest attendance, the future appears grim for Prokhorov. This however does not give a fair gauge of his ownership ability due to the top to bottom transition the franchise is going through and the constant lawsuits that have accompanied the arena construction.

As far as Prokhorov's motivation for purchasing a struggling NBA franchise, Prokhorov has made it very clear: "If I want to do something else, people won't say,

‘Who’s that? They’ll say, ‘That’s the owner of the Nets.’ Despite his many successful business ventures and billions of dollars, he felt he lacked fame. This can be shown by his recent run for Russian president, against the long standing leader, Vladimir Putin. League Commissioner David Stern mirrored Prokhorov’s statement when saying “Prokhorov is looking for other investments opportunities in the US and owning a professional basketball team gives him immediate name recognition.” New Jersey offers Prokhorov just that, being at the center of the United States largest television market and in the midst of building a brand new arena, the New Jersey Nets regardless of their current success record, will be an organization to watch for years to come. Depending on the success Prokhorov’s initial seasons in Barclays Arena the NBA will likely see an influx of foreign owners investing in NBA teams.

## **METHODOLOGY**

This economic study on the success of foreign owned teams used two regressions to analyze the success of franchises in various areas. The first series of regressions established trends for foreign owners in the three specific leagues (EPL, MLB, and NBA). The second regression used a multiple regression model to analyze the effects of foreign ownership of the teams on the field success as compared with domestically owned organizations in the same league. Due to the large discrepancy in spending between the leagues, revenue was taken into account in an attempt to control for these vast spending levels. Unfortunately accurate revenue data was not available over the majority of the time period examined, limiting its effect on the model.

The entrance of new ownership into an organization can have many effects both on and off the field. Using these two regressions, yielded an opportunity to isolate the areas in which foreign ownership affected their team, either positively or negatively. With the multiple leagues that were examined, the ability of an owner to make an instant impact is limited by the presence of a salary cap, league rules on foreign ownership, and prior standing of the organization. For these reasons, it was necessary first to analyze the specific effects foreign owners had in the individual leagues. With no salary cap, ownership is able to radically change the franchise, while with a salary cap owners are limited to the changes they can make by the level of the cap. With this in mind, the effects of foreign ownership in non-salary cap leagues are going to be more visible. The first series of regressions established areas which foreign ownership had notably significance, which determined if the effects were substantial enough that the relationship

was not simply by chance. The regressions also established the size of the effect on specific variables caused by foreign ownership and gauged owners impact on these variables between leagues. The analysis also confirmed typical correlations found within sports, for example, the positive relationship between winning percentage and attendance. This showed that the data reflected previous studies, making the results more reliable.

This economic impact analysis examined twelve sports franchises, in three separate professional sports, of the twelve; five had foreign ownership between the years of 1990-2010. The regressions used seven independent variables to study the success of foreign ownership. These consisted of payroll (transfer fees in the EPL), winning percentage, cost per win, finishing position in their respective league, whether or not they appeared in the post season, and average attendance. In the second regression, a dummy variable was generated to differentiate overall success of foreign-owned teams and domestically-owned teams within the same league. Due to the relatively recent occurrence of foreign ownership this analysis was limited to the English Premier League where foreign owners became prevalent in the early two-thousands. In the United States where foreign ownership has been limited, only brief examples exist which make the predictive power of these American Leagues limited. However, finding common trends and impacts of foreign ownership and comparing them to the time-tested examples in England can yield telling conclusions.

## DATA

The regressions included data from three different professional leagues, the English Premier League of England, Major League Baseball, and the National Basketball Association both of the United States. The period observed ranged from 1990 for the MLB and NBA and 2001 for the EPL based on availability of data and timetable of foreign ownership. The variables were selected to best measure aspects of a sports franchise that the owner has an impact on. Season winning percentage and post season appearance and final finishing position were evaluated to measure a team's success on the field of play regardless of season length. Attendance was taken into account to indicate team support and also show any large declines before or after a team was purchased by a foreign owner. Revenue, payroll, and cost per win were examined to show amount and effectiveness of spending throughout an owner's tenure. These variables were also selected because they could be compared across the different leagues without having to adjust the weight of a variable.

The English Premier League, the top flight league in England, consists of twenty teams scattered across the country. This study examined six teams from the EPL, three who currently have foreign owners and three domestically owned clubs. The observations were gathered from 2001-2011 which gave a window of time when current foreign owned clubs were owned domestically, so the immediate effects caused by the change in ownership could be observed. Unfortunately, two of the three clubs observed had been perennially at the top of the league when they were purchased which effected the variation before and after foreign purchases. All financial and attendance data for the

EPL was gathered from Deloitte Football Money League, while results and league table data was gathered from Barclays English Premier League official website. With the relegation system in the league, it is common for teams to fall out of the top flight for seasons at a time, where they compete in a different regular schedule against lower skilled teams. The teams that would be compared to foreign owned teams were all domestically owned clubs, Newcastle United, Tottenham Hotspur, and Everton FC and was also selected based on similar performance and frequency of participation in the top flight to increase the amount of observable data.

With Major League Baseball, which consists of thirty teams, three teams were examined over a twenty year period from 1990-2011. The Seattle Mariners were the only team which experience a period of foreign ownership and to this day has been the only team in MLB history. The two control teams, the Minnesota Twins and Cleveland Indians were selected based on comparable television market size and payroll size. This gave a good comparison because the teams would be similar in franchise support and player talent. Unlike the EPL, accurate financial figures for the teams were not available limiting the ability to predict the effect of ownership on and off the field. Due to the frequency of home games in a season (81), games are not typically sold out, which makes attendance a stronger indicator of team success.

The National Basketball Association analysis included three teams in a period from 1990-2010. The New Jersey Nets, which recently have been purchased by a foreign owner, the New York Knicks, and the Los Angeles Clippers. The two control teams were selected similarly to the MLB controls using television market and average payroll over the time period of interest. Unfortunately, the New Jersey Nets only purchased by a

foreigner in 2010 giving only one year to observe his effect on the franchise. For this reason the data for the NBA was used only to compare with the two other leagues with a longer foreign ownership history, for common trends that could have implications for the future of the New Jersey Nets and foreign ownership in the NBA.

Across all leagues, the cost per win statistic was calculated using payroll or transfer fee in the case of the EPL to measure the effectiveness of ownership spending. A higher cost per win relative to similarly successful teams is a sign of over paying for talent and overspending. If high cost per win coincides with a period of losing seasons, then ineffective spending is to be blamed. See *Table 1* through *Table 5* for summary statistics.

## **RESULTS**

The goal of this study is to analyze the economic impact of foreign owners in professional sports, specifically examining where foreign ownership has the greatest effect and implications for the future of sports ownership as well as possible motivation for ownership. Until recently, team ownership was limited to wealthy, passionate individuals who had local ties to the organization. That is no longer the case with top-tier teams in some of the world's most profitable leagues; they are being bought by foreigners. Typically a foreign owner's goal is to make money, even if they lack interest in the welfare of the team. After using two regression models, the results seem to suggest a slightly different conclusion. The first series of regressions will explain relationships within a particular sport and show how ownership it's spending can effect an organization. The second regression explains the overall effect of ownership and if having a foreign owner results in a positive or negative outlook.

The first series of regressions revealed relationships between seven variables, within each league. In MLB, when foreign ownership was treated as the dependent variable there were no significant results across all seven variables. This simply means that all of these variables do not impact whether a team is foreign owned or not, there may be a more telling trend if there were more than one example of foreign ownership in Major League Baseball. With win percentage as the dependent variable, foreign ownership had a significant but small negative effect on the on field success of a team as seen by comparing winning percentage and whether ownership was foreign or not (see *Table 10*). With these medium market sized teams, where winning percentage and the

size of payroll are not significantly related, the effectiveness of an owner is not found in his or her ability to spend. However, payroll had a statistically significant positive relationship with average attendance. When the log was taken of both variables the relationship became stronger which implies that with mid-market teams, attendance will increase as star players attend the franchise. However, winning percentage and payroll did not share this positive relationship. This model also showed that foreign ownership resulted in a higher cost per win. When taking into consideration both the lack of significance to payroll and the high cost per win for foreign owners, using these small sample, foreign owners spent money on their team ineffectively. This result may be different depending on the market size of the team in questions.

The English Premier League offered the best opportunity to examine the effects and success of foreign ownership in professional sports because over half the league is owned by a foreigner. A key aspect of the teams owned by foreigners in the EPL is they are the most lucrative and historically successful clubs. This had a large impact on the regression analysis and subsequent results. When foreign ownership was treated as the dependent variable there was significant relationship between annual revenue of the clubs when all other variable were held constant. This model had an explanatory power of 75% which was the highest across all regressions. The more valuable the club, the more likely they are to have a foreign owner, which reveals a trend about owner motivation. Over the ten year period having a foreign owned club had a large positive effect on the team's economic and competitive standing. The ownership results in nearly a five position improvement in the end of the season standings, which was significant at -4.84, controlling for transfer fee spending, foreign ownership, still remained significant at -

4.06, as reflected in *Table 13*. Foreign ownership also increased winning percentage by 23%, controlling for spending (using transfer fees) which over a thirty-eight game season results in an eight game impact. There was also a large increase in revenue under foreign ownership. Unfortunately, with the foreign owned teams examined, all owners had taken the team private, which limited the studies ability to gauge investor confidence based on share prices. As mentioned above, these EPL results should be interpreted with the foreign owned clubs long history of success on and off the field, in mind.

Using winning percentage as the independent variable, two dummy variables were generated to separate the effects of foreign ownership in MLB and the EPL. This model revealed the reflected the earlier results that teams owned by a foreign owner contributed positively to their winning percentage. MLB did not show this relationship due to collinearity, or in other words there was only one example of foreign-owned teams, the Seattle Mariners.

In the NBA, because there is only one example of a foreign-owned team and the ownership has been in place for one season the data was used as a basis for a hypothesis' of future effects. There was however one significant result when using wins as the dependent variable. Payroll was positively correlated with number of wins which gives some insight into the possible success of the New Jersey Nets owner and future foreign owners. Under a salary cap like in the NBA, to achieve a maximum amount of wins payroll should be as close to if not on the salary cap. This may be a result of as a team had successful seasons, the ownership wanted to keep them together which intern increased payroll. Overall we can expect the New Jersey Nets owner to meet the salary cap and with a new arena in Brooklyn, attendance and revenue should experience a large

increase. Looking ahead to the next five years, the New Jersey Nets should expect a span of success under the new ownership.

The results from both empirical models show positive impact of foreign ownership in the English Premier League, while a negative impact was found in Major League Baseball over the ten year span and twenty year span respectively. Although these positive trends may be a result of omitted variable, the variables taken into account were selected on the premise of measuring aspects of a professional sports franchise where the owner had a strong impact.

## CONCLUSION

As explained by the regressions in this economic study, the effect of foreign ownership on a sports franchise between 1990 and 2011 is dependent on which league the franchise is a member of. For the EPL, there is a significant positive effect of ownership where in MLB there is a slight negative impact.

The reasons for this difference in ownership effects between sports are likely due to the restrictions on ownership set forth by the leagues, namely the presence of a salary cap and player salary restrictions. As mentioned before, the English Premier league currently has no cap on player spending which allows deep pocketed owners to spend large sums of money and pay players whatever they see fit. This makes the impact of owners much greater than in other leagues as seen by the ascension of Manchester City to a league title contender under Sheikh Mansour.

While the foreign-owned teams have seen great success, there is a large gap between the top four or five teams in the Premiership and the other clubs. This has been common throughout the Premiership's twenty year history, but foreign ownership has increased the gap by increasing player wages and payroll, fewer and fewer teams are able to keep pace. To increase parity, leagues have implemented salary caps but the unique problem that the EPL faces is it would risk losing all marquee players to the top leagues in Spain, Italy, or Germany. On the other hand, baseball and basketball have one dominate league while other leagues cannot compete for high-priced players. Until the recent "Fair Play" initiative takes effect, foreign owners have exacerbated competitive

balance and there appears to be no easy fix especially if UEFA's most recent attempt fails.

With hundreds of millions of dollars at stake, there appears to be varying motivation for team ownership depending on the league and sport. As mentioned above, the EPL with its cap free league encourages large amounts of spending to increase overall talent and maintain its position as the most profitable soccer league in the world. UEFA has expressed concern with teams excessive spending and falling revenues and have recently taken action. UEFA's Executive Committee has approved a new "Fair Play" initiative to insure long term financial success in professional soccer. The effects of this initiative have yet to be seen but may change ownerships impact in soccer drastically. Before the "Fair Play" initiative the results in this study reinforce the notion of higher spending leading to more wins, in the case of Manchester City. Overall the top owners of the EPL are mainly motivated by utility gained by claiming trophies and championships.

Conversely, American sports owners seem to be motivated by profits and perks gained with team ownership. This difference is caused by two aspects of American sports. Once again the salary cap which is present in the NBA and a more lenient version in baseball has a strong effect on the ability of ownership to make widespread changes in the short run. The cap also allows for more teams to be competitive making long term success more difficult to attain. Because the likelihood of winning a championship is fairly small, owners must focus on other goals to generate revenue. For these reasons, foreign ownership is not likely to increase in such large numbers as seen in the English Premier League.

The results of this economic analysis show the vast differences between each sports league, especially the English Premier League and the leagues in the United States. What makes a successful owner in one league does not necessary transfer to success in another. With the EPL there is the possibility of acquiring large amounts talent in a short amount of time, but the other two leagues place more emphasis on long term improvements and effective spending (see figure 5). As seen by the results, the role of the owner in the NBA and MLB appears to be less significant due to their effects on winning percentage and limited effect through payroll. As similar as the sports may seem, the leagues and individual teams are run completely differently with different focuses based on league regulations.

In conclusion, due to the limitations in data of foreign owned franchises in the United States, it is difficult to gauge their effectiveness as owners. Over the next decade it would be naïve to think team ownership in the United States continued to be so isolated. Especially with the NBA accepting its first foreign owner, foreigners will purchase American teams but due to cap restrictions and other regulatory measures to maintain parity, winning a championship and having a successful team is difficult and to this point, seems to be not a tempting enough climate for foreign billionaires.

**TABLES**

## Summary Statistics for Foreign Owned Teams

English Premier League  
Table 1.

<b>Manchester United</b>	Average	Maximum	Minimum	Observations
Transfer Fee	54226782	97935500	0	10
Winning %	0.662	0.737	0.579	10
Cost Per Win	2170302	3846050	0	10
Attendance	71785.64	75826	67586	10
Finish Position	1.9	3	1	10

Table 2.

<b>Chelsea</b>	Average	Maximum	Minimum	Observations
Transfer Fee	89854110	243371700	793000	10
Winning %	0.617	.763	.421	10
Cost Per Win	3893402	10140487.5	41736.84	10
Attendance	41155.36	41901	39030	10
Finish Position	2.9	6	1	10

Table 3.

<b>Manchester City</b>	Average	Maximum	Minimum	Observations
Transfer Fee	85668510.91	245433500	0	10
Winning %	0.457	0.816	0.342	10
Cost Per Win	4715722.424	13502146	0	10
Attendance	42318.91	46990	32657	10
Finish Position	8.9	16	2	10

Major League Baseball  
Table 4.

<b>Seattle Mariners</b>	Average	Maximum	Minimum	Observations
Payroll	64044501.9	11766648	12867667	21
Winning %	0.494	0.716	0.377	21
Cost Per Win	839849.381	1928958.7	167112.55	21
Attendance	31,260	46,740	18,639	21
Finish Position	3.75	7	1	21

Note:  
Source: Baseball-Reference.com

National Basketball Association  
Table 5.

<b>New Jersey Nets</b>	Average	Maximum	Minimum	Observations
Payroll	45238237.4	75172371	11860000	21
Winning %	0.436	0.634	0.146	21
Cost Per Win	1476898.19	4947226.3	314950	21
Attendance	15184.1428	17525	11949	21
Finish Position	3.62	7	1	21

Note:  
Source: Basketball-Reference.com

Table 6.  
English Premier League: Winning Percentage Regressions Results for  
Foreign/Domestic Ownership

VARIABLES	For/Dom Ownership
Coef.	.23034 (.0410674)
t	5.61
Constant	.4418 (.201186)
Significance	Yes
Observations	66
R-squared	.3756

Notes:

Sources: Deloitte Football Money League 2001-2008, Barclays Premier League  
Robust Standard errors in parentheses

Table 7.  
English Premier League: Foreign/Domestic Ownership Regressions Results  
for Club Revenue

VARIABLES	Club Revenue
Coef.	.3.31e-09 (6.08e-10)
t	5.44
Constant	-.33425 (.1032)
Significance	Yes
Observations	36
R-squared	.4656

Notes:

Sources: Deloitte Football Money League 2001-2008, Barclays Premier League  
Robust Standard errors in parentheses

Table 8.  
EPL vs. MLB: Winning Percentage Regressions Results for  
Foreign/Domestic Ownership

VARIABLES	Foreign/Domestic Ownership	Cross 1	Cross 2
Coef.	.031066 (.0265911)	.1070001 (.0377236)	0 (omitted)
t	1.17	2.84	
Constant	.4205 (.0285953)		
Significance	No	Yes	No
Observations	132	132	132
R-squared	.2427	.2427	.2427

Notes:

Sources: Deloitte Football Money League 2001-2008, Barclays Premier League

Robust Standard errors in parentheses

Cross 1: Foreign Owner Contribution in Soccer

Cross 2: Foreign Owner Contribution in Baseball

Cross 2 omitted due to collinearity

Table 9.  
Major League Baseball: Winning Percentage Regressions Results for  
Foreign/Domestic Ownership

VARIABLES	Foreign/Domestic Ownership
Coef.	-.042859 (.0169617)
t	-2.53
Constant	.3545125 (.024711)
Significance	Yes
Observations	66
R-squared	.4039

Notes:

Sources: Baseball-Reference.com

Robust Standard errors in parentheses

Table 10.  
Major League Baseball: Winning Percentage Regressions Results for  
Foreign/Domestic Ownership, Payroll, and Average Attendance

VARIABLES	Foreign/Domestic Ownership	Payroll	Average Attendance
Coef.	-.0335126 (.0167685)	-7.29e10 (2.98e-10)	6.65e-06 (9.30e-07)
t	-2.00	-2.45	7.15
Constant	.3646557 (.3643557)		
Significance	Yes	Yes	Yes
Observations	66	66	66
R-squared	.0014	.0014	.0014

Notes:

Sources: Baseball-Reference.com

Robust Standard errors in parentheses

Table 11.  
Major League Baseball: Foreign/Domestic Ownership Regressions Results  
for Cost per Win

VARIABLES	Cost per Win
Coef.	4.23e-07 (1.43e-07)
t	2.95
Constant	.0803906 (.4069291)
Significance	Yes
Observations	66
R-squared	.1249

Notes:

Sources: Baseball-Reference.com

Robust Standard errors in parentheses

Table 12.  
National Basketball Association: Number of Win Regressions Results for Payroll

VARIABLES	Payroll
Coef.	2.82e-07 (4.05e-08)
t	6.96
Constant	53.97702 (2.879055)
Significance	Yes
Observations	63
R-squared	.8185

Notes:

Sources: Basketball-Reference.com

Robust Standard errors in parentheses

Table 13.  
English Premier League: Winning Percentage Regressions Results for Foreign/Domestic Ownership and Transfer Fee Spending

VARIABLES	Foreign/Domestic Ownership	Transfer Fee Spending
Coef.	.2303433 (.0410674)	-4.01e-10 (3.29e-10)
t	5.61	-1.22
Constant	.4418313 (3.29e-10)	.4418313 (3.29e-10)
Significance	Yes	No
Observations	66	66
R-squared	.3756	.3756

Notes:

Sources: Deloitte Football Money League 2001-2008, Barclays Premier League

Robust Standard errors in parentheses

## FIGURES

Figure 1.  
English Premier League: Effectiveness of Players Spending

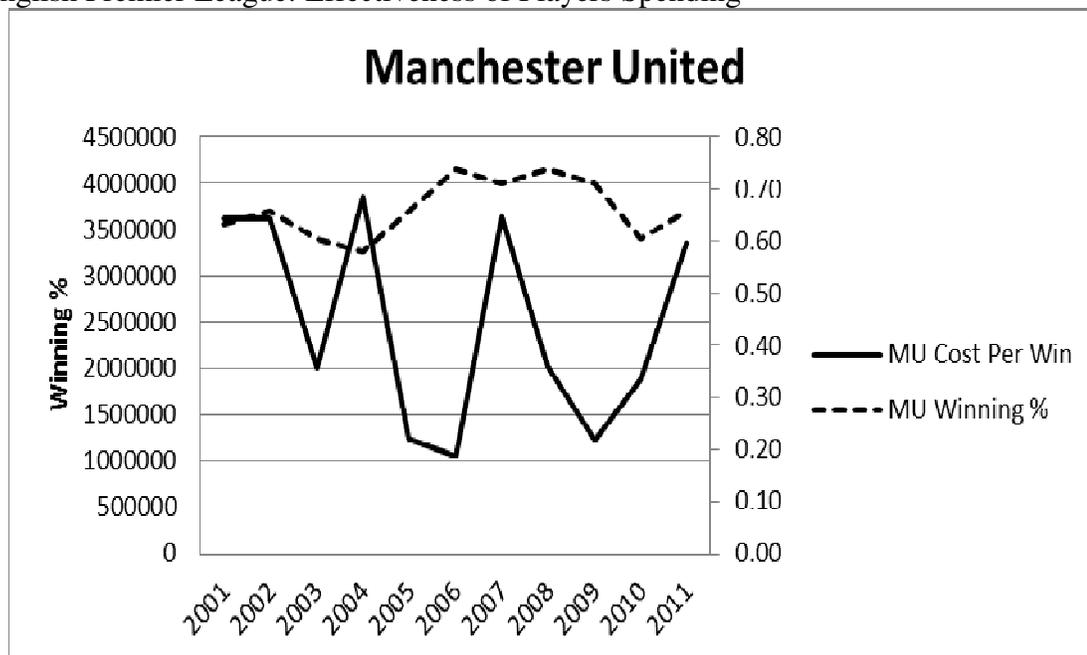


Figure 2.  
English Premier League: Effectiveness of Players Spending

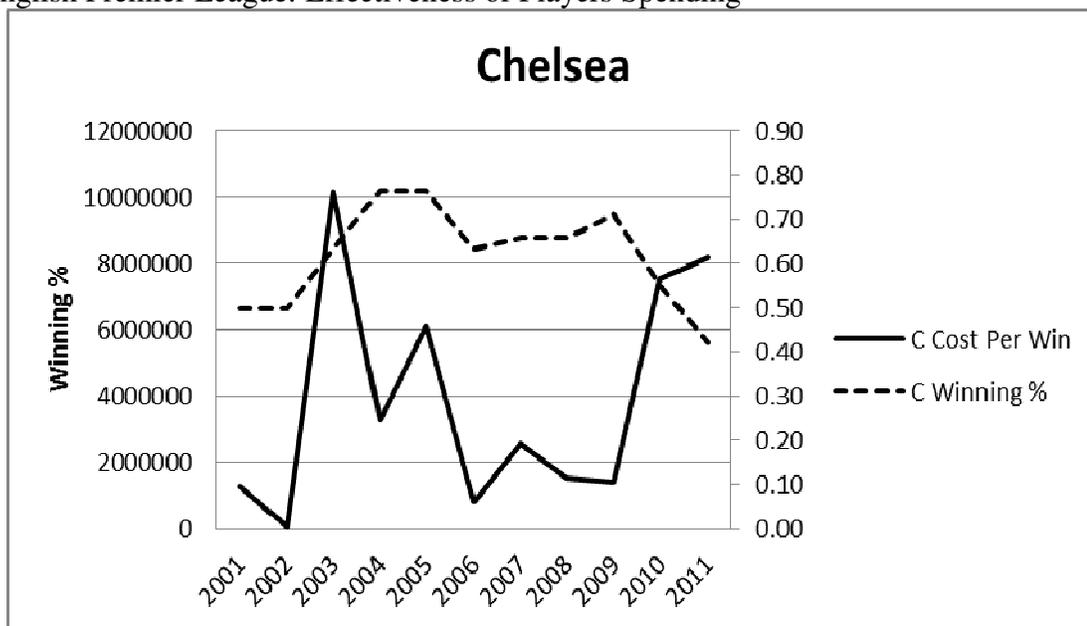


Figure 3.  
English Premier League: Effectiveness of Players Spending

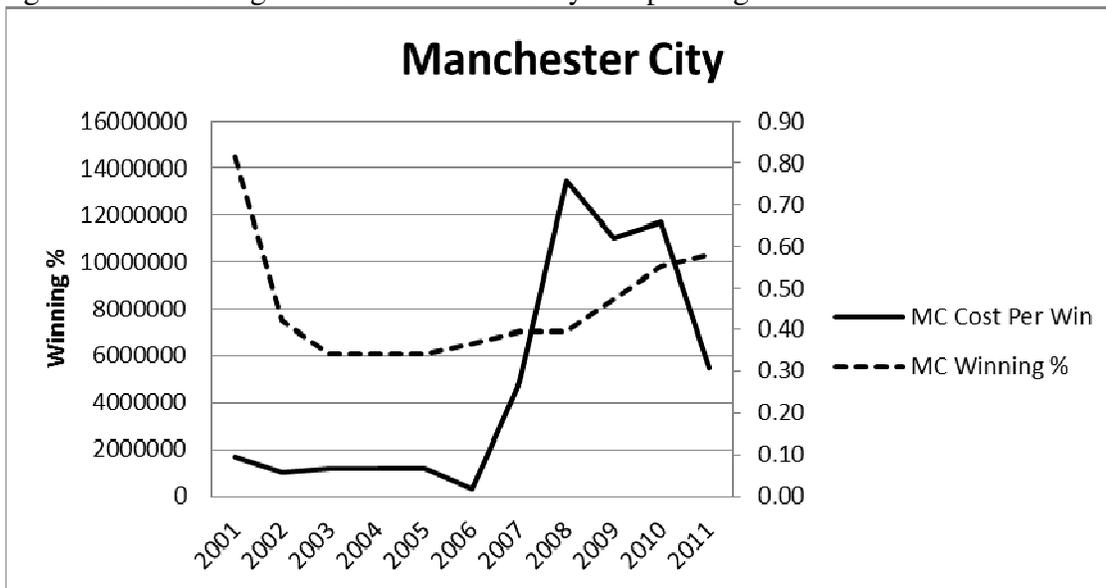


Figure 4.  
English Premier League: Foreign vs. Domestic Ownership

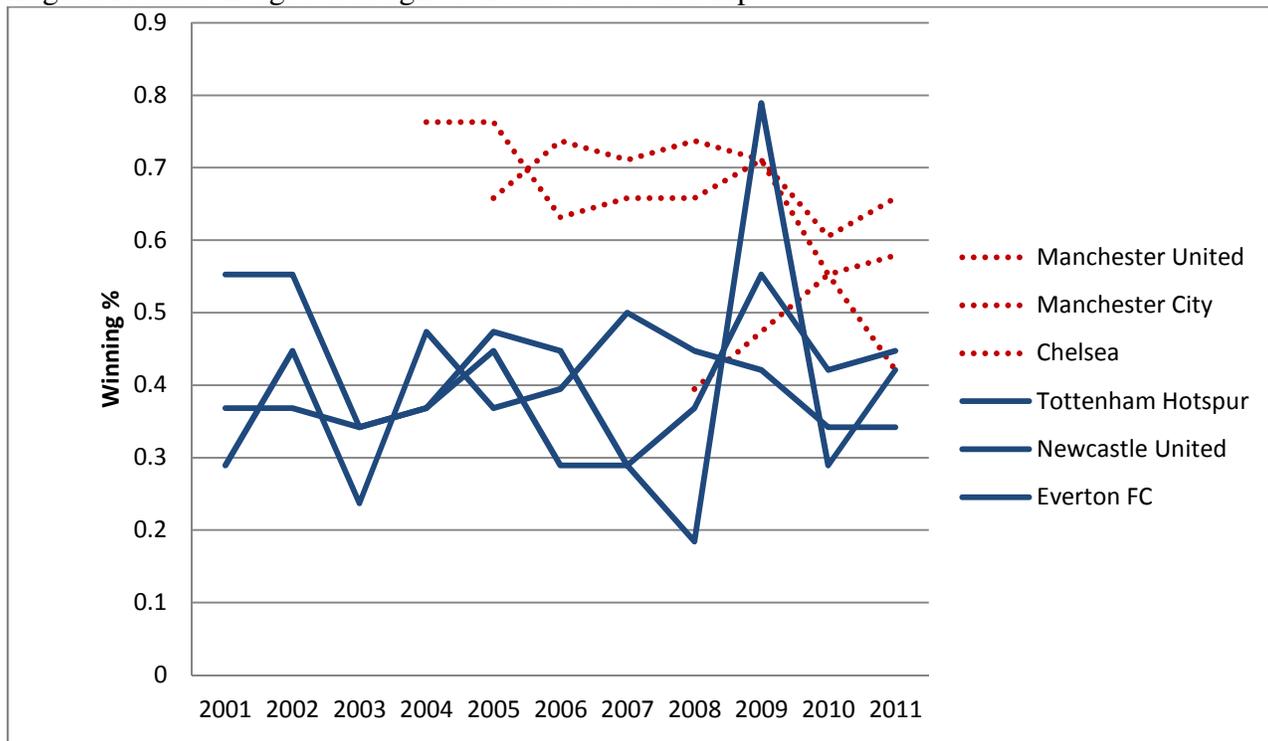


Figure 5.  
Average Annual Transfer Fee Spending

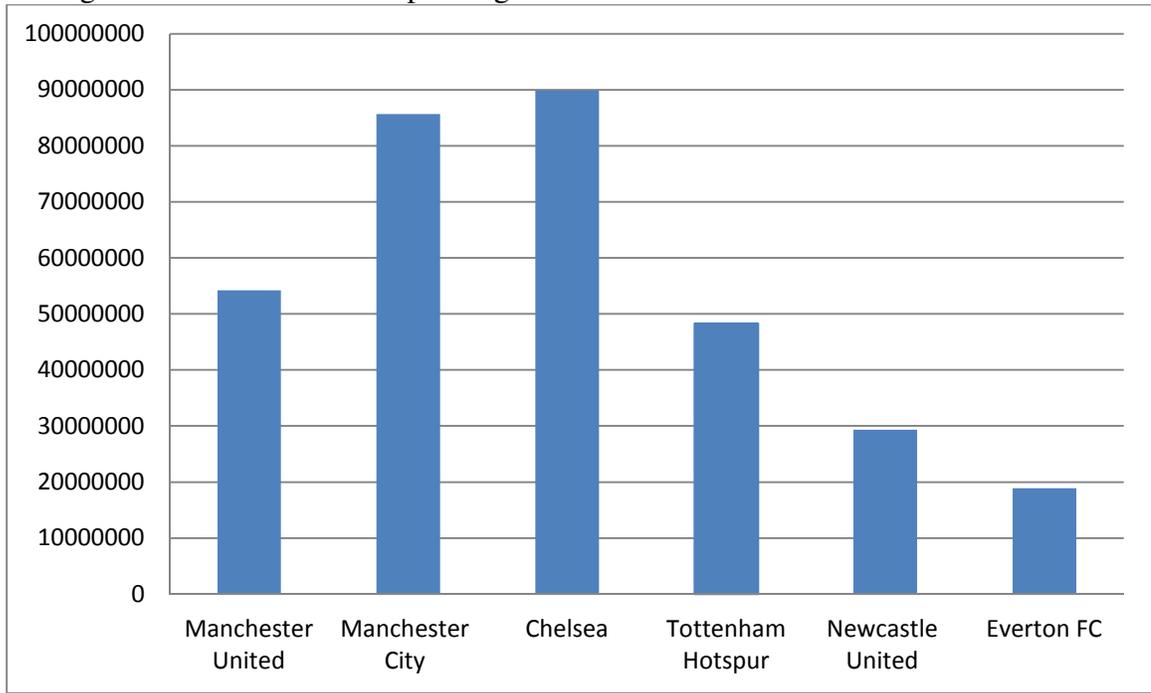
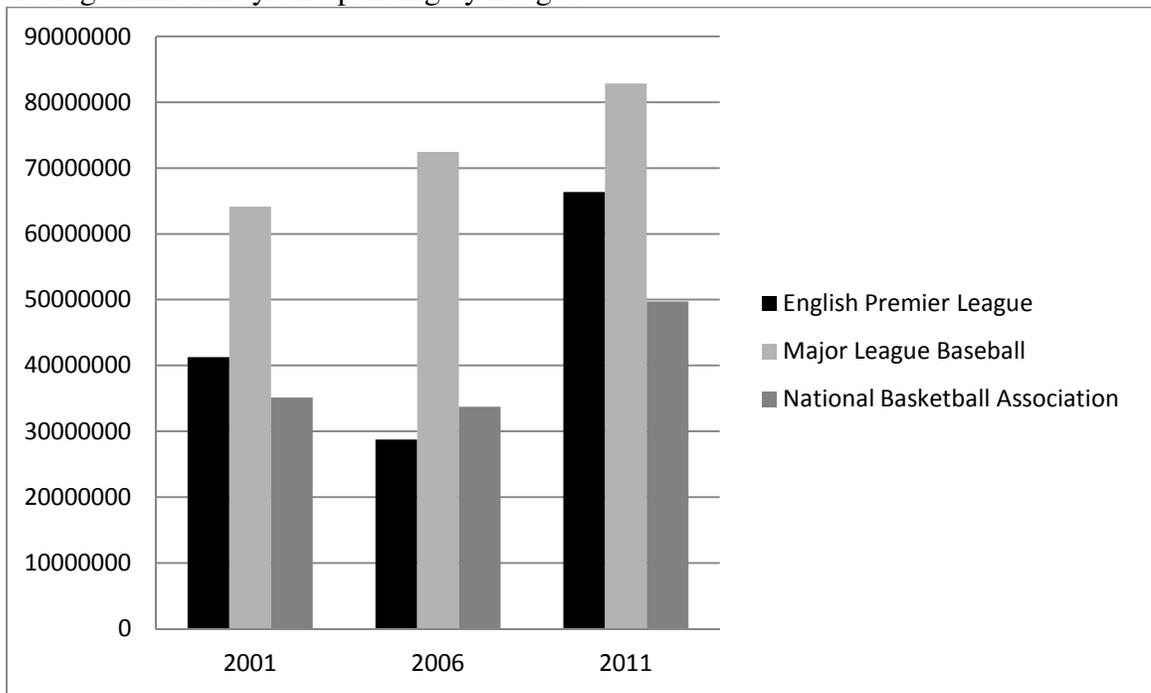


Figure 6.  
Average Annual Payroll Spending by League



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