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**THE IMPACT OF TRAINING COMPENSATIONS AND  
SOLIDARITY PAYMENTS ON ECONOMIC PERFORMANCE  
OF FINNISH FOOTBALL CLUBS.**

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## TIIVISTELMÄ

Tekijä:	Elmo Helokumpu
Otsikko:	Kasvattajarahen vaikutus suomalaisten jalkapalloseurojen taloudelliseen suorituskyykyyn.
Akateeminen yksikkö:	LUT School of Business and Management
Maisteriohjelma:	Laskentatoimi
Vuosi:	2020
Pro Gradu:	109 Sivua. 2 liitettä, 1 taulukko, 14 kuviota
Tarkastajat:	Tutkijaopettaja Helena Sjögren Tutkijatohtori Juha Soininen
Hakusanat:	Resurssiperusteinen teoria, resurssit, kyvykkyudet, jalkapallo, jalkapalloilijat, kasvattajarahat, siirtomarkkinat

Tämän tutkimuksen tarkoitus on selvittää, miten suuri vaikutus kasvattajarahalla on suomalaisten jalkapalloseurojen taloudelliseen suorituskyykyyn. Kasvattajarahat on Suomessa tutkimaton aihe ja taloudellista tutkimusta jalkapalloon liittyen ei ole Suomessa juurikaan aiemmin tehty, vaikka jalkapallo liiketoimintana ammattimaistuu jatkuvasti. Tutkimuksen teoriataustana toimii resurssiperusteinen teoria, jossa resurssit nähdään kestävän kilpailuedun lähteenä. Pelaajien voidaan nähdä olevan yksi jalkapalloseurojen resursseista, jotka mahdollistavat valmentajien valitseman strategian, pelityylin, implementoinnin. Tutkimus osoittaa, että kasvattajarahat ei vaikuta suomalaisten jalkapalloseurojen taloudelliseen menestymiseen juuri lainkaan, sillä maksettavat kasvattajarahat ovat hyvin pieniä suhteessa seurojen liikevaihtoon ja vaikeasti ennustettavissa. Tutkimustulokset osoittavat kuitenkin, että suomalaiset jalkapalloseurat tekevät liikevaihtoonsa nähden suuria investointeja pelaajakasvatukseen, jonka perimmäisenä motivaationa on nostaa seuran statusta ja myydä pelaajia eteenpäin. Tulokset osoittavat myös, että seurat näkevät kasvattajarahat olevan tulevaisuudessa taloudellisesti merkittävämpi tekijä, vaikkakaan sen rooli ei nykyisellään tule koskaan olemaan todella merkittävä suomalaisille jalkapalloseuroille.

## **ABSTRACT**

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Title:	The impact of training compensations and solidarity payments on economic performance of Finnish football clubs.
Faculty:	LUT School of Business and Management
Master's program:	Accounting
Year:	2020
Master's Thesis:	109 Pages. 2 Appendices, 1 Table, 14 Figures
Examiners:	Associate Professor Helena Sjögren Post-Doctoral Researcher Juha Soininen
Keywords:	Resource-based view, resources, capabilities, football, players, training compensation, solidarity payment, transfer markets

The focus of this study is to examine how big impact training compensations and solidarity payments have on economic performance of Finnish football clubs. Training compensations and solidarity payments are unexamined phenomena in Finland and economic research around football has not been made in Finnish context, even football as a business is constantly professionalizing. The theory-base of this study is resource-based view where resources are seen as the source of sustainable competitive advantage. Players can be seen as one of the resources of a football club and players enable the implementation of value-creating strategy chosen by the managers, coaches, of the club. The results show that training compensations and solidarity payments do not in fact have impact on economic performance of Finnish football clubs, because the training compensations and solidarity payments are small in comparison to annual revenue of the clubs and the compensations are difficult to forecast. Results show however that Finnish football clubs make, in comparison to their annual revenue, big investments into player development, which is motivated by increasing the clubs' status and selling players forward. Results show also that clubs see the economic impact of training compensations increasing in the future, even if its role under the current mechanism will never be remarkably impactful to Finnish football clubs.

## **ACKNOWLEDGEMENTS**

As this six-year journey becomes to its end, I would like to thank everyone who has been along with this adventure. I have enjoyed these years to the utmost and finally the era of the real responsibilities begins. Special thanks to Sonja, to my parents and to my grandparents for your unwavering support and for making the whole journey possible. It means the world to me.

Helsinki, 31.01.2020.

*Elmo Helokumpu*

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## **DEFINITIONS AND KEY CONCEPTS**

<b>FA</b>	Football Association.
<b>FIFA</b>	Fédération Internationale de Football Association.
<b>Resources</b>	Resources are firm-specific assets, tangible or intangible, which can be either strengths or weaknesses for the firm.
<b>Capabilities</b>	Organization's distinctive set of skills and knowledge that empower its possibility to create, choose and implement activities and strategies.
<b>Dynamic capabilities</b>	Organization's skill to manage and build internal and external capabilities as respond to constantly changing business environments.
<b>Competitive advantage</b>	Organization is executing value-creating strategy that is not at the same time implemented in any current or potential competitor.
<b>Strategic factor markets</b>	Markets where companies buy and sell resources aiming to further implement their desired strategies.
<b>Sustainable competitive advantage</b>	Organization is executing value-creating strategy that is not at the same time implemented in any current or potential competitor and the benefits of the strategy are not possible to be duplicated by any other company.
<b>Transfer fee</b>	A negotiable fee that has to be paid to get under-contract player released from his/hers contract in order to move into another club.

# 1. INTRODUCTION

Football is without a doubt the most popular sport in the world which billions of people play, watch and admire. (Matheson, 2003) Football has a significant status in Europe, South America and Africa and it is growing fast also in Asia and in North America, where it is called as soccer. (Frick, 2007) Football is said to provide major benefits to countries' economies and companies that have never been related to sports have noticed the market of millions of dollars and started investing into it. (Terekli & Çobanoğlu, 2018)

Football is the most popular sports in Finland in terms of the number of amateur players. Football Association of Finland has almost 1000 member clubs and over 140 000 registered players. Football Association of Finland says that every week about 500 000 Finns are connected to football in way or another. Finnish football league system is built of seven different divisions, of which three highest divisions are managed by Football Association of Finland. The top division of Finnish football is Veikkausliiga and two others managed by Finnish FA are Ykkönen and Kakkonen. Veikkausliiga and Ykkönen are played nationally, while Kakkonen is divided into three regions by locations of the clubs. (Palloliitto, 2019)

Despite the high number of amateur players in Finland, the Finnish top division of football, Veikkausliiga, is not entirely professional league, meaning that some players have to study or work besides playing. Nowadays Veikkausliiga has a reputation as a breeding league and one of the clubs' driving mission is to grow and sell players to higher ranked leagues. As clubs in Veikkausliiga intend to grow players into international clubs and their academies, lower divisions intend to grow their best talents through Veikkausliiga into foreign countries.

As Football is becoming more and more popular, the clubs around the world are generating increasing amount of revenue. Statistics from Deloitte (2019) show that 20 highest earning football clubs combined 8,3 billion € of revenue in 2017-2018. When compared with same statistics from 1996-1997, when top 20 clubs made 1,2 billion € of revenue, the richest clubs in Football are now almost seven times richer than in 1996-1997. That being said, football clubs cannot be stated only just as clubs with fans anymore, since they are real companies which have shareholders, managers, revenue, profit and customers. Some of the clubs have

even been listed into stock. One of the most valued assets for the clubs are their players and their contractual rights. Clubs try to find and recruit best talent possibly all over the world. International migration of workforce is a standard in globalized world and football is part of that, maybe in larger dimension than in any other industry. (Royuela & Gásquez, 2019) Success of football club is often linked with acquiring the best resources available, and the most important way to acquire resources is through player transfer market. (Frick, 2007)

As revenues in football have had significant growth in last 10 years, the spending of clubs in the player transfer markets has also sharply increased. Statistics from International Federation of Association Football, FIFA, tell us that since October 2010 clubs have spent total 36,07 billion USD on transfer fees. In 2018, clubs invested total of 7.03 billion USD on players, which was record high and 10,3% more than in 2017 and 142,4% more than in 2011. (FIFA TMS, 2019) For clubs, the football transfer market has never had as significant role as in year 2020.

As players are critical to club's success, they can be seen as unique resources that are important source of a competitive advantage. Theory of resource-based view emphasizes the role of the resources in generation of competitive advantage and long-term profits. Inside the organization, single valuable resources and capabilities create together unique bundles of resources that enables managers to pursue value-creating strategies that are not same time implemented by any potential competitor. New resources can be either accumulated internally or acquired from strategic factor markets outside the firm. Value, rarity, inimitability and non-substitutability of resources lead to the fact that the most important resources in the core of the firm's success cannot be similar in every company. Football clubs around the world pursue to develop their young players and find rough diamonds from the transfer markets to create diverse strategies to beat their competitors on the field. The training compensation and solidarity payment are mechanisms that are being created worldwide by FIFA and in Finland by Finnish FA to ensure that every club gets a suitable reward for the player resources they have internally accumulated over time and after that exploited by some other club.

## 1.1 Background

Transfer fees paid for footballers in transfer market have sparked a lot of discussion in recent years as clubs have smashed old world record transfer fees one at the time. From an economic point of view, transfer market and transfer fees are the most visible phenomenon of football for general public. This thesis focuses on football transfer market from perspective of Finnish football and examines it through training compensation and solidarity payments, which are important part of football transfer market mechanism and one of the sources of revenue for football clubs in Finland.

In the world of research, sports business and its differences between “normal” business has been a widely popular theme for tens of years. Research of sports business has in times split into two different philosophies. It has been seen that normal business practices and methods not only result poor results but also eat away the rich history and social significance of sports. Other part sees sports business as any other business which plays under same regulations and rules as other businesses. (Stewart & Smith, 1999) Foster et al. (2006) state that sports business has its special features, where the most significant ones are beating competitors, revenue sharing and importance of showing the passion by employees (players, managers) and customers (fans). Basic principle of business is to generate profit for its owners, but in case of sports business, Stewart & Smith (2010) state that success on-field and benefits for the club’s community has been favored over profits.

Economic research of sports and football has in the history of sports science focused mainly on biggest leagues of America and Europe. Economics of sports has a long history and it has been a widely discussed topic amongst researchers for almost 100 years (e.g. Neale, 1964; Quirk & El-Hodiri, 1971). As interest towards football (or soccer) has been fairly little in America, research has almost solely focused on Europe. Amir & Livne (2005) state that business of football clubs is built on three different functions: First function is to create revenue from ticket sales, broadcasting and sponsorships deals. Second is acquiring and selling player rights and contracts. Third function of football club is to develop and grow talent inside the club. Clubs have different ways to behave, when others focus more on developing own talents and others prefer acquiring talent outside the club. (Amir & Livne,

2005) When a club's strategy is to develop own talents, they invest into their junior academies and educate players as their goal is to raise players' market value and sell the player rights for as big fee as possible. For a club, target of this strategy is to create a stable fixed source of income. (Majewski & Majewska, 2016)

Each club has their unique unity of intangible assets, and the for a football club the major assets are the players' contractual rights. Contractual rights guarantee for a club their exclusive use of certain players and their talents. Since the players are important part of club's on-field success, one the most important assets for the club is player rights and the quality of those assets dictate the chances of success. (Majewski, 2015) For clubs, players can be stated as the most important investments in terms of on-field and off-field point of view (Frick, 2007).

Since clubs' success goes hand-in-hand with the quality of their talent, one of the most researched topics of football is how clubs move the talent from club to another. Main theme is international migration of football labor, transfers of players. Since the labor market liberalized in 1995 after Bosman case, the migration of footballers between nations and continents has increased. Until the labor market liberalization and Bosman ruling, even the uncontracted players were not allowed to change clubs without compensation to training club, which then due to the case of Jean-Marc Bosman, was declared to be in contrary to free movement of labor in EU by the European Court of Justice. (Antonioni & Cubbin, 2000) Following the increased migration, it has sparked a lot of academic debate. (Magee & Sugden, 2002; Giulianotti & Robertson, 2009) Increased debating has produced numbers of books, articles and research about the topic and the focus has mainly been in explaining the phenomena through its history. (Taylor, 2006) Great amount of academic research has also been keen on the political and legal view of football labor market and migration. (e.g. Maguire & Pearton, 2000; Lanfranchi & Taylor, 2001) Surprisingly, economic research about the football labor migration has been in smaller role.

There has not been almost any research concerning football transfer market, labor or migration in Finland. There is some research focusing on socio-cultural status of football in Finland (Szerovay et al., 2017; Itkonen & Nevala, 2012), but the economic research is

absent. Even though the topic has not been popular amongst Finnish sports research, it is still important and seemingly current. There has been wide discussion in media about the economic issues of clubs in Veikkausliiga. Multiple clubs have had problems to cope economically since their operating losses are big compared to their revenues and often their economic status is secured only by wealthy businessmen and their invests into the club. The footballing people of Finland are hoping that as men's Finnish National Team of Football first time qualified to major football tournament, UEFA European Championship 2020, the status of the Finnish football will start to increase, and the larger crowd will find their way to the stands.

Since the Finnish top division of football, Veikkausliiga, has been profiled into breeding league and clubs pursue to develop young players into international fields, operating in transfer market is vitally important. When looking into missions and visions of clubs in Veikkausliiga, the main theme is clear: 5 clubs out of 12 say in their mission statement that one of their main focus is to develop players into international fields. 12 clubs out of 12 have their own junior academy which main idea is to produce players for the first team. Since clubs pursue to raise as many players as possible to internationally higher ranked leagues, training compensation and solidarity payments play a great part to make those efforts profitable. Regulations about training compensation and solidarity payments in addition to negotiated transfer fees are the only ways for clubs to get financial compensation for their players that are for the club valuable, rare, imperfectly imitable and not substitutable assets for the club. This research digs into importance of training compensation and solidarity payment to Finnish football clubs and for the better understanding of the topic, the general idea of those compensations should be briefly explained.

The transfer system of football as we know it nowadays was modelled back in 2001 between the governing bodies of football. One of the leading principles of this system is to create distribution system of revenue to encourage clubs to develop young players and reward financially the clubs who have been part of that training. (Laskowski, 2019). This revenue distribution system is made upon training compensation and solidarity payment. There is two kinds of training compensations and one kind of solidarity mechanism. FIFA regulates their own international training compensation and solidarity mechanisms, while Finnish FA

has their own training compensation system which applies only in Finland. The greatest difference between FIFA's and Finnish FA's regulated mechanisms is the premise on which grounds the payments are due to be paid. While based on FIFA's regulations the training compensation is due to be paid when player, under contract or not, is transferred from club to another, Finnish FA obligates clubs to pay training compensation for using players that are trained by other clubs. In simplified way, the obligation to pay is due in different phase of player transfer: FIFA regulates the player's new club to pay straight when player is transferred, whereas Finnish FA regulates the new club to pay not until the player actually plays and the total amount of payment is fully dependable on the games played in the new club. Next these mechanisms regulated by two governing bodies will be further explained.

FIFA has given the regulations of training compensation and solidarity mechanism on their Regulations on the Status and Transfer of Players under Article 20 and 21, annexes 4 and 5.

### **1.1.1 Training compensation**

In Regulations on the Status and Transfer of Players under Article 20 and annexe 4 FIFA states that training compensation must be paid when player between ages 12 and 23 is a) registered as professional for the first-time b) professional moves from club to another on two different occasions before the end of the season player is turning 23 years old. The rule applies both when player is transferred during and at the end of his contract. The general rule for estimating training compensation is to compare it to the costs that would have taken place if the club would have trained the player themselves. Training compensation will be calculated for the players training between age of 12 and the age when player actually has completed his training, but not more than age of 21. Also, the amount of compensation is determined by the category of club (four categories) and "average ratio of players who need to be trained to produce one professional player." (FIFA, 2019)

### **1.1.2 Solidarity Payment**

Solidarity payment is explained in FIFA regulations on the Status and Transfer of Players under Article 21 and annexe 5. Solidarity payment is due to be paid when professional between ages 12 and 23 moves from a club to another during a valid contract. Compensation

is 5% of any transfer fee which new club of the player has paid for the former club and shall be paid by the new club for the training clubs. solidarity payment is deducted from the amount of transfer fee or compensation and shared to the clubs who have trained the player between ages of 12 and 23. Amount of the compensation is determined by the years the player has been registered in former clubs and the years between ages 16 and 23 have bigger weight on the final amount due to be paid. (FIFA, 2019)

### **1.1.3 Training compensation mechanism of Finnish FA**

Finnish FA states in their Regulations on Training Compensation under section 1, that in training compensation mechanism payers are the a) clubs that play players that are trained by other clubs and b) Finnish FA who pays for clubs using own club-trained players and club-trained players that are used in different age groups in National Team of Finland. In section 3 subsection 1, it is said that training compensation must be paid until the end of the season player is turning 23 years old. Under the section 3 subsection 2, training compensation is due to be paid when player, which has in some point of his training years been registered into Finnish FA member organization and a) plays Veikkausliiga, Ykkönen or Finnish Cup in a club that plays in either of these previously mentioned divisions or b) is named in the squad for official international match of Finnish National Team. (Palloliitto, 2020)

Obligation to pay training compensation is due to every club of which official match or matches a player has played under the terms mentioned in section 3 subsection 2 paragraph a). Training compensation is determined by the amount of games player has played and every club only pays by their own games. For the National Team games Finnish FA is obligated to pay under the terms mentioned in section 3 subsection 2 paragraph b). (Palloliitto, 2020)

When terms in section 3 are fulfilled, club or Finnish FA is obligated to pay regulated training compensation player-specifically into separate fund managed by Finnish FA. Training compensation that has been paid to the fund will be redirected to player's training

clubs. This compensation is 1/10 of the total amount paid to the fund, for each training year. (Palloliitto, 2020)

## **1.2 Objectives and research questions**

This study aims to comprehensively understand the importance of training compensation and solidarity payment for Finnish football clubs. The phenomena will be examined by means of resource-based view and study sets to understand the role of club's most unique assets, players, to further recognize the role of the compensations. Resource-based view and competitive advantage form a strong background for the empirical research as the theory altogether with quantitative questionnaire will lead the way for effective and profound mixed methods research.

As clubs in Finland focus on training young players this study intends to dig deeper on the reasons behind their strategy. Important for this study is whether clubs consider training compensation and solidarity payment as important for their economic situation and does those compensations drive the decision-making in clubs. The study will be limited geographically to focus only on football clubs in Finland. Even though the regulations of FIFA are the same worldwide, phenomena in different countries may differ because of the status and economic realities of leagues and its' clubs. In addition to FIFA's regulations, Finland has also its own training compensation system, which is managed by Finnish FA. In this manner, limitation is chosen to get image of lower-reputation footballing nation where author believes the topic of research is particularly strong. By combining theory and empirical research study provides insights from the international phenomena in Finnish level.

By analyzing the results of the empirical research and reflecting the theory on resource-based view, this study intends to answer the following research problem:

*In economic view, how important training compensations and solidarity payments are for the football clubs in Finland?*

Main research problem will be supported by two sub-questions:

*Do football clubs in Finland invest in player development mainly because of economic reasons?*

*What is the future role of training compensations and solidarity payments in Finnish football clubs?*

### **1.3 Conceptual framework**

Literature of strategic management seeks to answer the questions why some organizations perform better than the others and what are the factors behind their performance. Competitive advantage, a firm's value creating strategy not implemented by any current or potential competitor, is the main concept and objective of strategic management as Mintzberg et al. (1998) have stated. Resource-based view has been built on the foundations of competitive advantage as it seeks to explain why organizations perform better than others by focusing on the valuable and distinctive internal resources of the firm.

As organizations aim for long-term competitive advantage, the reasons explaining it have been viewed from many perspectives during the history of strategic management history. Before the view of internal resources, strategy and competitive advantage was heavily linked with Michael Porter's (1985) thoughts about external factors of strategy choosing. Counterweight for constantly evolving external factors was born the resource-based view of the firm, the theory of internal resources and capabilities that explain the value and prosperity of organization. (Penrose, 1959; Teece, 1980; Wernerfelt, 1984; Barney, 1986; Grant, 1991; Peteraf, 1993)

The foundation of resource-based view is considered to be built by Penrose (1959) in the book "Theory of the Growth of the Firm", where Penrose stated firms as evolving collection of physical and mental resources. For a long time, this kind of interpretation of resources was difficult and not widely popular, since some resources like skills, are abstract and

therefore hard to measure. (Wernerfelt, 1984; Rugman & Verbeke, 2002) Wernerfelt (1984) was the person who introduced the term resource-based view and with a fundament of Penrose's studies (1959) she declared that optimal growth-strategy is accomplished with extending the resources possessed and with creating new ones. It was 1980s when resource-based view of the firm started to evoke discussion and as Wernerfelt (1984) considered resources in general (e.g. customer loyalty, production experience and machine capacity), for example Lippman & Rumelt (1982) brought into discussion the inimitability and causal ambiguity and Barney (1986) introduced organizational culture as a source of competitive advantage. These all later became fundamental parts of resource-based view of the firm. In 1991 Barney published his article "Firm Resources and Sustained Competitive Advantage", where the VRIN-model was introduced. Barney (1991) stated that resource can be the source of competitive advantage, when it can be held as valuable, rare, imperfectly imitable and non-substitutable and firm also recognizes it.

Amit & Schoemaker (1993) were amongst the first ones to distinct organization resources and capabilities, since before those were described as one and the same. They characterized resources as components that firm either controls or owns whereas capabilities are firm's potential to combine organizational processes and resources for the use of firm to reach desired outcome. Collis (1994) discussed that organizational capabilities in their all complexity and context-dependency can lead to sustainable competitive advantage fully depending on time and situation of the firm. Teece et al. (1997) represent the more recent theory of achieving sustainable competitive advantage with the introduction of dynamic capabilities framework. Dynamic capabilities are answers to match changing business environment and dynamic capabilities determine the level in which organization is capable to create new ways of competitive advantage. These are organizational and strategic routines, internal and external skills which firms need rapidly coordinate to redevelop with the changing environment. (Teece et al., 1997) Resources and capabilities can be seen as supporting each other and competitive advantage can be actually accomplished only if the resources are exploited through capabilities and capabilities are used with appropriate resources.

In constantly changing environment firms and managers have to make constantly decisions about their existing and potential resources. Resources and capabilities are acquired from outside the company or created within time investments, skills, and knowledge inside the company. These are called external and internal accumulation of resources and both have been argued to have significant role in creating sustainable competitive advantage. (Dierickx & Cool, 1989; Barney, 1991) In most cases the optimal combination of existing resources, development and acquisition of new ones will provide the best possible strategy for a growth of a firm, at least Wernerfelt (1984) has stated. Thus, organizations have to associate also with strategic factor markets, which was firstly introduced by Barney (1986).

Makadok (2001) adds to resource accumulation that there are two fundamental mechanisms for firms to create economical rent and value: resource-picking mechanism and capability-building mechanism. Unlike capability-building mechanism, the value of resource-picking is created before actually acquiring the resource. Therefore, in addition to firm's need to develop capabilities already possessed, in key position is also the firm's capability to pick right resources and avoid wrong ones. Even the decision to not pick certain resources can bring economic value for the firm. (Makadok, 2001)

Figure 1 describes the theoretical framework of this study. Theory base is formed by resource-based view. The aim for organizations is to create sustainable competitive advantage. To reach into position where firm has a sustainable competitive advantage, organizations must possess resources that are valuable, rare, imperfectly imitable and not substitutable. These resources organizations already possess, internally accumulate and on the other hand pick from outside the organization, where organizations need to show good resource-picking skills. In addition to resources, capabilities are the ones who enable the efficient use of resources and are completing part of this combination, which can lead to sustainable competitive advantage. In this study organizations are football clubs for whom players can be stated as the most important resources.

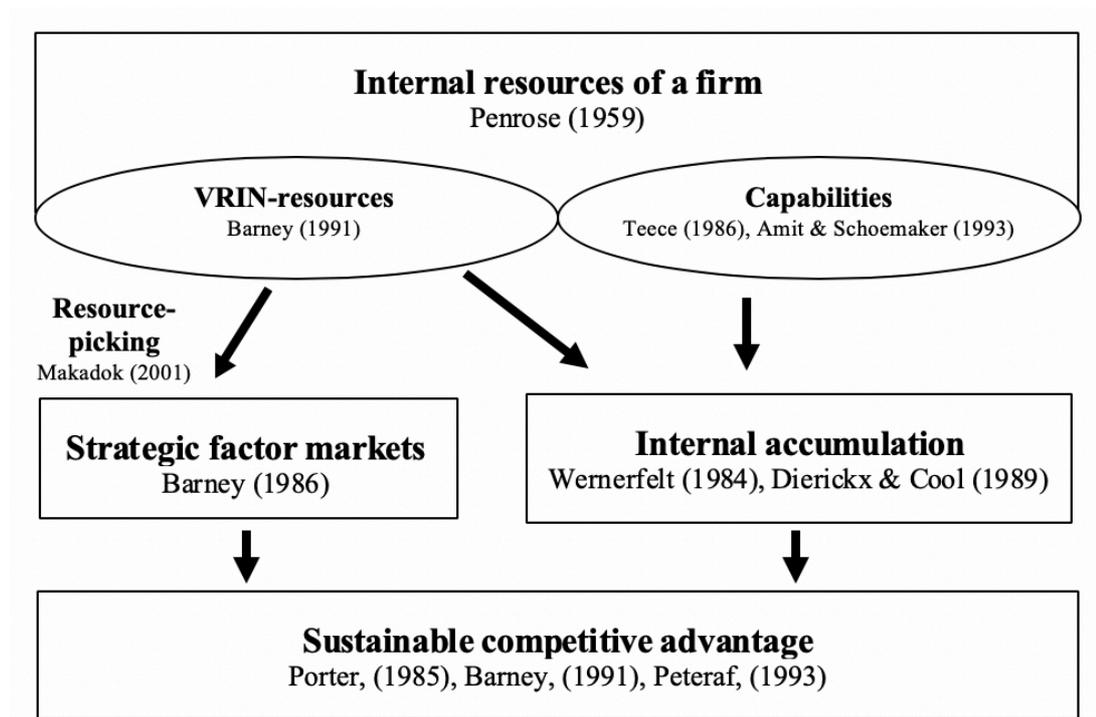


Figure 1. Theoretical framework of the study.

## 1.4 Research methodology & data collection

The research of this study is executed through both quantitative and qualitative research methods and the data collection of this research combines both quantitative and qualitative elements. Johnson et al. (2007) describe this type of research methodology as mixed methods research which aims to get wide and deep understanding of the phenomenon. Data collection begins with a short questionnaire which is sent for 45 persons who currently are in important roles in Finnish football clubs. With the results based on questionnaire, totally 6 interviews will be executed with 6 different persons. All interviewees are working in important role in different football clubs in three top football divisions of Finland. Persons are chosen by their role in their organizations and persons interviewed are weekly working with financial management and player transfers at their work. Questionnaire and interviews are executed in Finnish and after that translated into English. Results of both questionnaire and interviews are presented in this research anonymously.

The objective of questionnaire is to get preliminary view about the phenomenon from the perspective of clubs themselves. With the results of questionnaire, following interviews can be directed deeper into the topics that have stood up. Questionnaire is tried to keep short yet meaningful since it aims rather than understanding deeply the topic, get a big picture of what in this phenomenon is relevant and important for the clubs. Questionnaire is made easy and effortless to answer to get answer-percentage high as reasonably is possible. Questionnaire (appendix 1.) is sent to participants via email.

Interviews are executed as semi-structured interviews aiming alongside theory-base to create entirety and accomplish as comprehensive answer for the research problem as possible. Qualitative research is often determined by its quality since typical for qualitative research is the small amount of data and therefore the data has to be analyzed through and through (Eskola & Suoranta, 1998). Unlike in full-structured interview, semi-structured interview allows interviewer to raise up specifying questions not planned beforehand and therefore possibility to dig into topics that serve the research best way. (Hirsjärvi & Hurme, 2008) For this research semi-structured interview was chosen, because it suits finding out perceptions and attitudes of interviewee especially when discussed issues that are complicated and possibly sensitive. (Barribal & While, 1994)

## **1.5 Structure of the thesis**

This research is structured in six main sections, which will be specified in this chapter. Firstly, the theoretical background of this research is conducted in section two. Section two will go through the key concepts and inherent qualities of resource-based view and discusses role of the resources in the pursue of sustainable competitive advantage. In third section the data and methodology used in this research is described further and the data collection process is explained. Section four introduces the results from the questionnaire conducted, while fifth section focuses on the findings of interviews. In sixth chapter, findings of this research and the answers to research questions will be discussed, while conclusions provide a summary on research and give suggestions on further research.

## **2. RESOURCE-BASED VIEW**

This chapter introduces the relevant theoretical background, resource-based view and how resources and capabilities form the main source for sustainable competitive advantage. Firstly resource-based framework will be introduced with discussion of inherent qualities of resources and capabilities. Secondly, the main source for sustainable competitive advantage, VRIN-resources will be undergone. Thirdly, the concepts of resource accumulation and resource-picking are conducted.

### **2.1 Resource-based framework**

Resource-based view, which has slowly raised as one of the most pivotal and one of the most widely accepted theories in the area of strategic management. (Arend & Lévesque, 2010) Resource-based view thrives to focus on the organization's internal factors, resources and capabilities to explain why some organizations perform better by focusing on the valuable and distinctive internal resources of the firm. The ultimate goal is to create value through accomplishment of sustainable competitive advantage. Since the resource-based view was introduced (Penrose, 1959; Teece, 1980; Wernerfelt, 1984; Barney, 1986; Grant, 1991; Peteraf, 1993), it has been monumental theory to study organizational relationships.

In 1980's strategic management literature was dominated by study of organizations' external factors as source of competitive advantage. Maybe the most influential, Porter's (1980) five forces model introduced five external elements affecting the competitive balance and the selection of strategy. After Wernerfelt (1984) and Barney (1986) released their studies, the attention of research in strategic management started gradually redirect the attention to internal elements of organizations and introduced the idea where firms are a bundle of unique resources rather than a bundle of activities like in previous literature. (Hoskisson et al., 1999; Spanos and Lioukas, 2001) Wernerfelt (1984) was the person who introduced the term resource-based view and was first in line to highlight the value of firms own resources rather than just their products or externally affecting factors. The change of paradigm was not immediate success, since the ideas of Wernerfelt (1984) started to interest in academic field

not until the end of 1980's when for example Dierickx & Cool (1989) presented the idea that uniqueness of resource or asset determines the firm's asset position. In 1991, Barney introduced the influential definition of VRIN-resources, which make a resource a potential source of competitive advantage. VRIN-resources will be conducted later in this study.

Resource-based view has generated many sub-theories which examine the view of resources from different perspectives. The most known of these are knowledge-based view (Grant, 1996) with natural-resource-based view (Hart, 1995) and theory of dynamic capabilities (Teece et al., 1997). Barney (2011) has stated that resource-based view has had implication at least on human resource management (Wright et al., 2001), economics (Lockett & Thompson, 2001), entrepreneurship (Alvarez & Busenitz, 2001) and marketing (Srivastava et al., 2001).

The resource-based view strongly utilizes the thoughts of strategy in traditional strategic management (e.g. Ansoff, 1965; Andrews, 1971) and compounds it with important concepts of how strategy is molded by the bundle of resources possessed. Traditionally strategy selection has been driven by the strengths and weaknesses of the firm, which are in fact the resources and capabilities of the firm. Strategy selection in the long run will be then influenced and drifted by the external factors and the restrictions caused by their internal ones, mainly their own developed bundle of resources, organizational factors and other firm-specific constraints. For the prospective strategic decisions, firms are constrained by the resources used in the past strategic decisions but continuous changes in their business environmental allows them to make alternative strategic decisions. Still, while planning for future strategies, managers options might be limited in strategy-selection because of the available resources possessed. (Barney, 1991; Spanos & Lioukas, 2001) That being said, resources can be held valuable and they are strongly shaping the strategy choosing processes. According to Rumelt (1984), this is a contrast to Porter's (1985) industry-driven view of strategy process, as resources and capabilities are the main factors molding the strategy of the organization.

The most valuable strategies are the ones which allow firm to gravitate and sustain economic value creating market positions. (Spanos & Lioukas, 2001) Conner (1991) states that firm's

possibility to keep its market position “depends on its ability to gain and defend advantageous positions in underlying resources important to production and distribution.” This, similar to Porter’s (1980) theories, means that to create relatively more economic value than industry competitors, the net benefits of the firm need to be produced through differentiation or lowering costs. (Peteraf & Barney, 2003) The sustainability of value-creating market position depends at first hand on the cost of the resources that are being deployed to pursue the strategy. According to Barney (1986) this cost is determined by the markets where the necessary resources are acquired. Dierickx & Cool (1989) on the other hand think that resources that can be traded cannot be at the same time source of sustainable economic value, since resources need to be accumulated inside the firm and formed to be non-imitable and non-substitutable by the accumulation process.

Research of Barney (1986) is also highlighting the importance of looking inwardly to exploit resources that are already in firms’ possession. On average, firms that are focusing on analyzing their competitive environment shall not expect to generate advantages that could lead to returns that are above normal in the markets of strategic factors, thus leading not more than normal returns. (Barney, 1986) The empirical studies of Hansen & Wernerfelt (1989) show the importance and independence of both economic and organizational factors in explaining the firm performance. However, the study indicates also that variance in firm profit rates is explained twice as much with organizational factors than with economic factors. The empirical studies of Spanos & Lioukas (2001) agree with the studies of Hansen & Wernerfelt (1989). Both, the industry- and firm-specific factors contribute to firm success but explain it on different dimensions of performance. Whereas industry-specific factors are influencing directly and indirectly the market performance and profitability, the resources and capabilities of a firm can be seen to act as accomplishments on its market area, which affects to profitability. (Spanos & Lioukas, 2001)

Both Barney (1991) and Peteraf (1993) state that in resource-based view, two assumptions are made. First, firms might be heterogeneous in relation to the strategic resources and capabilities they possess. Secondly, firms might be heterogeneous in relation to other firms, since resource-based view assumes that resources may not be totally mobile across firms. These resources or productive factors have naturally different levels of efficiency and that

makes some of them superior to others. Firms possessing superior productive factors will end up making economically better or more satisfying products or both. The assumption of heterogeneity implies that firms with more productive factors can compete in their markets, while firms who possess only scarce productive resources can manage only breakeven. (Barney, 1991; Peteraf, 1993) The heterogeneity of resources and capabilities is the foundation of competitive advantage.

Porter (1990) has stated that having competitive advantage is a cornerstone for well succeeding firms. When organization is executing value-creating strategy that is not at the same time implemented in any current or potential or current competitor, firm has been said to have competitive advantage. From the more economic point of view there is two pivotal definitions for competitive advantage, definitions by Barney (1991) and Peteraf (1993). Barney & Clark (2007) define that, in its all simplicity, firm has a competitive advantage when it creates more economic value than its competitors averagely. Economic value in this definition means the difference between the income of a product or a service and the cost of producing it. Peteraf (1993) has outlined that competitive advantage exists when it generates continuous profits that are above average. Competitive advantage can be held by various firms in industry and it can be constituted by different routes. This also means that firm does not have to be the superior performer in every sector. (Peteraf & Barney, 2003) Figure 2 shows how economic value is allocated through prices.

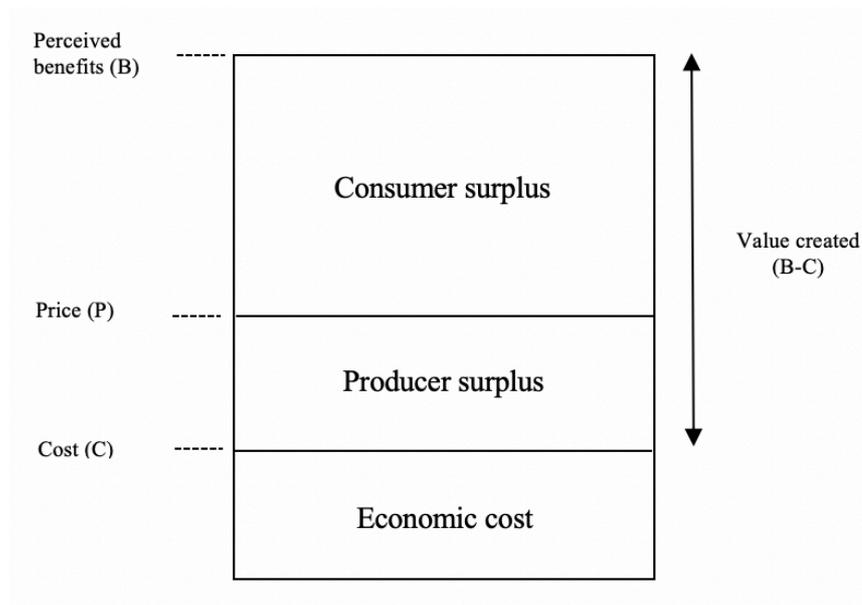


Figure 2. Prices allocate the created value. (Barney & Clark, 2007)

Competitive advantage can be sustainable or temporary. Rather than meaning certain time in calendar after which competitive advantage becomes sustainable, in resource-based view the competitive advantage turns into sustainable when there is no possibility to duplicate the advantage. (Barney, 1991) Lippman and Rumelt (1982) state that competitive advantage is sustainable only when there has been failed efforts to duplicate and after that advantage is still existing.

Eisenhardt & Martin (2000) and Fiol (2001) argument that competitive advantages cannot be sustainable when the market is changing rapidly enough. When the market is especially dynamic and the environment is evolving quickly, it is not possible for a firm to have sustained competitive advantage no matter the qualities of competitive advantage. However, Eisenhardt & Martin (2000) have identified that when firm is capable of making rapid strategic choices and changing quickly to match the changes in its environment, it can create the possibility to gain competitive advantage. This kind of competitive advantage can be as long-lasting as firm will continue perform in adapting in the economically valuable environment as rapidly and efficiently as possible.

According to Amit & Schoemaker (1993) the significance of sustained competitive advantage is dependable upon the internal interconnectedness of firm's capabilities. Teece

(1986) has stated the same on a little bit different terms, as he says sustained competitive advantage is reliant upon the mutual dependence of capabilities. On the basis of both views, the bundle of interconnected capabilities and resources can be more valuable for the firm than deploying the capabilities individually one by one. (Amit & Schoemaker, 1993) Teece et al. (1997) bring also adopted and inherited evolution paths into the table as meaningful factor in addition to confluence of assets and processes. They think competitive advantage is reached with the successful combination of all three factors and add that the erosion of competitive advantage depends on the stability of market and how the advantage can be copied (replicability and imitability).

The next two chapters will conduct the two main concepts in resource-based view, resources and capabilities. It was Amit & Schoemaker (1993) who amongst the first distincted the concepts of organizational resources and capabilities. Before that the all possible strengths and weaknesses of the firm was seen to be resources. The research of resource-based view agrees upon the importance of resources and capabilities in the source of sustainable competitive advantage and successful strategy. Figure 3 shows the development of resources and capabilities into a successful strategy. The level of resource and capability importance lies on the grounds of two premises. Firstly, the strategy is fundamentally driven by the resources and capabilities of the firm. Secondly, resources and capabilities constitute the main source of profit generation for the firm. (Grant, 1991)

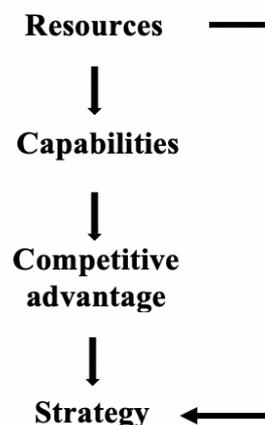


Figure 3. Practical framework of resource-based approach to strategy analysis. (Grant, 1991)

### 2.1.1 Resources

Even though literature of strategic management has a long history of paying attention in resources, the attention, at least until 1980's, had been mainly towards tangible resources, such as machines, capital and land. The idea of looking companies with broader view as a mix of processes and resources is from Penrose (1959). The popularity of this kind of view was for a long time rather moderate than strong. It was so mainly because of some resources, such as technological skills are difficult to model because of the abstractness. (Wernerfelt, 1984)

Resources can be anything that are controlled by firm or semi-permanently tied to firm and that enable firm to use them as inputs for implementing their value-creating strategy. (Daft, 1983; Wernerfelt, 1984; Barney, 1991) Resources can be tangible or intangible type of resources that firm can exploit to increase their efficiency. Tangible resources have had only a minor role in resource-based view since tangible resources rarely have the distinctive qualities to create competitive advantage. Tangible resources are often rather easily purchasable from factor markets and so competitors are capable of purchasing those same tangible resources. Even if it is more exceptional that tangible resources can be the distinctive creator of competitive advantage, it does not mean that tangible resources wouldn't be also important for the firm.

Since the crucial role of resources, numerous of researches has their own classifications about how resources should be sorted out from each other. Miller & Shamsie (1995) have classified resources into two categories, which are property-based resources and knowledge-based resources. In this categorization, property-based resources are the ones which value competitors can be aware of, for example products, contractual rights or key patents. As knowledge-based resources Miller & Shamsie (1995) class the ones that are behind knowledge-barriers; these resources are inimitable because they are subtle and difficult to understand. Barney's (1991) resource classification adds one class more and is towards more traditional classifications of resources. Based on the studies of Williamson (1975), Becker (1964) and Tomer (1987) he suggests that resources could be classified into physical, human and organizational capital resources. In 2007, Barney added one class more to his earlier

study: financial capital resources. Also, Grant (1991) has his classification, where he adds technological resources and reputation upon the classification of Barney (2007), making it total of six categories of resources.

In the categorizations of Barney (1991; 2007), physical and financial resources are tangible resources. Physical capital resources include e.g. machinery, technology and land. Financial capital resources include revenues, stocks, debts and retained earnings. The distinctive characteristics of tangible assets include that they are relatively easy to measure, and the ownership of these resources can be clearly specified. (Hall, 1989; Barney, 2007) Especially important aspect with tangible resources is, that those will help the firm ability maximize its productivity and tangible resources will be valued in the firm's financial statement. (Grant, 1991).

Human capital resources and organizational capital resources are intangible resources. These resources, for example experience, skills, contractual rights, organizational culture and reporting structure, are resources that are abstract, more difficult to measure and for competitors are hard to imitate. If the characteristics of human capital resources in firm are valuable but common, it can only create competitive parity which means that firm can only reach into position where their human resources are not competitive disadvantage. However, in any firm there is a distinctive difference across the individual skills and abilities through the organization. The more homogeneous firm's human resource base is and the rarer employee characteristics they possess, the more potential it has to be the source of competitive advantage. (Wright et al., 1994; Barney & Clark, 2007)

Literature in the area of resource-based management agrees upon the dominant role of intangible assets as a primary source of competitive advantage when choosing strategy. (Hall, 1989; Dierickx & Cool 1989; Prahalad & Hamel, 1990; Barney & Clark, 2007) As well as competitive advantage, usually the market failure is in the way or another related to intangible assets, since the differences in performances between firms are mostly because heterogeneity of these rare and unique assets. (Connor, 2002; Barney, 2007) In addition to inimitability of intangible assets, the capacity of intangible assets can be almost unlimited, and firm can use these kind of resources multiple ways; in-house, renting (for example

licensing) or selling them. (Fahy, 2000) Intangible resources have been called as the dominant logic of the firm by Prahalad & Bettis (1986). By the term dominant logic, they mean “a mindset or a worldview or conceptualization of the business and the administrative tools to accomplish goals and make decisions in that business.” Dominant logic of the firm drives the decision making and is the base of diversification. Prahalad & Hamel (1990) took the concept of dominant logic and extended it in their concept of corporation’s core competence. With core competence they mean the overall capabilities and know-how in the organization, which all together deliver the value.

One of the significant presumptions about resources is the resource immobility. Most of the industries are characterized by the heterogeneity and immobility of resources. If every firm would have access to exactly same tangible and especially intangible resources, having competitive advantage would not be possible for any firm. With the same strategy and same resources, every firm would succeed exactly same way and thus competitive advantage would not be possible. (Barney, 1991)

Accumulation of resources is playing essential part to ensure the long-term success and profitability of firm. Dierickx & Cool (1989) suggest that even though Barney’s (1986) thoughts about strategic factor markets presumes that all resources can be acquired from outside the company, it is highly unlikely that all resources could be acquired from strategic factor markets. Rather than acquiring the resources from markets, some of the critical resources, especially the intangible ones, are accumulated internally over time. Internally accumulated critical resources are highly difficult to imitate and substitute, while the sustainability of firm asset position is very much dependable on how easily it can be copied. (Dierickx & Cool, 1989) Resources can be accumulated both externally (acquired from strategic factor markets) and internally (e.g. investments, development). Wernerfelt (1984) thinks that the optimal combination of existing resources and development of new ones will provide the best possible way of growth for a firm. Resource accumulation and picking will be conducted later in this study.

### 2.1.2 Capabilities

Resource-based view has a variety of definitions to capabilities, but all agree on the importance of capabilities to execute value-creating strategy and competitive advantage. Makadok (2001) has defined capabilities as special, organizational-specific resources that main purpose is to enhance the productivity of firm's other resources. Helfat & Peteraf (2003) have same kind of definition, but it goes deeper on the strategic management side. They think that capabilities are organization abilities to perform in executing selected strategy and utilizing organizational resources for the wanted end result. (Helfat & Peteraf, 2003) Concretely, capabilities can be for example reliable service, product innovation or flexibility in manufacturing. Besides this kind of distinguishable processes, capabilities live in organization culture and relationships between employees and employer. (Amit & Schoemaker, 1993; Collis, 1994) In a short run, capabilities have only limited capacity since it often requires learning and changes in capabilities take time. On the other hand, in a long run, capabilities due to have almost unlimited capacity since the capacities can be as long existing as the firm exists. (Wernerfelt, 1989)

Capabilities are based on organizational knowledge and they can be both tangible and intangible processes or relationships. Organizational capabilities develop over time when they interact and exchange information with resources and other organizational factors. This is how capabilities grow to be always firm-specific. (Amit & Schoemaker, 1993) The firm-specificness is also the reason why Teece et al. (1997) think that capabilities are the ones which cannot be bought from the market, since capabilities are highly tied to firm and complexly developed. Unlike most resources, capabilities cannot be bought from outside the organization but there are also other distinctive qualities between resources and capabilities. Makadok (2001) argues that whereas the economic value of resources is generated before actually acquiring the resource, capabilities create the value always after the other resources have been moved to firm's possession. Inherent quality of capabilities is to enhance the productivity of other resources and hence help the firm to perform the tasks chosen in the strategy creation.

In the field of strategic management, capabilities have often been seen as constantly changing and evolving resources. Kogut & Zander (1992), in addition to several other authors (Grant 1996; Liebeskind 1996; Spender & Grant 1996), have highlighted that knowledge might be one of the most important resource companies have and they have introduced the term combinative capability. With the concept of combinative capability, Kogut & Zander (1992; 1993) suggest that organizational learning takes place when firm is combining new skills with current capabilities. The growth of the firm relies on how quickly organization itself can replicate their own advantages and can they replicate it before the imitation of competitors. (Kogut & Zander, 1992; 1993) Teece et al. (1997) have also emphasized the regeneration of organization's own advantages, when they introduced the concept of dynamic capabilities. Dynamic capabilities determine the level in which organization is capable to create and regenerate new factors of competitive advantage given the path dependencies, technological opportunities and current situation on the market. Since the business environment is constantly changing, dynamic capabilities will affect the sustainability of competitive advantage of the firm. As the velocity of the markets increase, dynamic capabilities are experimental and nascent with unpredictable outcomes. When the business environment is stable, dynamic capabilities can be seen as routines in traditional manner; detailed, stable processes with calculated outcomes. (Teece et al., 1997; Eisenhardt & Martin, 2000)

Theories of capabilities and resources mainly focus on how those can create competitive advantage and how to generate more resources and capabilities. Moliterno & Wiersema (2007) on the other hand have researched the divestment of resources as one major capability that creates competitive advantage. They have made empirical research of resource divestment in Major League of Baseball. The research was made from the view of "seller side" of the market, the ones who divest their resources to generate competitive advantage. The results show that teams divest their assets that perform above the industry average, which may be because of the firms seek profit from those assets and the well-performing assets have higher market value.

Moliterno & Wiersema (2007) argue that the competitive advantage of resource divestment mainly comes from the resale of the resource. If superior information or luck (or both) that

have led to the resource acquisition has paid dividends to the firm in the first place, firm should also pursue to divest the resource if the market price reflects the right value of that resource. Because of the information asymmetries, only the seller with complete information can meaningfully estimate the right value. Organizational capabilities determine how well the resources generate economic value. If the resource, in this case human resource, is for example lacking synergies with the rest of the organization, the market price of this resource will be set lower and the returns of resource divestment will be abnormal. On the other hand, if organization has “developed resource” with productive output remaining, the market value should be high on the strategic factor markets. Then, if the organization has acquired the resource early and the development has taken place in this same organization, the current high market valuation could generate economic value when divesting the resource. (Moliterno & Wiersema, 2007) If organization can multiply this kind of process, it could be the source of competitive advantage.

### **2.1.3 Strategic factor markets**

The concept of strategic factor markets in resource-based view was firstly introduced by Barney (1986). The markets of strategic factors are the markets where companies buy and sell resources aiming to further implement their desired strategies. (Hirshleifer, 1980; Barney, 1986) Strategic factor markets develop every time when implementation of strategy demands the acquisition of external resources. Barney (1986) states that every time a firm wants to implement a strategy which requires external resources it has a strategic factor markets associated with it. Studies by Porter (1980) indicate that almost every successful strategy implementation needs a sufficient management skill. Thus, an example for strategic factor markets in this case can be managerial labor markets.

Barney (1986) theorizes the strategic factor markets by its competitive imperfections. He explains the competitively imperfect markets with perfect strategic factor markets competition and expectations in strategic factor markets. When the competition in strategic factor markets is perfect, every participant has a same perfect information and has perfectly accurate estimated future value of strategies even before the implementation. Thus, resources required to implement strategies are priced as equal as the value after they are

implemented, on the other words costs equal returns. Because of the perfect information, no participants sell their resources undervalued and no one buys resources that are overpriced. Competitive advantage can be anticipated, and it will be competed away in such markets. Basic assumption is that markets are never perfect thanks to numerous market imperfections, which cause that market participants never have exactly same expectations and estimates about the future value of resources and strategies implemented. Overestimation and underestimation of strategy's potential returns happen and the firms with more accurate estimations are able to acquire resources that are more likely not overpriced and thus more likely be able to avoid economic losses. (Barney, 1986)

The expectations divergence between firms is the determining factor in creating the market imperfections and competitive advantages. Number of factors that support the divergence of value expectations and market imperfections is limitless. Barney has given some examples in his article (1986). *Lack of separation* creates a competitive imperfection when a small number of firms already own the necessary resources that are being needed to implement a chosen strategy. These firms do not have to acquire these resources which gives them a slight competitive advantage. Factor of *Uniqueness* comes into play when only one firm can implement a chosen strategy. This is often originated on the historical asset base which gives the firm a possibility to exploit unique strategies. Above-normal returns in this case would be created through strategic resource acquisition and implementing unique strategy. *Lack of entry* is a source of competitive imperfection when firms that have a possibility to entry markets won't do it. This lack of entry is caused by the divergences between firms' value expectations of potential strategies. The lack of market entry appears due to reluctance to profit maximization, lack of financial resources or shortage of market knowledge. Reluctance to *profit maximizing* is usually due to imperfect expectations of the future value of possible strategy, since firms rarely abandon profits knowingly. *Financial strength* affects to competitive imperfection when there is only small number of firms which have financial backing to pursue needed resources for implementing a strategy. It is also possible that firm does not understand the profit generation process in certain strategy or in markets. Barney calls this *lack of understanding*, and it is also affecting the firm's expectations about the value of strategy.

## 2.2 VRIN-resources

Resource-based view has an assumption of resource heterogeneity and all of the resources are not equal as the source of generating sustainable competitive advantage. (Fahy, 2000) One of the most accepted and acknowledged frameworks of resource-based view is a framework of VRIN-resources (somewhere also VRIO and VRINO), which introduces the resource qualities affecting the sustainability of competitive advantage. Barney (1991) argues that the sustainability of competitive advantage depends on the value, rareness, inimitability and non-substitutability of firm resources. These attributes determine the immobility and heterogeneity firm resources and thus determine how capable these resources are in creating long-lasting competitive advantage.

Barney (1986) comments that in the core of competitive advantage is continuous analyzing and deep understanding upon the resources that are already in firm's control. Exploiting right resources in right strategy implementation can lead to competitive advantage, but only if other firms will not be able to mimic the strategy. The employment of resources is crucial, since the productivity of resources is dependable upon it. (Peteraf, 1993) Also Dierickx & Cool (1989) have remarked the importance of implementation of firm's current asset position, since the replication of strategy that is based on firm's own privilege bundle of resources becomes difficult. If firm's resource is not valuable or not recognized to be valuable, then the resource does not give the opportunity to exploit strategy that includes the resource in question, and thus does not give a chance to capitalize environmental opportunities or to neutralize external threats. If firm desires to employment a resource which is not valuable, it means firm needs to invest more in organizing, which increases the costs and could decrease firm revenues. In these cases, resource is called as a weakness which, if not fixed or avoided, could lead to competitive disadvantage. (Barney & Clark, 2007)

Literature of resource-based view have multiple reminiscent and each other influenced frameworks to describe resources that could lead to sustainable competitive advantage. Grant (1991) argues that the value of resource is determined by the level its of durability, transparency, transferability and replicability. Collis & Montgomery (1995) think that

resources must be inimitable, durable, appropriate, non-substitutable and competitively superior, while Amit & Schoemaker (1993) list not less than eight factors that depict the desirable resource characteristics: complementarity, scarcity, low tradability, inimitability, limited substitutability, appropriability, durability, and overlap with strategic industry factors.

VRIN-framework has been modified to many directions since Barney (1991) introduced it first time. Along with VRIN-framework, other important framework is almost equivalent VRIO-framework, which is also highly popular in the literature of resource-based view. Only difference is the last letter, which in VRIO-model is O as Organization. The VRIO-framework is structured by four business-related questions, which determine the key parameters (Barney & Clark, 2007):

*“1. The question of Value: Do a firm’s resources and capabilities enable the firm to respond to environmental threats or opportunities?”*

*2. The question of Rarity: Is a resource currently controlled by only a small number of competing firms?”*

*3. The question of Imitability: Do firms without a resource face a cost disadvantage in obtaining or developing it?”*

*4. The question of Organization: Are a firm’s other policies and procedures organized to support the exploitation of its valuable, rare, and costly to imitate resources?”*

This chapter will focus on VRIN-model and each resource factor introduced in the model will be conducted separately. Also, O as organization from VRIO-model will be covered, since it underlies the firm capability to exploit these VRIN-resources.

### **2.2.1 Valuable resources**

As the question of value implies, for a resource to be valuable, it has to give the firm an opportunity to either capitalize environmental opportunities or to neutralize external threats. For a resource to be able to create competitive advantage, it has to possess elements of value. If the resource is not valuable and therefore won’t enable firm to capitalize environmental

opportunities or to neutralize external threats, it could be a weakness that leads to competitive disadvantage. (Barney, 1991) Various researchers agree on that resource value is related to specific markets and the value is always determined by the value that customers gain. (Amit & Schoemaker, 1993; Collis & Montgomery, 1995; Peteraf & Bergen, 2003) The market-specificness of resource means that some resources are valuable only in some context and what is valuable in certain context might not be as valuable in different context. In resource-based view, firm has been seen as a bundle of resources, which means also that resource value is always dependable on the presence of other resources. (Peteraf & Barney, 2003)

As said, valuable firm resource can lead to competitive advantage only when firm uses the resource to create something that customers value. A resource that is valuable now may not be valuable after a year. Since the organization environment constantly changes and the customer preferences change, it is a job of managers to continuously evaluate the value of firm's resources. It is possible that the value of resource decreases or totally vanishes, but value of a resource can also increase due to changes in firm's business environment. (Barney, 1991; 1995)

Even though Amit & Schoemaker (1993) think that only scarce resources can be valuable, Peteraf & Barney (2003) argue that scarcity alone is not enough to create economic value. Resources can be scarce and still not creating value, as resources can be valuable still not being scarce at the same time. Such resources as water can be extremely valuable, but the value itself, as scarcity, won't automatically create competitive advantage. Competitive advantage with valuable resource can be reached, as earlier mentioned, if firm is capable to utilize the resource that is valuable and create value for customers. Peteraf & Barney (2003) add that value creation per se is not enough for competitive advantage, since firm must create more value than its marginal competitors. That is why the value of resource is not always enough, but resource needs also other desirable qualities.

### 2.2.2 Rare resources

The definition of competitive advantage says that “organization is executing value-creating strategy that is not at the same time implemented in any current or potential competitor.” Resources cannot alone generate value-creating strategy, but they are in major part of it, as desired resources enable firm to exploit strategy which generates competitive advantage. (Barney, 1991) Firm must create more value than its marginal competitors to have a competitive advantage. If every competitor has the same valuable resource, it is not possible to expect firms to perform sufficient value differential what it requires to create competitive advantage. Because of this, resource has to have determinants of rareness. (Peteraf & Barney, 2003) Talaja (2012) as well highlights the importance of value and rareness of a resources, whereas her empirical studies around the VRIN-framework suggest that high value and rareness of a resource are more likely to lead to sustainable competitive advantage than other determinants. Talaja (2012) adds that value and rarity are interrelated which means they impact both directly and indirectly on competitive advantage.

Rather than rareness of one resource, it is argued that firm should possess a bundle of resources that are rare, since one resource rarely consists itself the potential to create competitive advantage. Resources and capabilities should be implemented as combination, not individually and the combination needs to be unique and not in a possession of marginal competitors. Even some common resources can create competitive advantage, if the overall bundle itself is rare. For example, patent for process with common resources like water can as a bundle be rare and create value. (Barney, 1991; Newbert, 2008) Managerial talent is required in almost every strategy implemented and therefore this resource should be rare, argues Hambrick (1987). He says that even the resources would be valuable, the rareness of managerial talent will give firm a possibility to create a unique strategy in pursuing competitive advantage.

Rareness of resources is also important because it signifies the natural constraints of supply for the product or service where the resource is exploited. On other words, limitations of firm productive output will be limited more likely by the resource limitations than by the firm itself as restricting the productive output with intention to maximize profits. Resource

limitations cause that firm itself should not have intention to restrict the output as detriment of customers. (Peteraf & Barney, 2003)

### **2.2.3 Imperfectly imitable resources**

Even the resources would be valuable and rare, it does not give advantage if marginal competitors of firm can obtain the same resources through direct duplication. Even if the resource is non-tradeable and unique, if it is imitable, anyone can create the same resource by themselves. Therefore, resources can only be the source of sustainable competitive advantage when they are imperfectly imitable. (Barney, 1991) Imitable resources tend to create only temporary value, as inimitability is in the core of value sustainability. If resource is easily duplicated, then it will be duplicated as soon as it seems it creates value, which shortens the time that original firm has advantage. However, even inimitable resources are not likely inimitable forever, but the firm can try to prevent the duplication by creating their strategies around at least one resource that has characteristics to imitation protecting. (Collis & Montgomery, 1995) Characteristics like this are called isolating mechanisms, which in largest perception include eight factors: Path dependency, causal ambiguity, social complexity, time compression diseconomies, economic deterrence, asset erosion, physical uniqueness and interconnectedness of asset stocks. (Rumelt, 1984; Grant, 1991)

The more compact view of characteristics of imperfect imitability includes three factors. Barney (1991) argues that imperfect imitability of a resource comes from one or a combination of three reasons:

- 1) historical conditions limit the possibility to obtain a resource.*
- 2) there is causal ambiguity in the link between the resources and the sustained competitive advantage of a firm.*
- 3) resource is socially complex.*

Unique historical conditions, also called path dependencies, signify that the firm's ability to obtain and exploit unique resources depends on the time and situation. (Barney, 1991) It is not possible for competitors to acquire these resources immediately, instead these can be

accumulated through time and different paths. (Dierickx & Cool, 1989) Because of the historical path of the resource, it allows the firm to create a unique, inimitable strategy where to exploit this resource. (Barney, 1991)

A resource can be imperfectly imitable when causal ambiguity exists in the link between resource and competitive advantage, which means there is no understanding about how or where has competitive advantage came from and therefore it is also impossible to re-create. Barney (1991) explains the causal ambiguity exists when “firm’s sustained competitive advantage is not understood or understood only very imperfectly”. When competitive advantage is causally ambiguous, there is no certain resources to point at, rather a combination of resources and capabilities which are consisted by complex web of skills and knowledge. If a firm learns to understand causally ambiguous link between their resources and competitive advantage, it means other firms can also understand this link and obtain the needed resources to exploit similar strategy. That is also why causal ambiguity of resource might not last forever. (Barney, 1991; Barney & Clark, 2007; Rumelt, 1984)

Social complexity is the source of inimitability because behind the resource might be socially complex phenomena that firm cannot manage and influence systematically. These kinds of resources can be for example relations between firm’s employees and managers, which in many cases can be specified with no causal ambiguity. However, even the firm can recognize the link between socially complex resource and competitive advantage, in most cases it is not manageable or re-created by systematic efforts. If the firm can directly manage these resources, it can reduce the inimitability. When socially complex resources are mainly unmanageable, it is a source of inimitability. (Barney, 1986; Dierickx & Cool, 1989)

#### **2.2.4 Non-substitutable resources**

The resource or a bundle of resources are a substitute to another when it is possible to exploit same strategy even the resources are separate and not the same. On the other words, resources (valuable, rare, inimitable) are substitutes when they are “strategically equivalent”. The three characteristics of inimitability can make the resource impossible to copy, or at least too expensive to copy, for other firms. Even the imitation would not be a probable

threat, it is still possible that there are substitute resources on the market, and if those substitutes are not too expensive to duplicate, then firms could acquire these resources and with lower cost pursue to the same outcome. (Wernerfelt, 1984; Barney, 1991) If the substitute resource is valuable but not rare or it is imitable, either the firm which is substituting or the firm whose resource is being substituted, can expect to create sustainable competitive advantage. (Barney & Clark, 2007)

According to Barney (1991) there is at least two forms where substitutability can exist. Firstly, even there is no possibility for exact duplication of a resource, it is a possibility for another firm to acquire and possess similar resources which allow firm to implement same strategies. Hambrick (1987) gives an example of firm's top management, which is rarely exactly duplicated, but can be substituted with highly similar managers to drive similar strategy. Secondly, there can also be very different resources that are not similar in terms of characteristics, but these resources can have same kind of strategic qualities, which give firm a possibility to pursue same strategy as the other firm with the "original" resource. This kind of strategically equivalent resources can be for example a charismatic leader of a firm, superstar, who has strong vision about the future of this firm and a formal planning system, which takes into account wider set of perceptions. Even though the charismatic leader could be valuable, rare and imperfectly imitable, both of these resources can lead to similar outcome. (Barney, 1991)

#### **2.2.5 Organizational factors**

In addition to four essential characteristics of a resource to be a source of competitive advantage, it is widely accepted in literature of resource-based view that organizational factors have a notable role as enabler of sustainable competitive advantage. VRIN-resources give firm opportunity to implement strategy which can lead to sustainable competitive advantage, but only if the firm is organized to fulfill the potential of these resources. Thus, organizational factors are the fifth necessary character to create sustainable competitive advantage. Organizational factors that are affecting the possibility of efficient exploiting of the firm's resources and capabilities, are often called complementary resources and capabilities. These complementary resources and capabilities very rarely provide

competitive advantage alone, since they are supposed to be used as combination with VRIN-resources, but complementary resources and capabilities are necessary to achieve firm's competitive potential. (Barney, 1991; Barney & Clark, 2007) Complementary resources and capabilities can be for example organizational hierarchy, compensation policy or formal information channels.

Some research in the field of RBV argue that organizational factors are more important than resources in the competition, since the distinctive processes, capabilities, give firm the edge to use the resource bundle more efficiently. (Mahoney & Pandian, 1992) Many authors accept that the most important organizational factors are dynamic capabilities, "the organizational and strategic routines" in constantly changing markets. (Teece et al., 1997; Eisenhardt and Martin, 2000) Some authors classify the organizational skills and resources as dynamic capabilities, since the skills are continuously shaped to match current strategic direction as the organization develops. (Teece et al., 1997)

Collis & Montgomery (1995) have highlighted that organizational factor is also the appropriability of firm, and with that they mean that the profits coming from certain resources are not automatically directed into the company whose possession the resources are. In most cases it is a firm-specific and organizational ability, which determines the strategy that leads to optimal bargaining amongst customers, distributors, suppliers and employees. Collis & Montgomery (1995) add that "basing a strategy on resources that are not inextricably bound to the company can make profits hard to capture." Organizational factors are the ones who determine the level in which firm is capable to turn their resources and capabilities into profits in the long run. (Barney & Clark, 2007)

### **2.3 Resource accumulation**

VRIN-resources are the ones which gives firm a possibility to implement value-creating strategies and eventually a chance to create sustain competitive advantage. Organizational factors are capabilities that enable firm to efficiently fulfill the potential of resources. Every firm has a unique set of resources and capabilities which they look turn into profits. These

resources and capabilities are acquired from strategic factor markets or created within time investments, skills, and knowledge inside the company. External accumulation and internal accumulation are the two ways of accumulation of resources, which plays vital part to ensure the long-term success and profitability of firm. (Dierickx & Cool, 1989; Barney, 1991) Most of the research agrees that a combination of externally and internally accumulated resources is the best way to develop as a firm, since it is almost impossible to cope without any externally accumulated resources. (Wernerfelt, 1984) Dierickx & Cool (1989) argue that critical resources are most likely accumulated internally, since acquiring these from strategic factor markets would conflict with the concepts of rarity, inimitability and non-substitutability of valuable resources. Some researches also highlight that too much attention is given towards competitive environment, since the firm's own bundles of assets are at the heart of firm's competitive position. More attention must be given to protecting the firm's own unique assets from imitation and substitution by markets.

External accumulation, which Wernerfelt (2011) rather calls resource acquisition, is a necessary, since the firms do not usually have all needed resources and capabilities in the beginning of their history. Barney's (1986) theory of strategic factor markets assumes that there is only two ways to firm to earn above-normal returns by resource acquisition: superior information about the value of a resource or firm is lucky. The cost of obtaining a resource must be less than the value of the same resource in the implementation of a product market strategy. Luck is uncontrollable determinant, so firms must focus on superior information, which firms should try to acquire from anywhere they can to possibly obtain resources that can give above-normal returns. (Barney, 1986; Maritan & Peteraf, 2011) With information acquisition, firms try to increase their chances to have accurate expectations about the future, which is led by the firm's level of information gathering and processing capabilities. (Makadok & Barney, 2001)

However, Adegbesan (2009) argues that if only superior information and luck are the determinants, it is assumed that there is not variance in firms' ability to create value with their resources. That conflicts with the basic assumption of resource heterogeneity and its implications that every firm has their unique way of creating value with their existing resources. The study of Adegbesan (2009) indicates that complementarity of resources can

lead to desired outcome even there is no superior information available. As complementarity Adegbesan (2009) means firm's capability to create more surplus with a combination of resources than it could have done using these resources independently. Firms with higher degree of complementary to resources are able to outperform the firms with lower degree of complementary to resources. That being said, also the valuation of resources for a different company with different complementary resources may vary and thus some companies are willing to pay more for certain resources even the same information is available. (Adegbesan, 2009; Maritan & Peteraf, 2011) Also Denrell et al. (2003) argue that superior information and pure luck cannot be the only determining factors, but they are combined with alertness and flexibility to discover new opportunities and perceptions of opportunities. They notice that a firm cannot exploit opportunities that is not perceived to exist by the firm itself.

As Dierickx & Cool (1989) created model of internally accumulating, non-tradeable resources, Barney (1989) has argued that economic value of even these non-tradeable resources can be traced to old acquisitions from strategic factor markets. Firm has made earlier transactions that are connected with the acquisition of assets that were used to develop these non-tradeable resources, and any of the profits from that resource accumulation are resulted by firm's superior information or luck. (Barney, 1989) From a group of only few researchers, for example Poppo & Weigelt (2000) have studied the strategic factor markets empirically. They studied the argument of superior information in the context of baseball and how the owners of professional baseball teams acquire players from free-agent markets. Conclusion was that even there was apparent imperfect information about expected player values and market imperfections in prices paid, buyer teams did not try to acquire superior information and capitalize the market imperfections.

Dierickx & Cool (1989) and Maritan & Peteraf (2011) argue that capabilities cannot be accumulated externally, on the other words, bought from markets. Still, they agree at some level with Barney (1989) with the point that a firm can buy resources that are being used to build capabilities in a long run. This means the strategic factor markets and capability building are, unlike usually in resource-based view literature, practically never fully separate

mechanisms, since the investment in strategic factor markets can help a firm to build a non-tradeable capabilities. (Maritan & Peteraf, 2011)

External accumulation of resources can appear also in the clothes of mergers and acquisitions. It is a way for a firm to acquire otherwise non-tradeable resources. Mergers and acquisitions differ a little from regular resource obtaining, since it is a very imperfect market with very few buyers and targets, as Wernerfelt (1984) states. In mergers and acquisitions, resources have already bundled with other resources and capabilities, and these bundles are already molded and deployed to the shape of the organization. (Maritan & Peteraf, 2011) Since the very complex characteristics of resource bundles, firms often limit their potential targets with related supplementary and related complementary strategies to get the wanted synergy needs. In related supplementary strategy, firm targets to acquire more resources they already possess. Related complementary strategy indicates to strategy where firm tries to joint effectively their existing resources with new resources to achieve synergy effects. (Wernerfelt, 1984)

Usually in resource-based view, resource accumulation is divided into external accumulation of physical capital and internal accumulation of intangible resources. Both tangible and intangible resources can be internally accumulated, but as Dierickx & Cool (1989) argue, all resources might not be externally accumulated. Internal accumulation is a unity of processes and mechanisms that firm is consisted of and which serve over time. Accumulation of assets cannot be expedited, since when things are done faster the costs of developing a resource increase exponentially and won't lead to same resource position. This is called time compression diseconomies. Time is important determinant in internal resource accumulation process and so is management of the firm, since the accumulated resources are results of choices made by managers over time. Internally accumulated assets are the determining part of sustainability of competitive advantage. (Dierickx & Cool, 1989)

Valuable resources give firm a possibility to exploit successful strategies. In addition to standard inputs, usually required resources are highly complex and firm specific. These kinds of resources are non-tradeable, hence firm needs to either accumulate those internally or try to acquire substitutes for the needed strategic input. Substitute resources need to be

adapted to the intended specific use, which can be costly. (Dierickx & Cool, 1989) According to Maritan & Peteraf (2011), firm can also try to acquire a resource which is not a substitute, from strategic factor markets and then subsequently develop that resource within a firm. This they call “buying to build” -behavior. For example, employees are hired with their unique skillset and after that they will learn the firm-specific skills and values through time through working and training. (Dierickx & Cool, 1989) This represent more realistic and complete view, which combines the both resource acquisition and accumulation. Maritan & Peteraf (2011) also notice that in addition to two dimensions of resource acquisition and accumulation there is a virtuous cycle which is formed by the alternate acts of buying and building. Cycle is started when a firm buys resource from strategic factor markets to subsequently develop it further internally. After that the resource will effect on the managerial choices and shape further transactions of the firm in strategic factor markets. (Maritan & Peteraf, 2011)

## **2.4 Resource-picking**

Firms accumulate externally, acquire, resources from strategic factor markets because firms do not usually have all needed resources and capabilities to implement chosen strategies. Firms have different valuations and expectations about the future value of these resources and some companies are willing to pay more for certain resources even the same information is available for everyone. (Adegbesan, 2009; Maritan & Peteraf, 2011) In strategic factor markets managers use resource-picking skills when acquiring resources as aiming to create economic value for their firms. Resource-picking mechanism assumes that managers pursue to overcome rivals in efficiency of selecting resources. Same way as in stock markets, managers gather information and analyze potential resources to be more efficient than other players on the market in finding the most suitable resources. Resource-picking mechanism creates above-normal returns when firm succeeds in acquiring a resource for less than its marginal productive value and when used in combination of other resources that firm possess. (Makadok, 2001; Barney, 1986)

Resource-picking mechanism has been built upon the Barney's (1986) idea of superior information necessity to create above-normal returns. Thus, key to successful resource-picking is a capability to create systematically more accurate predictions about the future value of resources than competitors on market. Oliver (1997) states that managers decision of selecting resources is economically rational under the constraints of limited information, cognitive biases and causal ambiguity. Denrell et al. (2003) argue that perceived valuations of resources are shaped by the heterogeneity in firm-level attributes. The distinctive resource base and capabilities affect the predictions of future value of resources and also the opportunities that firm can recognize in strategic factor markets. Mahoney (1995) adds that also manager's "mental models" affect to the resource-picking process, so there is a two-way relationship between manager's perceptions and firm's resources and capabilities. Ginsberg (1994) describes the link of social processes and human resources and states that obstacles to identify and deploy valuable resources are often uncertainty and complexity of decision-maker. He adds that these obstacles should be overcome with comprehension, creativity and consensus.

The use of superior resource-picking skills creates the value before the actual acquisition of desired resource. Managers with great resource-picking skills can make systematically more accurate decisions based on information available, whether the resources are profitable or not. The key to successful resource-picking is the capability to pick right resources and avoid wrong ones. Even the decision to not pick certain resources can bring economic value for the firm and have a greater impact than successful picking of a resource. (Makadok, 2001) Resource-picking mechanism highlights the role of managers in value creation as it is argued that managers are in key role in resource-picking and developing capabilities. If superior resource-picking is a source of competitive advantage, then it hinges on managerial foresight to identify right resources over time. (Amit & Schoemaker, 1993; Ahuja et al., 2005) Empirical research about the topic has been made. For example, Costa et al. (2018) have studied managers role from the resource-based view in the footballing world and found that the better managers study and the more foresight they have on competitive clubs, more likely it is to create competitive advantage. Rossi et al. (2013) have noticed that managers can use competitors as parameters and targets when trying to estimate future value of external resources.

### **3. DATA AND METHODOLOGY**

The empirical part of the study is conducted through electronic questionnaire and theme interviews whereas this combination is also called mixed methods. Mixed data collection of this study includes both quantitative and qualitative data collection methods as the idea is to create a view that moves logically from bigger picture into more specific one. Quantitative part of this study is descriptive, which is caused by the fact that the sample size is small and not intended to be significantly big. Descriptive quantitative part is used in this study as supporting role for a qualitative research.

Mixed methods can include quantitative and qualitative methods in both data collection and analysis or separately (Hurmerinta-Peltomäki & Nummela, 2006). In this study the mixed methods are used in data collection. Hurmerinta-Peltomäki & Nummela (2006) discuss that data in mixed methods can be collected with quantitative and qualitative methods simultaneously or successively and collected data can be combined in any stage of the research process. They add that in many cases mixed methods are used for identifying potential threats, improving the validity of research or other similar purposes. One possibility is to begin with qualitative phase and aim is to specify the research questions or to make the subject more familiar for the researcher. This is one way to increase the validity of the research. In this study, mixed methods are used in data collection and the main driver is to increase the validity of qualitative part of the research.

Quantitative part of data collection of this research is executed as questionnaire, which is sent via email and with purpose to understand wider the phenomena of training compensations and solidarity payments in Finnish context. Because of the scarcity of previous research of similar topic, the underlying research from the view of clubs is seen appropriate. The data from questionnaire directs qualitative research into more specific level since the questions can be formed with the help of quantitative data. The answers from closed-ended claims in questionnaire are analyzed statistically, whereas the statistics and the distribution of answers are calculated automatically by the Google Forms -platform. In addition to statistical analysis, the potential explanations for actualized distribution of answers are discussed. After the quantitative half, the qualitative one is carried out with 6  
40

different participants who have also participated into questionnaire. The qualitative research is done by theme interviews, where in total 12 questions are formed and asked from the participants. All participants of empirical research are from different clubs from three top football divisions of Finland and treated in the study fully anonymously. Both questionnaire and interviews are done in Finnish and then translated into English for this study. Next, the execution and the process of both questionnaire and theme interviews will be explained further.

### **3.1 Questionnaire**

Questionnaire is quantitative method for data collection where the questions are exactly the same and in same order for every participant. It is essential that the participant can read all the questions independently with full understanding and the responding is always guided well. (Vilkka, 2007) The questionnaire (appendix 1.) conducted in this study is consisted of 10 questions, which are formed as claims. Each question is answered within the scale of 1-5, where 1 equals as “strongly disagree” and 5 equals as “strongly agree”. The options 1 and 2 can be classified as “disagree” and options 4 and 5 as “agree”. This answering method is called likert scale, which is the most used one in survey questionnaires. Usually scale is from 1 to 5, even though the maximum scale is not determined. (Heikkilä, 2010). The questionnaire is constructed with Google Forms -platform which enables to gather answers anonymously. The link to the survey is sent for participants emails and participants can answer to survey through the link.

The questions are formed based on the research question and the sub-questions, pursuing to determine that whether training compensations and solidarity payments have impact on the economic success of the clubs. Each of the 10 sections of questionnaire is in line with the objectives of the research and theory base. Forza et al. (2002) describe that the participant group should be limited so that research can be repeated easily using the same group. The segmentation of potential population helps the creation of limited sample groups, as population could be segmented with industry or revenue. Also, the size of sample group is relevant, since it is one of the most important factors to affect reliability and validity.

In this study the population of potential participants is limited to include only clubs of three highest divisions of Finnish football. Inside this segment, questionnaire is limited to concern only one person per club and to the persons only who work in daily basis with player transfers or financial management of the club. Currently 58 clubs are playing in the top three divisions of Finnish football, which is the total number of potential participants that can be pursued to answer. Some of the 58 teams belong to same organization so potential participants must be limited and questionnaires are sent only once to the organization. After the delimitations, totally 45 clubs are approached in respect of questionnaire. In queries, questions can be formed in two ways: open-ended or closed-ended. When participants can use their own words when answering, question is open-ended. When there are only standardized options for answer and participant chooses the most suitable one from these pre-selected answers, questions are closed-ended. Closed-ended questions produce data that can be analyzed statistically, as open-ended questions can produce more specific information and the reasons behind answers. (Holopainen & Pulkkinen, 2002) In this study the closed-ended questions serve the purpose of the query better, as the goal is to get overall view of the phenomena. To achieve that, it requires statistical data from as many participants as possible from the target group. After the participation into questionnaire is closed, answering distribution of each claim will be analyzed with the help of automatically calculated statistics of the questionnaire by Google Forms -platform. After the statistical analysis, the explanations for the reasons behind the statistics of each question are discussed.

### **3.2 Theme interview**

The second data collection method of this research is interview, more specifically theme interview or half-structured interview. Metsämuuronen (2006) states that qualitative research methods are especially useful when goal is to find out causal connections. In this research, the purpose with theme interviews is to find out if the training compensations and solidarity payments (cause) have any impact on the economic status (effect) of the clubs.

Theme interview is selected as data collection method because of its flexible nature. As the questionnaire is standardized method, theme interview gives an opportunity to fruitful

discussion and a possibility to understand more specifically differences between participants. Also, the data from questionnaires can be used in interviews, since the discussions can be particularized depending the situation with the results from questionnaire. According to Hirsjärvi & Hurme (2001) in theme interviews it is common to create additional questions especially when there stands out topics that are not anticipated before the interview. Here the researched topic is highly organization-dependable, so the theme interview gives interviewees room to share their own experiences and conclusions around the topic. Training compensations and solidarity payments are scarcely researched or discussed in literature especially in Finland, which makes the topic unknown and assumptions about the topic cannot be made based on any existing research.

As can be seen in the figure 4, the interviewing process of this study starts with a thorough planning, where possible research methodologies are compared and eventually chosen for the purposes of data collection. In planning phase, the research questions are formed based on the research questions, research theory and results of executed questionnaire.

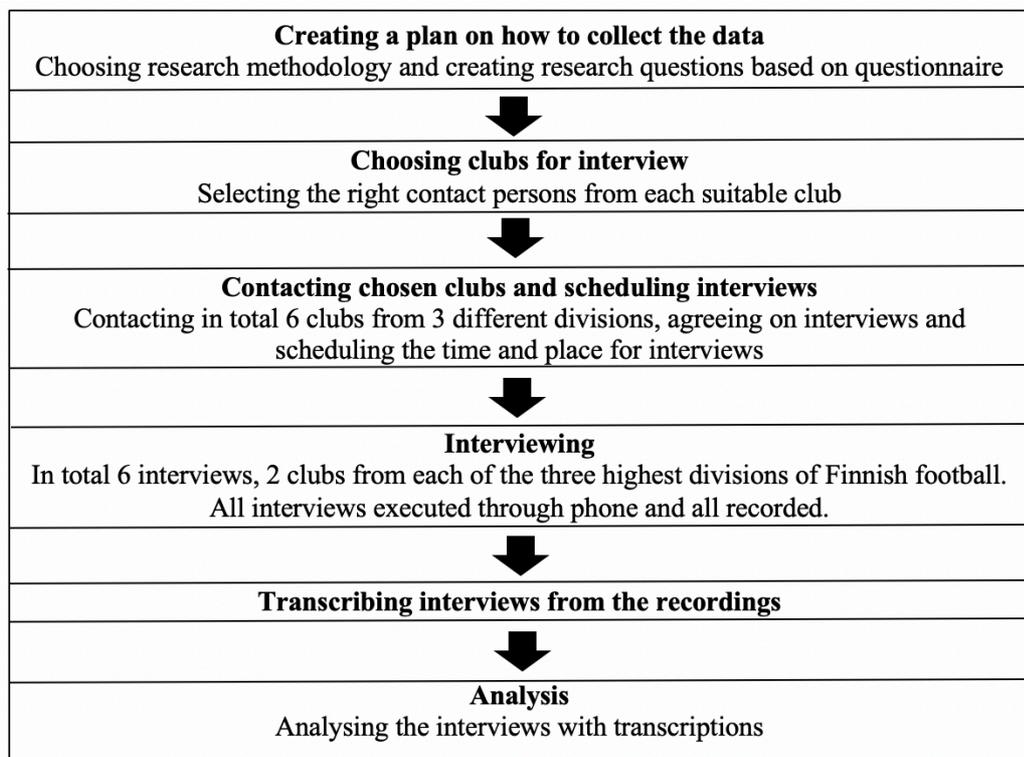


Figure 4. The interviewing process.

After the planning phase, interviewing process continues with choosing the clubs and the right contact persons, which are further contacted and asked for an interview. All clubs that are chosen for an interview are also clubs that have taken part into questionnaire before. The same target group as in questionnaire are also valid in interviews: interviews include only clubs from three highest divisions of Finnish football. The potential interviewees are contacted via phone and also the interviews are held on the phone. All the interviews are recorded and transcribed for the analyzing purposes. After the interviews and transcriptions, the final analysis is made.

## 4. RESULTS OF QUESTIONNAIRE

In this chapter the results of questionnaire will be introduced and analyzed. Each of the 10 questions of survey will be shown individually with the results and discussed. The questionnaire was executed in Finnish language and totally 45 persons each from different organizations were approached via phone or email to confirm their interest in participating this questionnaire. Each of the approached persons who agreed were after that sent email with a link to Google Forms -platform where they could answer in 10 closed-ended questions in Likert-scale from 1 to 5 which was shown in previous chapter. In total, the questionnaire received 31 answers, which equals the response rate of 69%. Participants had time to answer from 21<sup>st</sup> of November 2019 to 3<sup>rd</sup> of December 2019, which equals in total 13 days.

First question deals with the role of player development in the clubs. First claim was *“in comparison to our revenue, we invest a lot of economic resources into player development”* where, as in every claim, participants had five answering options. As seen in the figure 5, 67,8% of the participants answered that they agree (option 4) or strongly agree (option 5) with the claim, which represents a clear majority of all answers. The answers give an explicit picture that the player development is a vital part of the strategy in Finnish football clubs and the clubs invest a lot of economic resources into this activity. Only five participants (16,1%) answered that in comparison to their revenue, they do not invest a lot of resources into player development. Of course, the question leaves a possibility that these clubs which disagreed with the claim invest other than economic resources into player development, for example time resources.

*“In comparison to our revenue, we invest a lot of economic resources into player development”*

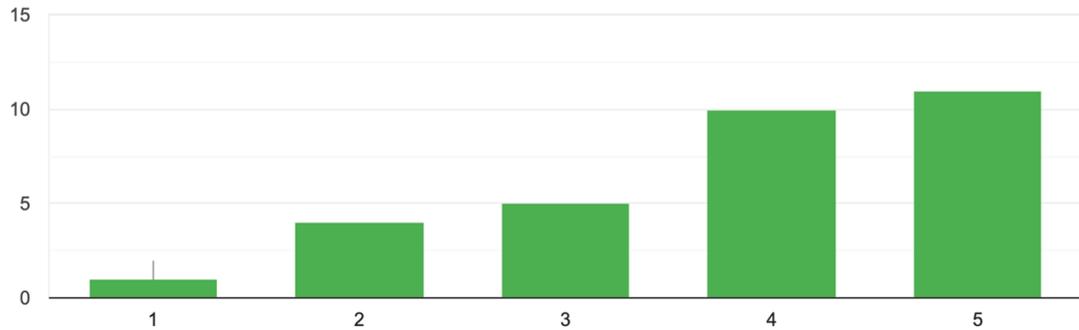


Figure 5. Distribution of answers in claim 1.

In the second question it was intended to find out whether the player development creates revenue in comparison to invested economic resources. Second claim was *“player development is important source of revenue for us”*. In this claim the answers were distributed more than in the first claim. Figure 6 shows that many of the participants agreed (25,8%) or were neutral (29%), whereas 45,2% of all participants disagreed. That means almost half of the participants did not find player development as an important source of revenue for them. Based on the two first claims, a careful assumption can be made that clubs invest a money into player development but do not find that these investments create an extremely important source of revenue for them. If these investments do not create economic rents i.e., they are bad or average investments, clubs must have some other reasons to carry out these investments.

*“Player development is important source of revenue for us”*

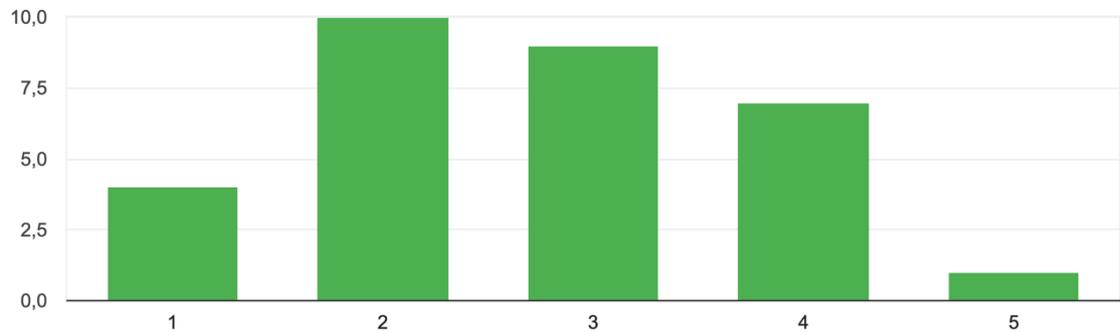


Figure 6. Distribution of answers in claim 2.

The third claim was about whereas clubs consider the revenue as their prime target when investing into player development. The third claim was *“primary goal of our player development is to get financial compensation in the future”*. This claim was presented to research the intentions behind the clubs’ investments to player development so that questions in interviews can be aimed towards the right direction. Based on the answers, the future revenues are not the primary reason when investing into player development. Figure 7 shows that 61,7% of participants answered that they disagree or strongly disagree with the claim. Only 16,1% agreed that the future revenue is their primary incentive in player development. Noticeable is that none of the participants strongly agreed with the question, so it could be that none of the clubs have a strong vision or strategy of player development where the future revenue is the primary goal. This also confirms the assumption that clubs have, rather than economic reasons, some other incentives to invest in player development.

*“Primary goal of our player development is to get financial compensation in the future”*

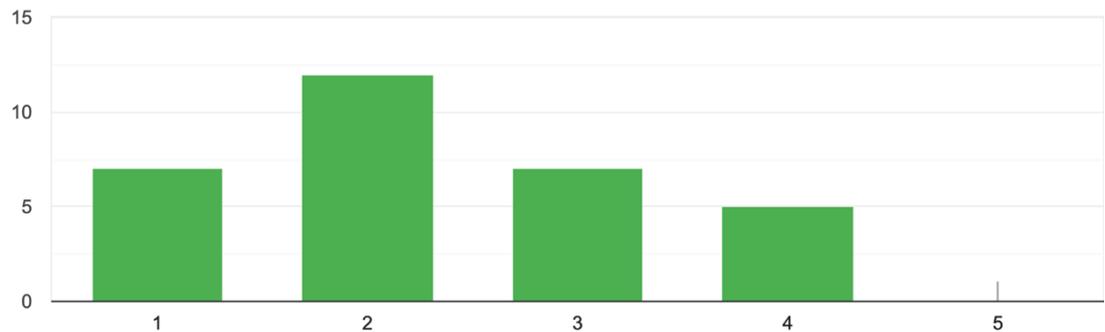


Figure 7. Distribution of answers in claim 3.

In the claims 4, 5 and 6 intention were to find out whether clubs pursue to develop their players into their own first team, to better teams in Finland or to better teams and leagues outside the Finland. Training compensations and solidarity payments are received when a club-trained, under 23-year old player plays for another club in Finnish two highest divisions or when a club-trained player is transferred into team which plays in higher-ranked league abroad. Because of that, claims 4, 5 and 6 seek to keep on learning the reasons why player development is exercised and if clubs develop players for themselves, for other clubs or both. The claim 4 was *“our goal is to develop players into our first team”*. As can be seen from the figure 8, totally 90,3% of all participants answered to pursue development of their players into their own first team. That means majority of the clubs do not try to develop players straight into other clubs in or outside the Finland what could lead to training compensation and solidarity payments.

*“Our goal is to develop players into our first team”*

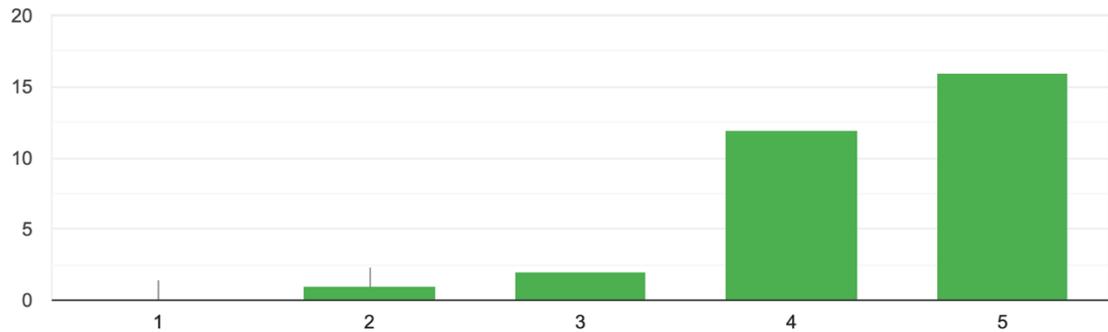


Figure 8. Distribution of answers in claim 4.

The fifth claim was *“our goal is to develop players into higher quality leagues/clubs inside the Finland”*. It seems that a smaller number of clubs seek to develop players to other clubs inside the Finland than inside their own club, which according to questionnaire can almost be considered as self-evident (see question 4). Still as seen in the figure 9, the clear majority, in total 58% of all participants, answered to agree or strongly agree that they eager to develop players into higher quality leagues or clubs inside the Finland. Almost third of the participants (29%) answered that they disagree or strongly disagree with the claim. Club could pursue to develop players into other clubs inside the Finland since the player’s success in higher divisions leads to training compensation paid by Finnish FA and it also could attract more interest from clubs outside the Finland, which could lead to training compensation or solidarity payments paid by the player’s new club. Thus, it could be that the reason for greater disagreement in the claim 5 than in the claim 4 is, because these clubs already are involved at the top level and they are not pursuing to develop players into their competitors.

*“Our goal is to develop players into higher quality leagues/clubs inside the Finland”*

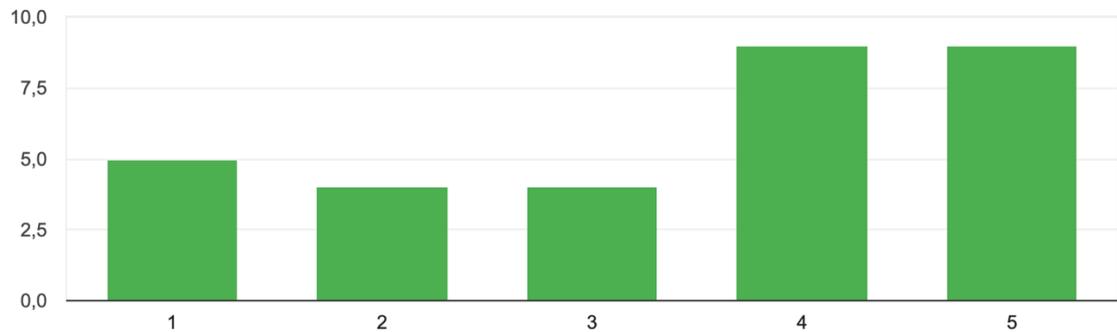


Figure 9. Distribution of answers in claim 5.

In the sixth claim was asked if the clubs' goal is to develop players into higher quality leagues outside the Finland. Figure 10 shows the distribution of answers in claim 6. As in question 4, almost every participant agreed or was at least neutral with the claim. In this case, 80,6% of the group told they are aiming to develop players into leagues outside the Finland and in addition 12,9% were neutral about it. There can be several reasons for this; when a player is transferred into foreign countries the club gets compensated with transfer fee, training compensation or solidarity payment. Success of a player in other league can raise also the status of the training club, which could attract other young talents to choose the particular club. In the best case this could create a positive circle that feeds itself as players are scouted, developed and transferred again and again.

*“Our goal is to develop players into higher quality leagues outside the Finland”*

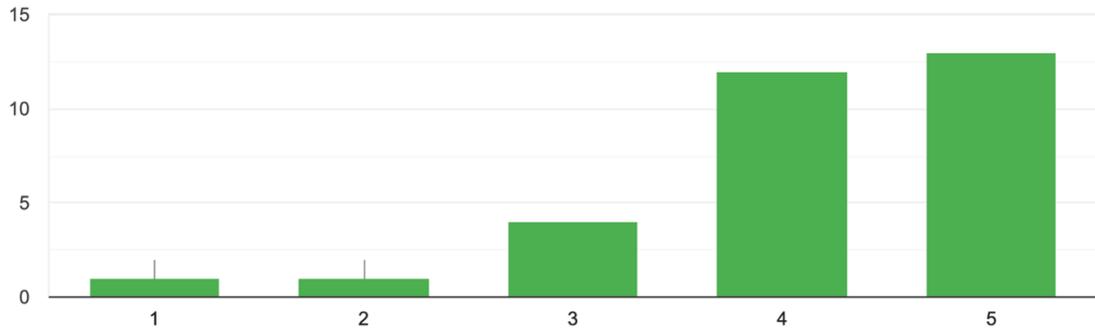


Figure 10. Distribution of answers in claim 6.

In the claim 7 was asked whether clubs always get regulated training compensation, solidarity payment or negotiated transfer fee if player which they have developed moves from a club to another. Reason for this question was to research if clubs get always rewarded for a player they have developed to other club or if there could be some way avoid or bypass the obligation to fulfill these payments and clubs feel the pay-off is not a certainty. As shown in figure 11, over half (51,6%) of the participants answered that they agree or strongly agree, which means they always get the reward that is obligated or negotiated when the club-developed player moves. 16,1% of the group disagreed with this question implying that they might haven't got all the obligatory and/or negotiated fees or they haven't developed any player to match these conditions. With these numbers it seems that the training compensation and solidarity payment evasion is not a threatening factor for club at least at the present.

*“If player which we have developed moves from a club to another, we always get regulated training compensation, solidarity payment or negotiated transfer fee”*

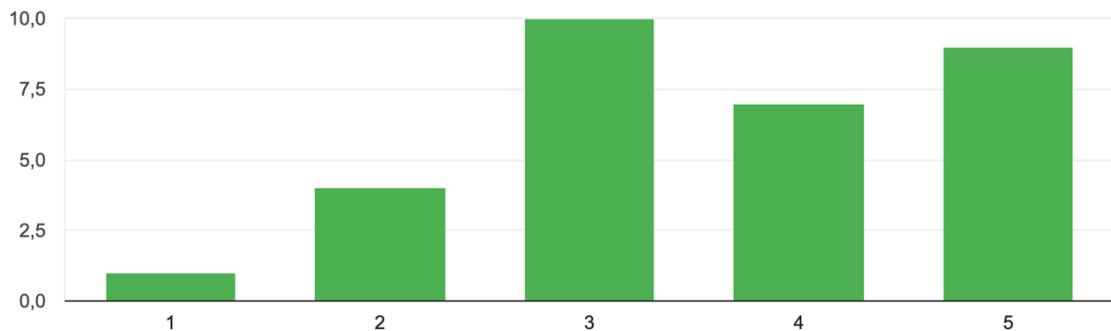


Figure 11. Distribution of answers in claim 7.

The claim number 8 was *“training compensations and solidarity payments are economically important for us”*. With this claim it was straightforwardly charted answers to the main research problem. With this claim in questionnaire, the large foundation of perspectives from clubs is gathered that later feeds the conversation in interviews about the reasons behind the answers. It seems that training compensation and solidarity payment have very divided economic significance between different clubs. As can be seen in the figure 12, totally 41,9% of participants answered options 1 or 2 meaning that they disagree or strongly disagree that training compensation and solidarity payments would have economic importance to them. 29% of group were neutral, so they possibly are receiving training compensations and/or solidarity payments, but the fees are relatively small or not frequent enough to be important. However, 29,1% of clubs found training compensation and solidarity payment mechanism economically important to them. 19,4% of participants who answered to agree, were strongly agreeing which means almost fifth of the clubs are receiving prominent amounts of these payments in comparison to their revenue.

*“Training compensations and solidarity payments are economically important for us”*

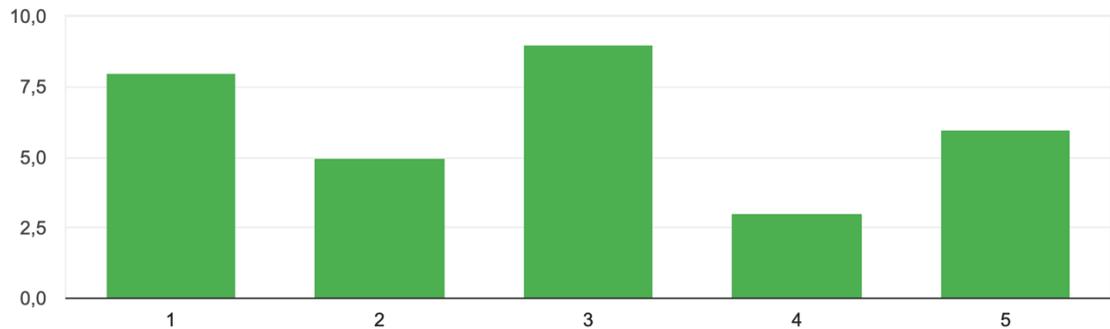


Figure 12. Distribution of answers in claim 8.

In claim 9 was asked if the training compensations and solidarity payments are more important source of revenue for clubs than negotiated transfer fee. Distribution of answers in this question can be seen in figure 13. From the individual answer options, neutral received the most votes, as 32,3% of the participants answered that transfer fees, training compensations and solidarity payments have all equal economic importance. Majority of clubs (54,8%) answered that the self-negotiated transfer fees are more important than obligatory training compensations and solidarity payments, whereas there were only a few clubs (12,9%) to whom transfer fees are in less important role. Transfers fees are always negotiated with clubs themselves and the terms in self-negotiated transfers can be more affordable for the selling club. Also, one explanation could be that the transfer fee is negotiated to lower level than training compensation or solidarity payment would be, which increases the club's possibilities to get player transferred.

*“Training compensations and solidarity payments are for us more important source of revenue than negotiated transfer fees”*

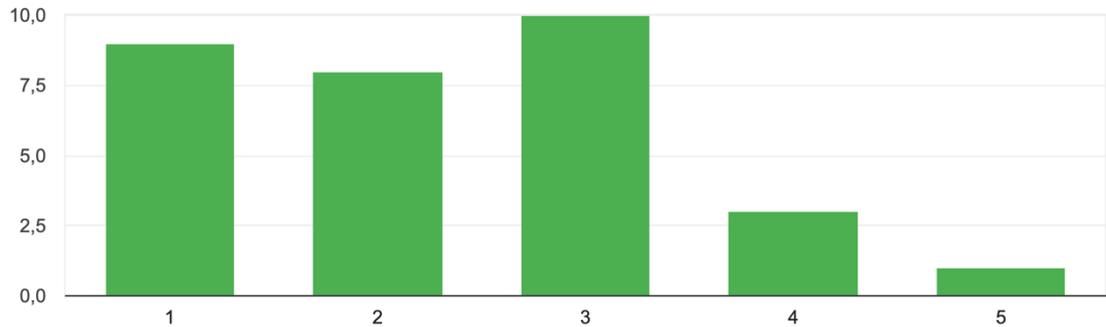


Figure 13. Distribution of answers in claim 9.

In the last claim it was asked if clubs think the training compensations and solidarity payments will have at least equal economic importance in the future than now. Intention was to find perceptions whether participants see economic potential in the training compensations and solidarity payments, while looking into future. Figure 14 shows that in total 61,3% of participants agreed with the claim, so the majority of clubs tend to believe that economic importance of these particular transfer market mechanisms will increase. A little more than fifth (22,6%) of group thought that the economic significance of training compensations and solidarity payments will decrease, whereas 16,1% of answerers had no opinion.

*“Training compensations and solidarity payments will have at least equal economic significance in the future than now”*

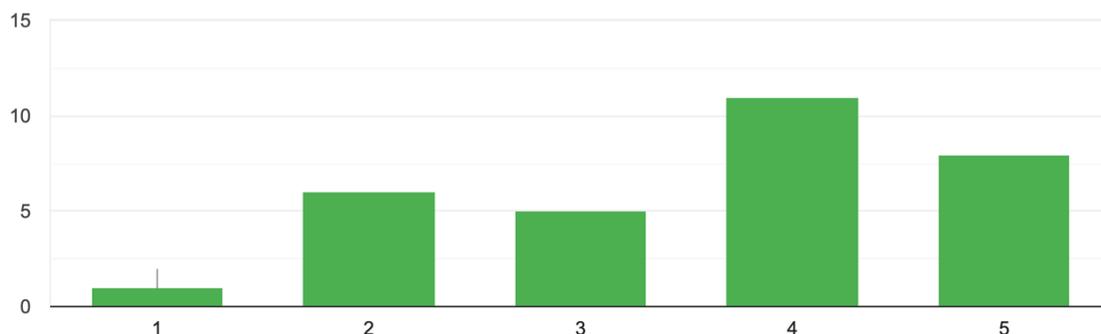


Figure 14. Distribution of answers in claim 10.

The questionnaire succeeded to answer questions and also to create new ones. As a conclusion to questionnaire, it seems that clubs pursue to develop their players mainly because other than economic reasons. With player development, clubs aim to develop players into their own first team and through that to clubs outside the Finland. As the primary reason to develop players into international fields is not economic, the reason remains unknown. It is still likely that economic reasons are impacting the decisions to invest into player development, but rather than driving it, economic reasons could be sitting on the front passenger's seat. Almost third of the participants think that training compensations and solidarity payments have economic importance to them whereas over half of the participants feel that self-negotiated transfer fees represent greater value than training compensations and solidarity payments. Based on these results, the importance of training compensation and solidarity payments is shattered and could be explained by the status, division, location or the size of the club. This remains one of the main themes to find out in the interviews. Even though the economic importance of training compensations and solidarity payments seems to be bipartited, most of the participants see that the importance of these two mechanisms will increase in the future.

## **5. FINDINGS OF INTERVIEWS**

This chapter focuses on the analysis and findings of the interviews. All themes which were chosen for interviews will be discussed separately. Firstly, the execution of the interviews will be shortly described.

For the interviews it was chosen to interview two clubs from each division, which made altogether six interviews in total. After the choosing process, the clubs were contacted via phone and asked whether they want to participate in interviews. All six clubs that were contacted also accepted to participate and the schedules of interviews were agreed on the phone. The interviews were agreed between 07.01.2020-08.01.2020. The interviews took place between 08.01.2020-13.01.2020 and were executed through the phone. All interviews were only between the interviewer and the interviewee. Interviews were recorded with recording application on the phone and all participants agreed into this arrangement. In interviews the theme questions were asked, and discussion was around these chosen themes. All questions of the interviews are shown in appendix 2.

All the interviewees are key figures in their clubs with a long background in football. All interviewees work in their roles with strategic side of player contracts, player transfers, player development and financial management. Backgrounds of the interviewees are introduced in the table 1. As the interviews were being carried out, completed interviews were transcribed from the audio records. All the transcriptions were made between 08.01.2020-14.01.2020. After the transcribing, these interviews were analyzed from the transcriptions and next the analysis will be introduced.

Division	Club	Position in club	Years in current position	Working experience in football
Veikkausliiga	Club A	CEO	3 years	24 years
Veikkausliiga	Club B	Sporting Director	7 years	7 years
Ykkönen	Club C	Executive Director	1 year	12 years
Ykkönen	Club D	CEO	5 years	9 years
Kakkonen	Club E	Chairman of the board	13 years	24 years
Kakkonen	Club F	Treasurer, member of the board	13 years	28 years

Table 1. Backgrounds of the interviewees.

## 5.1 Players' role in football clubs

Just as firms, football clubs are bundles of different resources and capabilities, which together determine the success of the firm. Players can be seen as unique resources to a club and as the fundamental idea of resource-based view, unique resources can be found as the source of a competitive advantage as they enable club to implement value-creating strategies. The style of playing can be seen as one of the club's strategies and by the means of that strategy club pursues to create value like sporting success and financial success. In addition to players, football clubs are consisted of resources and capabilities like coaches, other employees, facilities and history and relationships that are also determining the success of an implementation value-creating strategies. Capabilities like team spirit and successful history enhance the productivity of other resources and are important for the prosperous implementation of strategies. This chapter focuses on the role of the players in club's sporting and financial success. Players' contribution to both sporting and financial success were asked separately and next the results are discussed.

### 5.1.1 Players' role in sporting success of club

The clubs interviewed were unanimous about the players central role as the enabler of sporting success of a club. In total 3 interviewees out of 6 said that the players are the most important pieces in the puzzle and critical in pursuing sporting success. In addition, the other

three interviewees described the players' role to be the second important. Interviewee D stated straightforwardly that players are the main resource they have and without players any success could not be possible:

*“Of course they are in key role. Players and team are our product, we don't have anything without them.” (Interviewee D)*

Other interviewees had a same kind of vision. Players' role was seen big because of the players are the ones who actually do the work on the field, which determines the sporting success. If the players prosper on the field, club has a chance to win and other way. It seems that interviewees find players as employees who work on the practical level. Interviewees talked highly on the players' role, but the importance of team and the collection of players recurs more than individuals and player-specific qualities. The players are not transferred in exchange for big amounts of money in Finland, which can have an effect on that players are seen more as a workers than a stars and the set of players is seen far more important than individuals. Interviewee A describes the players' role this way:

*“Well when talking about the sporting success then maybe the most important. Coach also has a big role. We have a good coach but it is the players that do the job in the field in the end.” (Interviewee A)*

Like the interviewee A mentions, also coaches' role is seen as important by the interviewees and mentioned in many answers. Coaches' role is described as the enabler of efficient use of the players. Interviewees described the coaches as creators of the strategy, which is from the view of sporting-side the club's playing style, and coaches are in many ways responsible for how players perform and what kind of players are selected. Coaches are like the managers in traditional firms, who dictate the overall. Interviewee E thought that the coaches are the most important resources that club has, whereas interviewee C emphasized the players' role as the most important resource and coaches as the creators of the strategy and efficient system:

*”Well of course players have a quite central role. Of course then the coach, I feel that coaches are the most important persons around the club.” (Interviewee E)*

*”It is the players that are the ones that have most impact. Coach does not lose any or win any match, it is the players who do. Coach has then the impact in how he will get players to play and what kind of team he can build and how they play together then.” (Interviewee C)*

The general atmosphere and the relationships in the team and in the club can be also seen as one important factor according to interviewees. Interviewee C mentioned above that coaches’ role is also to contribute how players play together. How players will play together is determined by which kind of relationships they form on the field. The atmosphere and the relationships inside the club are capabilities which are formed by the interactions inside the team. As Helfat & Peteraf (2003) describe, capabilities are the in fact the abilities of the organization to perform well and utilize organizational resources in strategy execution. These are factors that cannot be acquire outside the club but must be accumulated through the time. Interviewee F emphasized the role of the atmosphere as the most important determining factor in sporting success of the club:

*“Of course this kind of general atmosphere and the mutual way of doing in the club is determining the way. If you have a full amateur club and a good player goes into this amateur side and would play for example two years there, then the player would turn into amateur also so.” (Interviewee F)*

Two interviewees also brought out the importance of economic stability of the club as important factor. Interviewee E saw that junior players are important since most of their revenue comes from the parents of these players and it helps to create financial stability which further helps the organization also to success on the field. Interviewee B saw that financial stability is the cornerstone which allows club to create the foundations on sporting success, good players, successful strategy and good atmosphere:

*“Well the finances are on the bottom of everything, if it does not work then it does not matter who are the players, it won’t work then. But of course players are important. And there is how the players fit in the playing style and like that also.” (Interviewee B)*

Interviewees hold players on great value, and it was also discussed with interviewees that what kind of role does the player-picking have and what kind of risks it holds to acquire new players from transfer markets. Resource-picking is one of the important factors in resource-based view and generally held very pivotal in football. Interviewees described the success in player acquisitions as important, especially in the sporting success of the single season. If the players that are acquired perform well and lift the quality of the team, it can have a significant role in the success of that particular season. Also, the economic side was brought out, since clubs do not have a lot of economic resources to acquire players and the scarce resources that clubs have need to be invested wisely in the right players. Clubs use a lot of time resources to pick right players and it is seen as difficult business where misses occur frequently. Interviewee B described the difficultness of player transfers and interviewee F emphasizes the importance of player acquisitions in sporting success:

*“With this money in play, these wages, it does not matter if it is a 2000e player (per month) or 5000e player since the quality of the player can be any way.” (Interviewee B)*

*It is important when you think about single season and the success of the first team, very important. Those small investments that we can put into things like this, those need to be put best way possible to right players.” (Interviewee F)*

Players are found, especially in the lower division clubs, from the nearby areas and cities. Clubs have mixed ways to scout and find suitable players. Some interviewees said that they do not technically use time or financial resources into finding players, whereas some do it systematically with multiple people using time into it. The risk in acquiring a new player exists.

*“It holds a risk yes. There is risks since we don’t compete with money, and because of that we might have to take more raw players or players that come from lower divisions, players*

*that might have been just injured and therefore the value has gone down. We have to be extremely careful about using the money.” (Interviewee A)*

The risk in picking the wrong player is both sporting and financial. Unsuccessful player recruiting can lead to bad season on the field and means that the investment in player goes wasted. Interviewee A said that the low budget in player acquisitions means they have to recruit players that are riskier. Players that have been injured or are young and inexperienced are mostly valued lower and therefore more accessible. Still, clubs seem not to take great risks with player acquisitions and clubs that systematically recruit players outside their own club are careful in the player-picking.

### **5.1.2 Players’ role in economic success of club**

Interviewees thought in mixed ways about the players’ role in economic success of a club. Interviewees had different views on how players contribute to financial success, even though five out of six interviewees agreed upon the importance of players in economic success of the club. Players’ role in economic sense is highlighted especially with sporting success and players contribution into audience, partners and sponsors. Good and especially local players attract paying audience and the partners are interested when the team has quality and players are from the nearby areas. The success on the field is factor that has major role whether fans and sponsors are interested in team.

*“Yes, yes in kind the sporting success brings economic success that is a clear thing. In Finland, and why not in other countries also, those clubs who success on the field they have the stands full, at least with higher probability and therefore the economic success grows. People are interested, firms and partners are interested. Of course they have a big effect and in brand creation and the entirety that the product is in order.” (Interviewee D)*

Other strong view was that players contribute to economic success with the expenses they create for the club. When players are cheap, club has to invest less money into the team and the budget is less stressed. Players that are cheap are often young, inexperienced and from the own junior academy or local teams. Since these kinds of players are inexperienced, their

first professional contracts are cheap. When the core of the team is cheap, it allows the club to sign a few key players with more expensive contracts. Based on the interviews, this applies mainly on two highest level of divisions, Veikkausliiga and Ykkönen.

*“It has a significance if players are expensive or if all players must be bought, then it takes more money and the money must also come from somewhere. But if there is a lot of players in nearby areas then the players will come cheaper to play into teams it has a contribution into financial side.” (Interviewee C)*

*”Basically players do allow economic success. It is that taking a young player here is cheaper than the ready 26-year old who has shown his skills somewhere and these players won’t usually drop their salaries. Every year we promote our juniors who have shown their skills, at least two own juniors this year.” (Interviewee A)*

Only one interviewee mentioned the transfer fees as important source of revenue. Interviewee B thought that players’ role in economic success is important, since the well performing players could be sold abroad. For this club the player transfers have allowed the club to invest money outside the football, for example real estates and it has been crucial to the club and its existence:

*“Players have had a big financial role for us. When thinking the day I came into club and contrast that into this day I think we have sold players for almost a million euros quite close maybe these sales which is a big money and it has had role. It is one reason behind why we are still alive.” (Interviewee B)*

Only one interviewee thought that players cannot contribute into financial success of the club in lower divisions. According to interviewee F, clubs in lower divisions, for example in Kakkonen, are financially far more reliable on the volunteers in the club than the players on the field or player transfers. Even the players would play well, and team would have success, it does not have effect on the amount of paying audience in games in lower divisions. The product and brand of the players and team is highlighted not until the Veikkausliiga and Ykkönen.

*“Well, I think that players cannot contribute to financial success in division like Kakkonen. Even the club would play well and would have success, it does not have much effect on the audience quantity on the matches. Maybe the product is emphasized in higher divisions, in Kakkonen the financial profit is more affected on that how engaged the volunteers are in the club and how the volunteers success in fundraising.” (Interviewee F)*

Interviewee C thought also that selling players in lower divisions is highly improbable, since the contracts usually include clauses which allow players to move free into higher divisions or abroad. Including the clause is usually the condition by the player to join into team and is included because it protects the player from club to block the move in hope of money.

*“It happens here that longer contracts are made with players and then trained and raised and the mission is with certain players to bring them into club and then tried to sell and get money with that way, but it is in these lower divisions that when a player comes he wants a clause into contract that he can leave to play into higher division or abroad whenever. Very rarely clubs can get any transfer fees, mostly the transfers are free.” (Interviewee C)*

Clauses that allow players to move freely are complex for clubs, since the training compensations and solidarity payments are small in these kinds of situations where a young player stays in club only 1-2 years. Players seem to have a bigger influence than, especially lower division, clubs in contractual situations like these.

## **5.2 Role of player development and reasons behind it**

Football squad is usually consisted of 22 to even over 30 players, while 11 players can be on the field at the same time. To fill the squad, teams can either acquire players outside their own organization or develop players themselves, usually through own junior academy. Resource-based view the recognizes two ways of getting new resources into one's position and as it stands, clubs can either accumulate their player resources externally or internally. Research in resource-based view jointly agrees on the conviction that when a firm tries to ensure the long-term success and profitability on competitive markets, the combination of

externally and internally accumulated resources is the most favorable way to develop. It is very unlikely to cope without any externally accumulated resources and it is unusual also in most of the clubs in the Finnish three highest divisions of football.

Internal and external accumulation of resources are closely related and as in this study has already shown, clubs acquire young players to further develop it internally. Maritan & Peteraf (2011) describe it virtuous cycle which is formed by the alternate acts of buying and building. After that the resource will effect on the managerial choices and shape further transactions of the firm in strategic factor markets. Accumulated resources itself are results of choices made by managers over time. In football, managers often decide for example which players are the ones who will be playing the most and maybe promoted for the first team from the junior academy. This chapter focuses solely on the importance of the internal resource accumulation, player development, for clubs interviewed. Additionally, the reasons and motivation to invest in player development was asked. The results of both questions are introduced next.

### **5.2.1 Role of player development**

Every interviewee was asked how big role player development represents in their club's strategy. The aim here was to understand how systematic player development is and do the clubs invest time and financial resources into it. 4 interviewees out of 6 answered that player development has an extremely important strategic role in their clubs. Two interviewees told that they do not run their own junior academy and do not have a role for player development in their strategy, but both teams are in close liaison with junior organizations in their nearby areas. Results from questionnaire and interviews were very similar, since almost 70% of participants answered in questionnaire that they invest a lot of resources into player development.

All the clubs who declared the great role of player development in interviews are also investing systematically a lot of time and financial resources into their junior organization. Interviewees kept their junior organizations in high regard and take pride of it. A few interviewees told that they have started to invest into player development systematically not

until during the last 10 years. Investing in player development seems to be rather recent than old phenomena. Interviewees B and F talked about player development's role in their clubs:

*"Yes it is big, we do invest more and more into it all the time." (Interviewee B)*

*"Well yes, it (player development) has been last 6-7 years very systematic." (Interviewee F)*

Time is important determinant in internal resource accumulation process and accumulation serves over time. Time compression diseconomies take care that accumulation of resources cannot be speeded up, since when things are done faster the costs of developing a resource increase exponentially and won't lead to same resource position. Four clubs in this study who have junior organization, do have systematic player path from the children-age to adulthood. Clubs do have junior teams for every age group, and junior players can join the club starting from the ages 4-6. This also means the clubs have coaches, full-time especially in upper age-groups, to every team in every age group, which is according to interviewees one of the biggest investments they have to make in junior organizations. Also, the conditions of junior teams need to be good around the year.

*"Player development has very big role and it is one of our main strategic points that our player path is from the grass roots level till the first team" (Interviewee A)*

As clubs invest into full-time junior coaches, every interviewee club with junior organization emphasized the role of junior coaches in the success of player development. Professional coaches in junior level seem to be the most important factor when talking about the quality of junior organization. Competition of junior organizations is tough and especially clubs in larger cities and large junior organizations with their quality attract junior players. Bigger club means bigger resources and many small clubs seem to be fighting for the best talents against bigger clubs in their nearby areas. This is also why even smaller clubs have to invest into player development and junior teams, if they have such.

*"Before we hired full-time junior coaches the level of quality could be very different between age groups, it depended a little bit on luck that which age group we got a good coach and in that team it was good. Now when we have had full-time junior coaches, we have got*

*quality levels in teams in different age groups more homogenous. They (coaches) can give so much support inside the single teams. And kind of because of that we have had every year some own junior into our first team.” (Interviewee F)*

Two interviewees said that they do not invest into player development and do not have their own junior organization or teams. Both teams have different stands on why they do not have junior organizations, but both teams feel that players from their home city and nearby areas are extremely important for their club. Interviewee C said they do not have junior organization since they feel there is not enough talented players for every team in their area and because the bigger clubs in nearby cities scout and attract the most talented players from their academies. They still do a lot of co-operation with junior organizations in their area and they are part of city’s junior organization which is consisted of 5 different clubs and which develops teenager players. Interviewee D on the other hand said their club is only found to be the joint first team of the clubs in their city, which means the junior organizations in the area are individually developing the players into this first team. Interviewee C and D described their arrangements as follows:

*“Juniors play in their own clubs until they are 13 years old and then they move into junior organization which is co-operation of 5 clubs in this area and that organization manages the development side. We are all the time doing co-operation with them and trying to ensure that coaching quality and players would be in the same level. Kind of they develop the players for us.” (Interviewee C)*

*“Actually it is that football gets more expensive the older juniors grow. And practically combining all these resources could be the thing, here everyone does something and no one can do it well. These older age groups could come under our organization and it would be competitive and the best juniors would come here and then also we could raise funds for that so that parents do not have to pay for it all. This is the idea.” (Interviewee D)*

Interviewee D believes that in the future they will have their own junior organization and by that they could involve developing players to their own first team. Reason for this is

financial, since combining the resources from different organizations could lead to more efficient way of developing players.

### **5.2.2 Reasons to invest into player development**

When discussing the reasons and motivation to invest into player development and junior organization, two themes stood up clearly: Financial reasons and status of the club. Three interviewees out of four who's club has junior organization described that the main reason to invest into player development is way or another financial. Other interviewees whose club do not have junior organization also said, that they are considering investing into it mainly because of the financial reasons. Especially potential transfer fee and affordable contracts of club-trained players stood up as the financial reasons. Training compensations and solidarity payments were mentioned to be one source of motivation. If the club gets their player developed into foreign club, it could mean a notable sum of transfer fee, training compensation or solidarity payment as found out previously in this study. It seems to attract clubs regardless the level of division and based on interviews for some clubs these potential payments seem to be more long-term vision than realistic achievements that could be reached in near future. In questionnaire, only 16,1% of participants answered that their primary reason to invest into player development is financial, which means the results differ from interviews.

*“Well there is the idea that we could get our own juniors into our first team and well it is also in back in our minds that when we have our club-trained players then training compensations and transfers fee are attracting. And usually our own players are more affordable than bringing here players from abroad or from other clubs.” (Interviewee A)*

*“It is that if there would someday come this kind of win in a lottery, if you think about the financial side.” (Interviewee F)*

*“When we get our own juniors into our first team, usually the first playing years of these juniors are affordable for us and the more we have this kind of players the more we have money left to strengthen our squad with acquiring new players. (Interviewee B)*

The other popular reason for investing into player development is growing the status of the club. All of the clubs with junior organization answered that they believe successful player development will improve the status of their club. It is also a clear target for every club, since the club with a great status attracts more and better junior players into their team, which could create a circle that is feeding itself and also lead into financial victories. Interviewees mentioned that status comes through the single players which are chosen into National Team or which are transferred into higher level divisions, especially abroad. Success of own club-trained players attracts also partners and sponsors, who according to interviewees are likely interested in local and potential players. Also the intense competition between clubs was mentioned and it leads clubs to invest into quality of their player development if they want to cope in the competition and keep their best talents in their organization. Interviewees A and E described the status motivation of their player development followingly:

*“And then also this, that we would be this kind of attractive club in Finland, where players would like to come, young players, to develop and then move from here forward.”*  
(Interviewee A)

*“Here close by is these big clubs where it is easy to leave, so if this our operation is not high quality enough, they will leave, that is the reason. And we believe that if our players reach the level of Veikkausliiga or forward that, I think it will give positive PR to this club.”*  
(Interviewee E)

When discussed about the profitability of player development, interviewees had mixed experiences about it. Interviewees who represent clubs in Veikkausliiga told that their junior organization runs on its own and manages to at least break-even, while clubs in Kakkonen did not find it profitable. This could originate from higher division clubs attracting better talents with greater resources, which also increases the likelihood to get compensations from these talents, since they have more potential and will more likely have capacity to clubs abroad. Also, players in Veikkausliiga clubs are in brighter spotlight for international teams who scout players. Two of the interviewees mentioned that parents of the junior players are

mostly the ones who pay for the function of junior organization, which leads the junior organization to run on its own or with low investment.

*”Well, no. No it is not. Our club has been trying to get these talent coaching supports and other financial aids, but we have never got any. Despite that we have, in relation to club’s size, invested maybe even too much into the full-time coaches in our junior organization. We have kept it important, but it is not financially profitable. That is the case because we have not got any financial support for that.” (Interviewee F)*

*”When we hired those our full-time junior coaches, I think it was some kind of controlled risk.” (Interviewee E)*

*“Well, I see it that way that our junior organization runs itself, parents are the ones who pay their childrens’ hobby in the end.” (Interviewee B)*

*“Yes it is. Our association is doing profits every year, not anything big but this keeps running on its own and something little is left after the expenses and it is used to make conditions better and educate employees.” (Interviewee A)*

It seems also that financial support from Finnish FA to player development helps clubs to manage at least break-even in their player development whereas clubs that do not get those are investing maybe even too much to their junior organizations and making slight losses with it.

### **5.3 Income formation of football clubs**

Football is a show-business which has traditionally got revenue from the paying audience. Nowadays football clubs have spread their tentacles into many different fields of everyday living and all the revenues are not necessarily coming from the audience and sausage stand by the field, but for example from the player transfers, broadcasting contracts and maybe even investments that are not related into football. Clubs around the world are growing to be

more and more professional. The understanding of how Finnish football clubs create their income is important, since it gives us the opportunity to study the main research problem, economic importance of training compensations and solidarity payments, in relation to other sources of revenue. Every interviewee was asked what are the biggest sources of income for their clubs and how big roles those incomes represent in their total revenue.

Distinctly largest share of the revenue of football clubs interviewed comes from a partners and sponsors, whose part in club's total revenue can be even over 60% like a few interviewees described. 5 interviewees out of 6 discussed that partners and sponsors create the biggest share of their income and even the sixth interviewee told that partners are the second biggest source of income for their club. These partners and sponsor are in return promised for example visibility and coverage on club's playing kits, by the field and in their marketing, different kinds of partner events and matchday tickets. After partners, the second largest share of revenue of interviewed clubs comes from a matchday events, which includes ticket sales and sideline sales (shirts, food, drinks etc.). Every interviewee who mentioned the partner sales as their biggest revenue also described that the matchday events are their second biggest source of revenue. The answers were very similar between all interviewees and seemingly the income formation of clubs despite the division is mainly similar.

*"For us it splits in two. The matchday events, which includes the single ticket sales, season ticket sales and all the other sales in matches and the rest of it comes from partners. 60% comes from the partners and 40% comes from the sales related to matches, so that is the thing more or less."*(Interviewee A)

*"Well if three biggest, then they are sponsor sales, match ticket sales and then is other sales in matchday events, these are the three biggest."* (Interviewee C)

*"At least in our club, at least in first team, it is the partner contracts and next comes these incomes that are related in matches that are ticket sales, buffet sales, other sales in matches and then we serve alcohol in mathces so that also."* (Interviewee F)

As other sources of income, one interviewee mentioned the season fees of the juniors to be the most important source of revenue for their club. For them this fee paid by the parents of juniors represents even. 70-80% of total income of the club. As discussed earlier, in junior organizations it seems to be the standard that parents of the juniors pay most of the expenses and are in truth running the function. After all, for most of the junior players football is just a hobby amongst the others. For clubs in Veikkausliiga, the income from broadcasting their games into television was mentioned as one source of income. In Ykkönen and Kakkonen the games are not broadcasted, so this is not at the moment a source of income for them. The investments outside football were also mentioned by the two clubs, one interviewee said that their club has investments in real estates and it generates stable income that is not related in footballing success.

*” If I roughly say, probably 70-80% comes from parents and then partner contracts and then financial support from the city are helping to cover the rest of it. We are making a hard work for that we could change the ratio with getting more partners but it is not the most simplest thing nowadays when we don’t have any broadcasting coverage or anything to sell.”*  
(Interviewee E)

*“We have some other businesses also, it creates some revenues.”* (Interviewee D)

When discussing about the most important sources of revenue, any of teams interviewed did not mention the transfer fees, training compensations and solidarity payments. The fact that none of the interviewees mentioned players as one of the most important sources of revenue is not totally in line with results from the questionnaire, where 25,8% of participants answered that players are important source of income.

The absence of players in these discussions seem to be resulted from the fact that any of the clubs does not budget or plan the possible revenues that originate from the transfers of their current or ex-players. Interviewees described that income like this is not possible to budget or plan beforehand since these are both hard to forecast and occasional by their nature.

*“When we are making the budget, training compensation and transfer fee are budgeted as zero. We never budget training compensations and transfer fees, but it is always a nice surplus if we receive something as compensation or fee. When we get it, it is notable, but it is nothing we can rely on.” (Interviewee A)*

*“We can’t rely anything on it, it is basically just a bonus what comes from there and we can’t budget it anywhere.” (Interviewee B)*

*“Once we have sold one foreign player inside Finland. It is occasional at least for us at the moment. It has been also close a few times.” (Interviewee D)*

Income from the transfers, training compensations and solidarity payments do not represent stable income for the clubs interviewed which leads to that they thought these revenues more like bonus on top of their annual revenue. Interviewees stated that these fees and payments can be significant comparing to their annual budget. Because these occasional incomes are not budgeted, interviewees told that this capital is invested for example to player development and investments that are not related with football. In total three interviewees out of 6 told that they have received transfer fees.

#### **5.4 The impact of training compensation and solidarity payments for football clubs**

Finally, the interviewees were asked about the importance of training compensations and solidarity payments for their clubs and how does these two mechanisms impact on their behavior and economic situation. The interviews show, that clubs do not find training compensations and solidarity payments impactful or important for them. Every club interviewed told that they are yearly involved in training compensations and solidarity payments, either in payer’s or in receiver’s role. If the club needs to pay more training compensation than they are receiving, it basically means the club uses more players in their team that are trained by other teams than they have developed to other clubs in Veikkausliiga and Ykkönen.

Interviewees did not find training compensations and solidarity payments important or impactful mostly because of the size of the compensations and payments. Clubs stated that compensations and payments are insignificant compared to their revenue even for the clubs in Kakkonen and therefore compensations have no impact on the actions of clubs. Most of the clubs interviewed are on the paying side in training compensation system and even so they do not find it impactful in negative way. Some interviewees described training compensations and solidarity payments unimpactful and small, which leads that they do only check at the end of the year the compensation calculations to see whether they are on paying or receiving side. Finnish FA publishes the calculations of the payments for clubs end of every year. Despite that, some interviewees saw training compensations and solidarity payments as a pleasant bonus even it does not strive decision-making.

*“Those have no impact, we are speaking about small, maximum of 5-10 thousand euros per year sum. We cannot rely anything on that and they compensate themselves quite well that we are on the receiving side versus we would have to pay, there is not a big difference.”*  
(Interviewee A)

*“Training compensations are for us more like expenses. I think that is quite normal in Ykkönen.”* (Interviewee C)

*We are on the paying side, put those amounts are in our scale only pennies. But of course, it would be good if we could get it the other way around.”* (Interviewee D)

*It does not have an impact, the sum has been for us I think last 10 years something around 3-4 thousand euros per year, so you do not build a church with it but of course, all the money comes from small rivers.”* (Interviewee E)

Many interviewees tried also to find positive things about this system, which were not financial. Interviewees saw it positive, that the system directs compensations to grass root level clubs, even interviewees themselves would not be the financial benefiter.

*“I think it is somehow important still even the amounts are not big, but I think it is positive and some kind of acknowledgement or help to clubs. Players that are moving from us to another clubs as juniors, maybe occasionally from first team also, we are not anyway getting any transfer fees from those so.” (Interviewee E)*

Overall, the attitudes towards training compensation system were neutral. Interviewees thought about it as harmless system which does not provide much of a benefit nor disbenefit. Even though the benefits are nonexistent, the system is seen as a compliment towards clubs.

#### **5.4.1 The economic importance of training compensations and solidarity payments**

As found out in last chapter, the reason for minimal impact of training compensations and solidarity payments is originated from the smallness of the compensations and payments. Clubs can't and don't need to budget these payments and compensations, since those are hard to predict and usually income or expense that is caused is insignificant in comparison to annual revenue of clubs. For most of the clubs interviewed, the economic benefit is zero or even negative if they are on the payers' side in training compensation system. None of the interviewees said that training compensations and solidarity payments would have any kind of economic importance for their clubs. Results from questionnaire show that 29,1% of participants answered that training compensations and solidarity payments are financially important for their club, whereas in interviews the same percentage was zero. Because the insignificance results partially from the size of the compensations in comparison to revenues, the inconsistency between the answers of two methods can root in the smaller annual revenues of some participants in questionnaire.

*“It is very small, nonexistent. Even negative at the moment.” (Interviewee B)*

*“It does not play any kind of role in our club.” (Interviewee A)*

One interviewee saw that training compensation as overall does not have any financial impact, but when the compensations are concerning only one player at a time, the economic importance can be found. When considering one player, the investment into his development

can create profits with training compensations, but because so few players reaches from the academies into level where training compensations are paid, it does not have impact on larger scale. Interviewee F described their club's situation with training compensations:

*“Well it is only a few thousands of euros per year what we get at this time because we have so few our juniors that have reached to Veikkausliiga. If there would be more of our players in Veikkausliiga, then it would be important. One player that we have developed has played a several years in Veikkausliiga now. If we count all the years together it is five-figure number that we have received back after all as training compensations.” (Interviewee F)*

Interviewees saw that training compensations are financially more important factor in grass root level clubs and organizations where the training compensations are far more significant in comparison to their annual budgets. If annual revenue of the club is only tens of thousands of euros, training compensations can form an important source of revenue in their budget. Some interviewees saw that training compensation mechanism is probably invented with very small breeding clubs in mind.

*“Maybe for some low division clubs, if they have even five players in upper divisions, it can be important if annual revenue is around few tens of thousands of euros.” (Interviewee A)*

*“Smaller clubs for example in this city, some of their juniors are playing in our club now and we are paying for them, they might receive thousand, two or three and that is already a nice figure for them as small clubs and the stream goes there. And probably it has been the thought here in this system, how can we support also all small clubs.” (Interviewee B)*

It was discussed whether interviewees had experiences from both training compensations regulated by Finnish FA and training compensations and solidarity payments regulated by FIFA. The question was if it makes a financial difference between these mechanisms. From 6 interviewees only one had experience from training compensations and solidarity payments regulated by FIFA. All other clubs were concerned only by the training compensations regulated by Finnish FA, which also partially explains the fact that clubs see the training compensations as small. Some interviewees described that training

compensations that are regulated by FIFA can be as high as hundreds of thousands of euros, which are in totally different level than training compensations regulated by Finnish FA. This seems to lead to the fact that very few clubs receive these international training compensations in Finland.

*“We have had both, the training compensations by Finnish FA and also solidarity payments and training compensations by FIFA. They have been like players that have left from us to other clubs and then from these clubs they have left abroad and then some compensations and payments come. Those compensations and payments have been quite same amounts than these compensations by Finnish FA.” (Interviewee B)*

*“We haven’t had any of that kind of situations where we would have got FIFA’s training compensations, it hasn’t impacted.” (Interviewee C)*

*“We haven’t had any of this other kind compensations. We are playing only with the compensations of Finnish FA.” (Interviewee D)*

Based on interviews, one explanation for the rareness of FIFA’s training compensations and solidarity payments for clubs is that Finnish player development does not attract bigger clubs from abroad to scout and invest into players in Finland. The status of Finnish player development is not high enough that clubs abroad would invest significant amounts through negotiated transfers, training compensations or solidarity payments into players who play in Finland. Because the training compensations of Finnish players for bigger clubs abroad would rise to even hundreds of thousands of euros, clubs are not interested to pay such money. This leads to the rareness of FIFA’s training compensations and solidarity payments in Finnish clubs. Interviewee A described his opinion about the status of Finnish football as following:

*“This is not that kind of place where big clubs look into, if we can say it like that. If we were playing in Sweden or in Norway, our players could get along there also and then they could have possibilities to go forward. I hope the European Championships and the success of*

*Finnish National Team brings some kind of stamp on Finland that hey you can get good players from Finland buy from here.” (Interviewee A)*

The functionality of both training compensation and solidarity payments mechanisms stood up in the discussions with interviewees. Especially system that is regulated by FIFA received critic from interviewees. Some interviewees saw that the system is not working because of the compensations are too high which leads the clubs abroad to negotiate the fees to lower level on other ways or in worst case to end their interest in player. It is common that clubs negotiate together more reasonable transfer fee which then replaces the otherwise obligated training compensation.

*”FIFA’s system doesn’t work. Usually it ends up in that we negotiate the transfer fee because FIFA’s transfer fee can be really big and then too big even for big clubs. FIFA’s training compensation system doesn’t work and doesn’t serve us, we have never got any training compensation for players that move abroad.” (Interviewee A)*

Critic was aimed also to the difficulty of FIFA’s system, since clubs have to follow and calculate the possible payments themselves, whether Finnish FA sends the ready calculations when it is needed. On the other hand, Finnish clubs do not have a lot of experience about FIFA’s mechanism, which can partially be reason for clubs’ illegibility about the mechanism. Some critic received also the training compensation mechanism regulated by Finnish FA.

*”I think in these international systems should work somehow automatically when some player is transferred. It is not fair especially for smaller clubs to keep track on that whether they get something or not.” (Interviewee D)*

*“Overall quite ok, of course if there would be an opportunity to get more euros into it then everybody would take it with pleasure. But I understand or cannot say that what is the total amount what are paid to clubs, it must be at least hundreds of thousands of euros annually, but I understand that it is not possible to add zero on the top of that annually. But when I*

*have thought about this, I don't see any big flaws in it at least in our club's point of view.”*  
(Interviewee E)

*”I think the compensations should be kind of better, since if player gets transferred the compensations are quite small. Especially the ones paid inside Finland by FA. (Interviewee F)*

*”I think the one who gains the most is Finnish FA who gets the biggest money from it (mechanism). I assume that FA benefits from it more than clubs.” (Interviewee C)*

The opinions about training compensation mechanism regulated by Finnish FA were mixed and in addition to critic there was some positive thoughts. Most of the interviewees thought that the functionality of mechanism is neutral or slightly positive, but some are also thinking that the clubs are not the winner in this mechanism. Almost every interviewee agreed that the compensations could be bigger, but also said to understand it might be not possible. Interviewees seem to use very little time to think about the training compensation mechanisms and interviewees had no ideas to develop the system.

#### **5.4.2 The future impact of training compensations and solidarity payments on clubs**

The interviewees were asked how they see the future economic impact of training compensations and solidarity payments regulated by both Finnish FA and FIFA. The opinions of interviewees were mixed half and half, since three interviewees believed that the training compensations will have greater financial impact for them in the future and the other three interviewees did not see that the future will change the current situation. The answers were in line with the results from questionnaire, where 61,3% of all participants believed the future impact will be the bigger or at least the same. The interviewees who saw the future impact bigger than the current impact believed mainly so because they have invested into player development and they believed their player development will continue to advance. . Even the future is seen cautiously positive, it is not expected that the economic impact of training compensations would fundamentally change, since it is not known that the size of the compensations would increase.

*“Well I hope so at least, I know and understand the investments that we have made, and we will see them paying back in 5 or 10 years. But of course I hope this kind of mechanism continues further and I believe and hope that our share of it will grow in some time scale. We get more of our club-trained players into leagues where we can get that training compensation. (Interviewee E)*

*”It will depend on which direction our player development goes. If this our slowly forward going player development is continuing, the development is continuing and not stopping, then it can have an impact.” (Interviewee F)*

*”Well it will become more impactful. It is because we get our own junior organization and our first team’s profile will hopefully be as young and local as possible. (Interviewee D)*

Three interviewees saw that the economic impact of training compensations and solidarity payments will stay on current level or decrease. They saw that if the mechanism is not changing, then the current situation stays put, since the same realities are valid also in the future.

*“Well I have been so long here, and it has not changed to any direction so I don’t know how it could change from here. I don’t think the training compensations will change for us since it is always the case that we negotiate the fee together, no one is going to take the player if there is a chance that there will be two or three hundred thousand euros of training compensation to be paid.” (Interviewee A)*

*”It is hard to estimate, but it is not in mind when we do this player development since you can’t count on it and even players would get forward from here it is quite difficult to estimate the compensations. I hope we could get the compensation closer to zero so that we wouldn’t have to be on payers’ side, it would be ok. But everything that comes would be bonus.” (Interviewee B)*

*”Well, I don’t know what to say. Training compensation will not have more impact, maybe it will be even bigger expense.” (Interviewee C)*

As the reasons for the economic impact of training compensations and solidarity payments staying on current level or decreasing interviewees mentioned at least the facts that clubs rather negotiate the fees together than pay the higher compensation and the instability of player development.

## **5.5 Summary of empirical findings**

Every interviewee told that their club is yearly receiving or paying training compensations that are regulated by Finnish FA. On the other hand, only one interviewee told that their club has been involved in FIFA’s training compensation and solidarity payment mechanism as receiver of the compensation. Only few clubs receive FIFA’s regulated compensations, since clubs often negotiate together a transfer fee, which displaces the training compensation. Transfer fees are always negotiated to lower level than training compensations would be, since clubs are rarely willing to pay high costs that training compensations result.

The economic importance of training compensations and solidarity payments is fractional and none of the interviewees told that training compensations and solidarity payments would have impact on their economic performance. The reason for this is money. In relation to clubs’ annual revenues, compensations are especially small and therefore won’t cause any impact on their annual performance in financial side. The insignificant size of compensations leads also to fact that clubs do not use their time to delve into mechanism of training compensations and solidarity payments. Most of the interviewees are yearly in the payers’ side, meaning they have to pay training compensation instead of receiving it. Clubs who are on payers’ side did neither find the system overly impactful in negative way, even they would like to get on the receiving side or at least to break-even. Clubs saw these compensations and payments more as a bonus, since those cannot be budgeted due to difficult predictability and high instability between years. Interviewees thought that training compensations are more significant to clubs who operate in grass root level and where annual

budgets are just tens of thousands of euros. In this kind of clubs, the training compensations can form a greater percentage of club's budget and be considerable help to club's operations.

Rather than training compensations and solidarity payments, the main sources of revenue of a football club are partnership deals and matchday events. All interviewees described the importance of partners and sponsors as a source of income, whereas 5 interviewees out of 6 stated that partners are the biggest source of revenue for their club. The income from partners and sponsors can form even over 60% of the income of club. Second biggest revenue streams are matchday events, which include matchday tickets, season tickets and other sales in matches.

Player's role in football club is important. Every interviewee described that players are the most important or the second important factor in sporting success of a football club. The players are seen as workers in practical level and in the end of the day their working input determines the sporting success of the club. Other important resources are coaches, who manage, choose and implement the value-creating strategies. As important capabilities, general atmosphere and relationships between players and coaches allow club to pursue competitive advantage.

Players have also a great role in economic success of a club. Clubs are unanimous about the players contribution also to economic success of a club, but the thoughts about in what ways players influence it were mixed. Players' role in financial success comes through the sporting success of a club and the contribution in attraction of audience, partners and sponsors. Other way the players are contributing to economic success of a club are the expenses the players create. Especially inexperienced, young and local players agree to cheaper contracts, which leaves club more budget to other expenses.

Players are either acquired from other clubs or developed from the junior level. Finding the right players and acquiring them has a big role especially in sporting and financial success of the existing season. Finnish clubs do not take more than moderate risks when investing into new players and the risk in acquiring new players is poor success of season concerned

and loss of the investment which acquiring player creates. At its best, successful player recruitment creates both financial and sporting achievements.

Other way to get players into first team is to develop players from junior level. Player development plays a great part in the operations of Finnish football clubs. 4 interviewees out of 6 told that they invest a lot of financial resources into their junior organizations and other 2 interviewees described that they do a close co-operation with multiple junior organizations in their nearby areas. Main investments to player development are financial investments into junior coaches and playing conditions. There are two reasons to invest into player development: money and status. From financial reasons especially potential transfer fee and the affordable contracts of club-trained players stood up, whereas training compensations and solidarity payments were also mentioned. Every interviewed club with junior organization answered that with successful player development they aim to improve the status of their club. The better the status, the better junior players club attracts and when club have a lot of good juniors the likelihood of sporting and economic success increases.

The future impacts of training compensations and solidarity payments are generally seen as good by the interviewees. Half of the interviewees believed that the financial importance of training compensations will grow in the future, mainly because of the investments they have made into player development. Other half of the interviewees thought that the importance of training compensations and solidarity payments is stable or even decreasing in the future. Main reason for clubs to believe so is that if mechanisms of training compensations and solidarity payments stay the way it is, the same realities as negotiated transfer fees over regulated compensations and instability of the compensations between years will be the same.

## **6. SUMMARY AND CONCLUSIONS**

The final chapter will conclude the thesis, as firstly summary of the thesis is introduced and then followed by conclusions, where research problem and two sub-questions will be answered. Lastly, suggestions on future research will be given.

### **6.1 Summary**

The focus of this study was to research the impact of training compensations and solidarity payments on economic performance of Finnish football clubs by the means of resource-based view. Resource-based view stresses the key role of resources and capabilities in the firm's pursuance on sustainable competitive advantage and long-term profits. With the resource-based view as theory background, in this study the role of players as resources possessed by clubs was examined from the sporting and financial perspective, to further recognize the importance of training compensations and solidarity payments for the clubs.

As football is the most popular sport in the world, and by the number of amateurs also in Finland, the theme gave a fruitful starting point for a research this kind. The change of sport business has opened a great number of opportunities for clubs around the world to increase their status and meaning in the minds of millions of people. As sport has grown into bigger business than ever, football has led the way. Players are the key resources and clubs run great business with developing, acquiring and selling these modern-day gladiators. Training compensations and solidarity payments are regulations by the FIFA and the Finnish FA, to ensure that clubs who develop players get rewarded for their successful work. As all footballing divisions in Finland are breeding leagues where player development is prominent, it gave a suitable playground to study phenomena of training compensations and solidarity payments and the its economic impact.

The empirical research was executed with mixed methods which included questionnaire and theme interviews. The objective of questionnaire was to study player's role, player development and training compensations with larger turnout to get preliminary

understanding on how clubs see chosen themes, which later drove the layout of questions and discussions in theme interviews. Through the results of questionnaire, interviews were intended to get deeper comprehension about the phenomena in chosen framework. Both questionnaire and interviews were successful, response rates were high and data collection produced clear results.

Based on the findings of this study, players can be seen as the most valuable resources in football clubs in Finland and source of a competitive advantage. Players enable club to implement value-creating strategies that are chosen by coaches. As strategies are selected by coaches, they are also seen important resources, whereas good general atmosphere and good relationships in the team are seen as important capabilities. The results confirm that player development is seen as essential part of club and both time and financial investments are directed into it. Training compensations and solidarity payments do not have impact on the economic performance of Finnish football clubs regardless in which of the three highest divisions the club plays in. Compared to annual revenues of clubs, compensations are small and therefore won't cause any impact on their annual economic performance. The findings propose that training compensations could be important for small clubs in the grass root level. Rather than because of training compensations and solidarity payments, clubs invest into player development because of both status and financial reasons. The results show that clubs see the future impact of training compensations and solidarity payments slightly increasing.

## **6.2 Conclusions**

Resource-based view takes a focus on internal factors of a firm as explaining resources and capabilities as a driving force of how some organizations perform better than the others. To outperform competitors, a firm must possess a sustainable competitive advantage, which through the fundamentals of resource heterogeneity, stems from the unique bundles of resources and capabilities. (Barney, 1991) The resources and capabilities of a firm can be seen to act as accomplishments on its market area, which affects to profitability. (Spanos & Lioukas, 2001) Resources are traditionally classified into tangible and intangible resources,

where intangible ones are seen more unique and more important. Barney & Clark (2007) classify resources into physical, human, organizational capital and financial capital resources. Empirical research of this study indicates that the most important resources for Finnish football clubs are human, organizational capital and financial capital resources respectively. Players, coaches, general atmosphere and relationships between players and coaches are seen as resources and capabilities that enable a club to pursue sustainable competitive advantage and long-term profitability.

Empirical results of this study points players as the most important resources of a football club. The views of interviewee clubs support the assumption that players can be seen as valuable, rare, imperfectly imitable and non-substitutable resources which enable the club to implement value-creating strategies that no other competitor does implement at the same time. Empirical results of the study show that players are described as the most important or the second important factors in both sporting and financial success of a club, which are the two dimensions clubs are defined in. Rather than as skillful individuals, players are seen in clubs as workers in practical level. The results support resource-based view literature as in the end of the day players working input enables the club to successfully execute strategies that managers want to pursue. As players enable the implementation of value-creating strategies, coaches who are the managers in team, create, choose and implement these strategies. The essential strategy in football club is the way of playing, which either creates or does not create sporting success and attracts audience. In addition to players, findings of this study highlight also the importance of coaches as a human resource.

Alongside resources, resource-based view agrees on the importance of capabilities, special, organizational-specific resources that main purpose is to enhance the productivity of firm's other resources. (Makadok, 2001) The economic efficiency of resources is determined by the organizational capabilities, which lie in organization's culture and relationships between employees and employer. (Amit & Schoemaker, 1993; Moliterno & Wiersema, 2007) Theory suggests that capabilities can be seen as an enhancer of efficient use of resources and results from this study confirm those suggestions. Findings of the empirical research are in line with the theory and point capabilities as an important enhancer of the use of resources like players and coaches. Professional atmosphere and good relationships between players

and coaches are a necessary capabilities for a club to get the best out of players, whereas lack of these capabilities leads to club's underperformance.

Resources and capabilities are ended up into one's possession either by acquiring them from outside the company or accumulating them within time, investments, skills, and knowledge inside the company. (Dierickx & Cool, 1989; Barney, 1991) The mechanism of training compensations and solidarity payments is created to protect clubs in the resource accumulation from the possibility of best talents moving from club to another without any compensation for the club who has made the development possible. The findings of this study reveal that Finnish football clubs do invest a lot of resources, mostly financial resources and time, into player development. Clubs have a player academies where the youngest juniors are 4-6 years old and the most enthusiastic juniors have development path in club's academy until the age of 18, from where they continue to first team of the club or to some another club. Training compensation and solidarity payments exist to ensure that the training club gets compensation if player moves to another club and the other club is using player, a resource, they have not themselves accumulated. All clubs involved in empirical study are yearly either receiving or paying training compensations managed by the Finnish FA. The FIFA's regulated training compensations and solidarity payments found out to be rare amongst Finnish football clubs.

Answer to the main research problem, "*in economic view, how important training compensations and solidarity payments are for the football clubs in Finland*", was found to be evident. Results reveal that the economic importance of training compensations and solidarity payments is minimal to Finnish football clubs regardless in which of the three highest divisions they play in. Reason for the little economic impact of training compensations and solidarity payments is that sums are too small. In relation to clubs' annual revenues, compensations are especially small and therefore won't cause any impact on their annual economic performance. It either does not matter whether club is a payer or receiver of training compensations, since system is not found overly impactful even in negative way, empirical study shows. Training compensations are a bonus to top of the annual budget, since compensations cannot be included into budget due to difficult predictability and high instability between years. Clubs involved in empirical research think that training

compensations are more significant to clubs who operate in grass root level, where the training compensations can form a greater percentage of club's budget and be considerable help to club's operations.

Rather than because of the training compensations and solidarity payments, clubs invest into player development because of money and status. The first sub-question of this study was "*do football clubs in Finland invest in player development mainly because of economic reasons*", and results show that the investments are not done mainly because of economic reasons, but the financial element is strong motivator. Player development's financial drivers are potential transfer fees and the low costs that derive from young and local players. With successful player development Finnish football clubs aim to improve the status of their club. Higher status of a club attracts better juniors, which leads to higher economic and sporting success of a club. Players do effect on the economic success of a club in multiple ways. Findings show that players do contribute to club's financial success through the sporting success, attraction of audience and partners. Players together form a team, which is the product of a football club. When the team is exploited efficiently on the field in accordance with the manager's strategy, it attracts both audience and partners and leads to sporting success. This is well in line with previous studies, since it is argued that firms possessing superior productive factors will end up making economically better or more satisfying products or both. These productive factors have naturally different levels of efficiency and that makes some of them superior to others. (Barney, 1991; Peteraf, 1993) Superior productive factors clubs pursue to own through resource accumulation and player-picking.

The second sub-question of this study was "*what is the future role of training compensations and solidarity payments in Finnish football clubs?*" Results show that the future of training compensations and solidarity payments is found out to look cautiously hopeful. Findings show that Finnish football clubs have in last years invested financial and time resources in player development which is one of the main reasons that training compensations and solidarity payments are seen to play bigger role in clubs' economy in the future. It is not expected that the economic impact is going to fundamentally change, since it is not known that the size of the compensations would increase, but the overall atmosphere around the topic is more positive than negative.

### **6.3 Suggestions on future research**

Football transfer markets give a fruitful framework for the research of labor movement and migration. This research gave no evidence that FIFA's international training compensation and solidarity payment mechanism does work in practice in unattractive football countries like Finland. Therefore, the future research of FIFA's training compensations and solidarity payments should be limited into big football countries where clubs' budgets are greater and capability to pay training compensations and solidarity payments exists. The status of country's or league's player development is also needed to take into consideration when selecting study populations to future research on this topic. Based on this study, the future research in Finland should be targeted into small breeding clubs on grass root level, where clubs might not have first team and purely focus on juniors. Rather than researching economic impact of training compensations, future research could consider the overall functionality and objectivity of training compensations in Finland and perhaps even internationally.

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## **APPENDICES**

### **Appendix 1. Questionnaire.**

1. In comparison to our revenue, we invest a lot of economic resources into player development.
2. Player development is important source of revenue for us.
3. Primary goal of our player development is to get financial compensation in the future.
4. Our goal is to develop players into our first team.
5. Our goal is to develop players into higher quality leagues/clubs inside the Finland.
6. Our goal is to develop players into higher quality leagues outside the Finland.
7. If player which we have developed moves from a club to another, we always get regulated training compensation, solidarity payment or negotiated transfer fee.
8. Training compensations and solidarity payments are economically important for us.
9. Training compensations and solidarity payments are for us more important source of revenue than negotiated transfer fees.
10. Training compensations and solidarity payments will have at least equal economic significance in the future than now.

## **Appendix 2. Theme interview.**

### **Background:**

- What is your current job description and what it includes?
- What is your past working experience amongst football?

### **Players' role in football club**

- How big impact players have in the sporting success of a football club?
- How big impact players have in the economic success of a football club?

### **Role and reasons of player development**

- How big role player development represents in your club's strategy?
- Why are you investing into player development?

### **Income formation of a football club**

- What are the biggest sources of revenue for your club?
- Do players create revenue? How?

### **The impact of training compensations and solidarity payments**

- What kind of impact training compensations and solidarity payments have on your club?
- Are training compensations and solidarity payments economically important for your club?
- For your club, is there an economic difference between training compensations and solidarity payments regulated by the Finnish FA or FIFA?
- How do you see the economic impact of training compensations and solidarity payments in the future?