The effect of the FFP regulations on the earnings quality of professional football clubs within Europe

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ABSTRACT

In the last decades, the professional European football industry is known for its worsening financial performance. This resulted that the UEFA established in 2010 the Financial Fair Play regulations, which required football clubs to adhere to certain financial conditions while the financial statements of the clubs had to be audited by an independent auditor. However, the scope of this study is to examine whether the FFP regulations had an impact on earnings quality within the football industry, since previous literature states that regulatory intervention is associated with deteriorating financial statement quality while the obligation to be audited by an independent auditor is associated with better audit quality. To examine this, this study applied a 4-year period (two years before and two years after the implementation) for 189 football clubs resulting in a final sample of 945 club year observations. Corresponding with previous studies, a regression model is executed in which the discretionary accruals are used as a proxy for financial statement quality. However, the results of this paper demonstrate that in the post-FFP period less discretionary accruals were found, but it's not statistically supported that the financial statement quality of professional football clubs within Europe has changed because of the implementation of the FFP rule. Also, big-4 auditors seem on average to deliver higher audit quality than non-big four auditors, but it's not statistically supported that the effect of the FFP rule on the financial statement quality of professional football clubs is more pronounced if a club is audited by a big-4 auditor. Overall, the UEFA realized its financial viability objectives in the first two years after the FFP implementation but should consider that in order to find real long-term effects of the regulation on management behaviour and accounting data, a longer time scope with more football clubs should be considered.

Keywords: *Audit quality, big-four auditor, discretionary accruals, European professional football industry, Financial Fair Play Regulation, management discretion, regulatory intervention, UEFA*

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1. Introduction

Over the years in football history, the professional football industry has been known for its worsening financial condition. As a result of that, in 2009 the UEFA[1] introduced the idea of monitoring the financial performance of professional football clubs through the so-called Financial Fair Play regulations (UEFA, 2020). This introduction was carried out to save European football clubs from financial distress considering the increasing expenses that they faced. In order to prevent further financial escalation, the UEFA introduced the so-called Club Licensing System[2], to which each club had to adhere to certain quality standards in order to participate in the UEFA's competitions. One component of those quality standards has to do with the financials of the clubs. The aim of the concept of Financial Fair Play (FFP) is to reduce 'financial doping' [3]and to create more fairness and transparency of the financial game in European football leagues, through better quality and control of the annual accounts of the clubs.

In recent years, the European football industry has seen a transformation in which the sport has turned into a multimillion business attracting the interest of investors, media, sponsors and supporters throughout all the world (Kennedy, 2013). As a result of that, the sport has created a situation where club management got more attention and became more important (Hoye, 2006). Football clubs have become large organizations which require managers to have special skills, good knowledge and coordination abilities in order to lead the organization to success (Zec, 2012). A key factor in realizing this has to do with a proper execution of the financial administration, which requires skills and abilities such as strategic planning and effective financial management.

However, some cases in specific industries could involve misleading regulators. Football clubs for example, are highly under pressure by regulators and therefore there could be a chance that managers manipulate the financial statements to maintain the required financial health ratios to avoid regulatory intervention (Healy & Wahlen, 1999). Other primary motives behind earnings management in the football industry come down to capital market and contracting incentives.

However, as far for the financial information of the clubs competing under the Club Licensing System, the FFP requires that the annual accounts should be reviewed by an external independent auditor before submitting it to the UEFA (UEFA, 2010). In order to assess compliance under the FFP regulations, all financial information is required to make proper judgements regarding the licensing

[1] Union of European Football Associations, act as a financial monitoring body and is responsible for the governance of football within Europe.
[2] The Club Licensing System is part of the FFP regulations, in which a club can earn a licensing ticket to participate in the UEFA's competitions, provided that among other things the financial quality standards are met, such as providing audited financial statements.
[3] When clubs cover their losses through excessive financing, making it appear that they are financially healthy.

decision. However, the auditor has a significant role in checking the financial reports of the clubs, by assessing the financial reports' integrity and accuracy to make sure the submitted information is correct and reliable. Therefore, the condition to form a basis for the licensing decision is that the annual financial statements have been reviewed by an external auditor. On top of that, according to Knechel et al. (2007) auditors would ensure better audit quality, because their job is to raise financial misstatements and reduce managerial discretion (Dechow et al., 2010). Their capacity to do so is closely related to their independence, expertise and litigation risk. In addition, Hsu et al. (2015) stated that big-4 audit corporations are considered to give even more quality in terms of financial statements accuracy. Therefore, the possibility exists that the football club's management team may select their auditor strategically, as the quality of the audit process may impact the financial statements on which licensing decisions are made.

However, the implementation of the FFP can be negatively valued as to the assumption that earnings management of football clubs will increase in order to meet the UEFA's requirements to keep their licensing rights. The incentives to do so are high because a licensing right gives a club the right to participate into the UEFA competitions, where their greatest source of income comes from (prizing money, tickets, broadcasting income and merchandise). Another incentive has to do avoiding adverse sanctions like points deduction or relegation, which makes clubs unattractive for investors and reduce customers. Therefore, following Sigfried et al. (2000), managers rather manipulate the financial statements than facing adverse effects for not complying with the FFP regulations.

On the other hand, the announcement can be valued as positive since all the professional football clubs need to be audited by an external auditor, which is an indication that earnings management could decrease.

As elaborated above, the implementation of the Financial Fair Play Regulation is interesting, as there are two possible outcomes that could arise regarding earnings management. Therefore, this research will examine whether the implementation of the FFP regulations affected earnings quality within the professional football industry and attempts to answer to following research question:

'Does the implementation of the FFP have an influence on Earnings Quality in the professional football industry?'

To examine this relation, this research carried out a cross-sectional study. To do so, a sample of 190 professional football clubs for a 4-year period is conducted. The difference will be tested between two years before the implementation (2008-2009) and two years after the implementation (2011-2012), considering the year of the FFP implementation being 2010. Looking at previous studies, the dependent variable are the discretionary accruals which can be used as a proxy for earnings

management and audit quality (Healy & Wahlen, 1999).

This research contributes to the current academic literature because a causal relationship has been investigated between a regulatory interference in the football industry and the change in earnings quality of professional football clubs. Therefore, this study provides insights into management behaviour of football clubs after an important regulatory intervention. However, in contrast to prior literature (Dimitropoulos et al., 2016), the empirical results of this paper showed that the FFP has insignificant positive effects on earnings management, meaning that the financial statement quality of professional football clubs within Europe has not changed since the implementation of the FFP rule in 2010. Potential reasons for this could be that the conducted time period (2 years before and 2 years after the FFP) is too short to detect a real change in earnings management, as clubs needed more time to adjust their financial statements. However, the outcome of this research also contributes to the present literature concerning audit corporations and financial statement quality since the new regulation requires football clubs to be audited by external auditors. Prior research examined the effect of auditor size on earnings quality and provided mixed evidence (DeAngelo, 1981; Dehkordi et al., 2011). The empirical results show that a Big-4 auditor has an overall slightly significant negative effect on earnings management, while the effect of a Big-4 auditor on earnings management specifically in the after-FFP period (2011-2012) show an insignificant negative effect. This means that the effect of the FFP rule in 2010 on financial statement quality of professional football clubs within Europe is not more pronounced if a club is audited by a Big-4 auditor. A potential explanation for this is that with the FFP, financial statements were more under regulatory scrutiny which made non-Big four auditors became more careful during the audit, leading to less differences in audit quality relative to a Big-4 auditor.

Since the football industry in Europe has become so large over the years and took a prominent socio-economic role with its various stakeholders, it's important to get more involvement of financial statement research in this area. Addressing this gap from a scientific point of view, this research is the first research conducted that explores the effect of the Financial Fair Play Regulations on earnings quality within the professional football industry between 2008 and 2012. In addition, this research is also the first research that investigates the trend analysis of the financial viability of the football industry.

The remainder of this paper is organized as follows. In the next section necessary background information is elaborated about the football industry. Section 3 reviews related studies. Section 4 presents the methodology of this paper. Section 5 presents the results and the final section concludes the study.

2. Institutional background

2.1 The Pyramid structure of the Football Industry

While the monitoring of European Football is set out by the Union of European Football Associations (UEFA), professional football goes beyond Europe and therefore also have an international monitoring body. The Fédération Internationale de Football Association (FIFA) is the international governing body of all football activities (Appendix C, figure 1). The FIFA is founded in 1904 and their task is to structure the entire international organization from the sub-governing bodies on continent level to the so-called member associations on nation level (Ducrey , Ferreira, Huerta, & Marston, 2003).

The football world is divided into its continents which are called confederations. From a global perspective, the confederations are divided into the CONMEBOL (South American football), AFC (Asian Football), CAF (African Football), CONCACAF (North, Central and Caribbean Football), OFC (Oceania Football) and the UEFA (European Football). This paper is focusing on the latter, which depicts the European football industry and it's implemented regulations for all member associations[4] (nations) that participate within the UEFA. When fulfilling the requirements of the UEFA, the clubs will be granted licensing rights from the UEFA to be able to participate in the highest competitions (Rikardsson & Rikardsson, 2013).

2.1.1 Corporate governance and monitoring in the football industry

Each member association has to monitor its own national competition with all the professional football clubs participating. On top level, the UEFA organizes competitions, decides what amounts are distributed as prize money for winning competitions, set out financial and non-financial regulations and sets out media rights to all the competitions (UEFA, 2020).

In order to monitor the professional football clubs, the UEFA sets out the so-called licensors and licensees. The licensor grants the football club a licensing right which means that the club can participate in the UEFA competitions. The head licensor in this process is the UEFA in which the license is given to the football club through the corresponding national member associations.

At first, the documentation of the football clubs will be submitted to the national member associations who in turn will forward it to the UEFA. The UEFA then assesses the completeness and accuracy of the given information. The documentation includes the financial statements of the club, forecasts plans and non-financial documentation. When no additional information is needed and all

[4] An example of a member association of the UEFA is the Dutch member association, called the KNVB (Koninklijke Nederlandse Voetbal Bond). The KNVB is monitoring all the football clubs in the Netherlands for complying among other things with the financial regulations. This process applies to all nations/member associations of the UEFA.

financial requirements are fulfilled, the licensor will give a conclusion. The club earns the licensing rights when the conclusion of the licensor is unqualified, which means that all requirements and enquiries of the licensor are carried out (UEFA, 2020).

Finally, clubs also have to deal with decision making from the European Union since almost all memberships are located in Europe. In fact, football regulations cannot be in contrast with European Law and therefore the governing bodies have to work hand in hand. In 1974 for example, the European Court of Justice declared that 'sport is subject to Community Law', but only insofar as it constitutes an economic activity' (Peeters & Szymanski, 2014). They looked at the so-called Bosman case (1995) which stated that the system of transferring players was not in line with EU regulations. Therefore, the national member associations and the UEFA adopted the system in such a manner which was compatible with the free movement of labor within the EU.

In other words, besides following the regulation set out by the institutional football organizations, professional football clubs also have to comply with national and international legislation. Football clubs are not just recreation, they are considered as separate club entities and are treated like profit organizations as all other companies.

2.1.2. Clubs as economic entities

In a lot of cases football clubs are owned by foreign multinationals like Manchester United, Manchester City, Arsenal and Liverpool. The owners invest a lot in these clubs, expecting profits from it. Therefore, football clubs have many business features. They sell for example tickets to customers or fans to experience the atmosphere in the stadiums, people buy matches at home, people buy merchandise at their stores, people are betting on football clubs and this all happen on an international level.

However, clubs also can have different legal entity structures. There is no requirement from the UEFA to choose a specific legal entity. The most common legal structures are an unincorporated association, a private company limited by shares and a community interest company. Therefore, since clubs can have different types of legal entities, the stakeholders involved could vary too. AJAX is for example a publicly listed company which brings more shareholders at stake than in the case of a private legal entity. This means that clubs also could have different financial statement incentives. However, all clubs in common have the same purpose when submitting the financial statements to the overseeing body UEFA: getting access to the competitions in the subsequent year (Chu, 2016).

2.2 Detailed overview Financial Fair Play Regulation

The Financial Fair Play (FFP) Regulation is introduced by the UEFA in 2009 and implemented in 2010 in order to create a financial monitoring framework. The FFP is meant for professional football clubs that operate within Europe and want to take part of the highest European football competitions. In

order to get that right, the football clubs have to be granted a so-called licensing right by their national oversight body (Peeters & Szymanski, 2014). The first criterium which football clubs have to meet are 'no overdue payables', which means that clubs need to be able to pay its creditors within a year. This would improve the liquidity ratio and the working ratio over the years. The second criterium is that football clubs have to break-even. This would mean that the relevant income of a football club has to match their relevant expenses. The result over the years should lead to better solvency ratios in the football industry. The main goal of the Financial Fair Play regulation therefore is based on improving the financial health of the clubs (UEFA, 2020).

However, since football clubs have to use fair value accounting, management can misuse discretion at certain accounting principles. Based on their own judgement higher profits or higher values of certain assets could be reported while in reality they are failing to meet the financial criteria (Brooks, 2013). Management discretion could lead to creative accounting which causes unrealistic overstatements or understatements of accounting numbers, which in turn would lead to a fictious view of meeting the financial criteria such as non-overdue payables (Dimitropoulos, Leventis, & Dedoulis, 2016). Furthermore, since football clubs are sponsored by big multinationals for marketing objectives, it could occur that such sponsorship proceedings are much higher than the real value of the football clubs' performances. Due to these capital injections clubs can report higher income which enables them to meet the financial criteria (Birkhäuser, Kaserer, & Urban, 2017). The other way around is also possible, when clubs are making losses but yet meeting the criteria in the books. On top of that, the combination of managers manipulating the numbers and national member associates still granting the licenses, the possibility of incentive discrepancy could occur. Clubs that perform well give national pride and therefore national associates face independency problems (Acero et al.,2016). In order to solve this independency problem and to control for discretion to prevent manipulation, the UEFA made the engagement of an external independent auditor mandatory. After the auditors' conclusion all the files will be sent to the UEFA monitoring bodies which are being reviewed by the UEFA itself (UEFA, 2010). When the FFP requirements are met, a licensing right is given to the club.

2.2.1 Objectives

As mentioned before, the objectives of the FFP regulation is on the one hand based on the short-run viability of football clubs and on the other hand the long-run viability of football clubs. On the short run, the UEFA wants football clubs to improve their working capital ratio in order to protect creditors and enhance the financial capabilities of clubs. In order to enhance the working capital ratio clubs have an obligation to fulfill all their transfer and employee payables due at all times (UEFA, 2014). On the long run, the UEFA wants football clubs to improve their debt/equity ratio

because this will encourage clubs to operate more on the basis of their own revenues instead of debt financing. Also, the solvency ratios should have increased over the years. These objectives are important in order to improve clubs' obligation for clubs over a period of time to balance their books (also known to break-even). The UEFA furthermore mention on their official website that the prominent principles and objectives of the FFP regulations are:

- To improve the economic and financial capability of the clubs, increasing transparency and credibility
- To place the necessary importance on the protection of creditors and to ensure that clubs settle their liabilities with employees, social/tax authorities and other clubs
- To introduce more discipline and rationality in club football finances
- To encourage clubs to operate on the basis of their own revenues
- To encourage responsible spending for the long-term benefit of football
- To protect the long-term viability and sustainability of European club football

Further objectives of the FFP are to improve the governance of management and organization within the professional football clubs. This paper is focusing on the financial aspect of the FFP objectives.

2.2.2 Sanctions and criteria

It's the role of the The Club Financial Control Body (CFCB) to determine whether UEFA has fulfilled its obligations and whether the football clubs have fulfilled the licensing criteria as defined in the UEFA Club Licensing and Financial Fair Play Regulations at the time the license was granted. They also check whether the clubs appointed an external auditor as one of the key monitoring requirements (UEFA, 2014). Furthermore, the CFCB has the right to impose disciplinary measures when the requirements are not met (Article 29 of the UEFA Club Licensing and FFP Regulations, 2012). This could be severe for football clubs ranging from a monetary penalty to cancelling them out of the competitions, which directly will lead to revenue losses. Other sanctions could be a warning, reprimand, deduction of points, withholding of revenues from the UEFA competition, prohibition on registering new players in UEFA competitions, disqualification from competitions in progress and withdrawals of a title or award.

When a manager is held individually responsible for not fulfilling the requirements this could lead to either a warning, reprimand, fine, suspension for a specified number of matches or for a specified or unspecified period, or suspension from carrying out a function for a specified number of matches or for a specified or unspecified period. In the worst case, a ban on exercising any football-related activity could be a sanction (Article 30 of the UEFA Club Licensing and FFP regulations).

2.2.3 Accounting changes in football

Since the implementation of the FFP, a lot of emphasis is set on the financial statements of football clubs. In the years before the regulation, clubs often didn't reveal their financial information unless they were publicly listed companies. However, the FFP regulation made it now mandatory for all clubs, whether publicly listed or not, to reveal their financial statements. The UEFA aims at more transparency and accuracy in which clubs have to maintain their documentation up to date regarding the UEFA and other stakeholders (UEFA, 2012).

First of all, the UEFA aims at improving the benchmarking possibilities within the professional football industry through their financial information. This can only happen when the financial statements are made public by the football clubs. Furthermore, the financial statements of football clubs must be audited by a certified public accountant before submitted to the UEFA (UEFA, 2012). Before the implementation, any auditor including an auditor working for the club itself, could audit the financial statements. Therefore, for independency and credibility reasons an external auditor is brought into the football industry.

Other accounting changes has to do with the financials of the clubs. In order to protect creditors clubs have to reduce their overdue liabilities with employees, social and tax authorities and other creditors. This indirectly means that liquidity ratios and debt ratios have to improve as part of the requirements. All accounting changes are based on the improvements of the financials of the football clubs in order to improve the long- and short-term viability and sustainability of the professional clubs (Ahtiainen & Jarva, 2020). Finally, unlike before the implementation, professional football clubs have to inform the licensor about any information that is considered significant or important for the financial statements. The club has for example to provide the UEFA with information on its legal group structure. Any subsidiaries, associates, direct or indirect controlling parties, and any parties with a significant influence or any other ownership interests, voting rights or involvement in relation to the governance of its financial and operating policies should be clearly documented and communicated. This includes information about the share capital, total assets, total revenues and total equity of the interested parties.

3. Literature Review

The implementation of the Financial Fair play regulations led to accounting quality changes in the football industry. Football clubs usually relied on internal accountants and used a lot of management discretion in accounting valuations. However, this led to inaccurate and incomplete financial statements which deteriorated the accounting quality. In turn, a lot of professional clubs resulted in financial distress. However, to rescue the football industry from collapsing, the UEFA obliged that clubs have to be audited by external auditors in order to restore the financial statement quality of the football clubs. The UEFA intends with the new regulations that auditors will reduce management discretion and give a more realistic view and certainty about the accounting information of the clubs.

3.1 Why earnings management in general?

Prior literature shows that regulatory intervention and deteriorating of accounting quality has an association. While regulatory intervention intends to monitor a firm's financial position and performance based on the accounting information, managers try to find loopholes to avoid these regulations (Kross & Sul, 2012). Avoiding those regulations will inevitably lead to earnings management. Whereas earnings management does not have to be negative, researchers look at different kind of incentives behind earnings management.

Firstly, earnings management is employed to achieve specific earnings targets, budget goals or contractual terms (Holthausen, Larcker, & Sloan, 1995); secondly, to influence providers of money in the capital market through investor anticipations regarding risk and future cash flows (Guidry , Leone, & Rock, 1999); thirdly, to shape third-party perceptions of the organization's financial strength (Walker, 2013) and fourthly, managers may window-dress financial statements when regulatory monitoring is based on accounting data (Healy & Wahlen, 1999; Schipper, 1989).

In the sporting industry, managers may be incentivized to apply earnings management for two reasons: firstly, in case of the football industry, clubs are in financial need and therefore they cannot afford severe penalties for non-compliance with the UEFA regulations; secondly, UEFA intends to increase the amount of money available for clubs participating in European championships. Since earning a license for European Championships is part of accounting data, managers have more pressure or incentives to bring out the financial numbers as set out by the regulatory body. Moreover, earning a license enables club managers in the short run to pursue the ultimate goal of success on the field by participation in the European Champions ships and thereby satisfy supporter demands.

The downside of earnings management has to do with management's decisions which could result

in an unrealistic view of the financial statements. In this situation, people's perception about the company is wrongly influenced about for example the results of that company (Ronen & Yaari, 2010). Besides that, (Healy & Wahlen, 1999) describe earnings management as a situation in which the management uses its own judgement about the financial reporting and the structure of transactions. This judgement is then used in order to adjust the financial reporting in order to deceive stakeholders about their perception of the real underlying economic performance of the company. Managers do this in order to influence contractual outcomes which are depending on the financials such as solvency or working capital ratios. Football clubs for example are dependent on their financial data in order to be granted a contractual license right to participate in the UEFA competitions. This could be an incentive for managers to manipulate the financial statements.

However, earnings management has also positive effects for stakeholders. Since earnings management is measured through accrual accounting, management of a company can communicate inside information to the public. Because of accrual accounting, stakeholders can value the real underlying value of a company. The performance of a company can be better measured through accruals than with cashflows (Krishnan, 2003). The reason behind this has to do with the fact that cashflows face more matching problems, meaning that costs and revenues are not matched to the related period. Cashflows have usually problems with linking the period in which costs and revenues are related to. Accruals on the other hand, don't have this kind of problems because the timing of the revenues or costs are related to the period in which they belong. Therefore, accruals are more often used than cashflows when analyzing a company, which makes them more informative. According to Kuhrama and Raman (2004) managers who engage in earnings management are less likely to use conservative accounting policies. The reason for this is to meet their compensation targets closely because the accounting numbers are depending on it. Managers could for example use different accounting policies which impacts the financial statements depending on which is the most beneficial for them.

Under conservative accounting football players for example should be recognized as an operating expense in the income statements at the moment the agreement was signed. This means that the investments in players are not capitalized in the balance sheet. The rationale would be that club entity's do not have sufficient control over the players because in certain circumstances it's not sure whether the players can be used for future economic benefits. In essence, there is always uncertainty about the players health injuries, players who could decide not to play anymore or just exit the club any moment (Rowbottom, 2002).

However, a manager could also decide to recognize the player contracts as intangible assets on the balance sheet. Inherent to this form of accounting policy goes discretion as managers use discretion

to opportunistically value players for own financial purposes. At this point earnings management is likely to happen, especially with the inherited risk of inaccuracy.

Recognizing a player as an intangible asset would mean that the player will be amortized during the length of the contract. Besides capitalization, managers could then also choose to recognize provisions in case the player cannot play anymore because of a disease or just a physical injury or even a sudden retirement. Some clubs have even taken an approach called "self-created player values", which are picked talents from their own youth academy of the football clubs. Managers could then decide themselves what the value of those players would be. Basically, all this means that the net asset value of the football clubs will increase as the value of players will increase. This means also that amortization costs will be put against revenue recognitions at the point players are being sold with values often greater than market values. When managers use this type of strategy, income will unrealistically increase (Rowbottom, 2002).

In short, this would mean that conservative accounting by managers would lead to a decrease in the income statements at the moment the player signs the contract, while capitalizing players as intangible assets lead to a lot of discretion and possibilities to engage in opportunistic behavior and earnings management.

3.1.1. What are the motives for EM in the football industry?

According to Cornell and Shapiro (1987), the market value of a firm is very sensitive to the financial condition of the entity. Furthermore, managers have incentives for various stakeholders to report higher earnings. Suppliers will offer better terms because it will be likely that the firm is more likely to make payments due and because the firm is more likely to make larger future purchases. The capital market will also offer better terms because the firm is less likely to either default or delay loan payments. And especially for football clubs that are listed on the exchange market and provide shares the same logic applies in terms of higher dividend and a higher value of the share. Even employees and players can be affected by earnings management, because agents of players will also investigate the financial statements. Negotiations are based on financial information about leaving the club or demand higher salaries to stay at the club (Burgstahler & Dichev, 1997).

Firstly, while the FFP regulations were intended to improve financial stability, transparency and responsibility of European football clubs, they also gave managers incentives to engage in earnings management in order to avoid violating the financial requirements set by the FFP. According to Siegfried et al. (2000), managers of football clubs have strong incentives to manipulate financial statements in order to avoid the adverse effects associated with not complying with the financial fair play regulations. Given the environment in which football clubs operate in and the potential sanctions faced, subsequent studies have shown that club owners and managers frequently

manipulate earnings in order to appear more profitable, avoid debt covenant violations, manage tax liabilities and put pressure on authorities to subsidize clubs in order to receive additional funding. The findings of these studies are comparable with the study of Dechow et al. (1996) and Brugstahler et al. (1997) in which they found that firms have incentives to engage in earnings management in order to raise external financing at low cost, avoid costly debt covenant violation and receive more favorable transaction terms.

Furthermore (Brooks, 2013) states that the higher the wages of players are, the higher the chances of financial instability. Following that statement, Kramer et al., (2011) states that earnings management is more likely to happen within companies that face financial difficulties. Since football clubs are use a lot of resources to get the best players even when this is inefficient within the budget, earnings management is likely to occur in the football industry.

Another important factor has to do with responses of the capital market. As shared before, the football industry is known for its different form of stakeholders and income streams. Managers in the football industry want the financial statements to be as optimal as possible in order to look healthy and successful to important stakeholders. One of those important stakeholders for football clubs lays in the capital market, where funders are funding professional football clubs with equity, bonds and loan provisions from banks. However, since football clubs getting more involved in capital markets, shareholders became more important stakeholders who also have great interest in the financial statements of the football clubs. These capital market providers are seeking for companies with steady cashflows. Therefore, management will try to use earnings management in order to avoid fluctuations in earnings and losses, which will give more steadiness in the financial statements. When earnings are high and steady, it will be more likely that that providers will consent. Therefore, earnings management will also have an impact in terms of transactions between the football club and financial stakeholders (Rowbottom, 2002).

Together this means that managers are still engaging in earnings management, even in front of financial regulations and standards with all consequences included. Likewise, for the football industry the expectation would be that there is an association between the FFP regulations and financial statement quality. Club managers have incentives to engage in earnings management in order not to violate the regulations, in order to comply with the financial requirements to get their license and avoid costly consequences. As Chen et al., (2011) described in his paper: “it’s plausible that financial statement quality could improve; however, those clubs that are likely of violating the FFP requirements have an increased incentive to manipulate their published financial information.”

3.2 Why is there a demand for independent auditors in the football industry?

Auditing means the determination whether the processed information within the accounting period

of an entity reflects the true economic events that happened in the past (Hayes, Gortemaker, & Wallage, 2014). The objectives of the audit profession are to gain trust and credibility of financial information. Furthermore, the audit is a professional service which is carried on by experts, based on economic and regulatory demand (Knechel, Krishnan, Pevzner, Shefchik, & Velury, 2013). Since the implementation of the new financial regulations, the demand for external auditors rose. The auditors in engagement are responsible for the audits of financial overviews and for the discovery of material misstatements.

However, accounting in the football industry is known for its intangible assets which derive its value to estimations made by management. It's common in accounting literature that intangible assets are often difficult in assessing their precise value. Management has to estimate how much income football club's brand name or players can generate or what the competitive value could be for companies, especially those items that are not recognized in the balance sheet of companies. However, it's a fact that the financial statements are influenced by valuations of intangible assets. Since the football industry became a multimillion business across the world, the intangible assets could generate a lot of revenue for the clubs. The problem with measuring this value is that there are no strict measurement approaches in order to estimate its worth, which give managers a lot of discretion to overstate the intangible assets. The intangible assets are important for football clubs because the increasing value of their brand name are important for their market valuation which will have an impact on the view of investors on that company. It's one of the important reasons why the UEFA wanted verification by auditors of the amounts of those impairments. Since auditors are assumed to be independent, it's expected that valuations of the intangible assets are calculated with good care and judgement of the auditors. This will enhance the long-term viability of football clubs which contributes to the overall objective of the UEFA.

According to Knechel et al. (2013), auditors have some features which makes the judgements more appropriate. Firstly, auditors are all the time busy with minimizing risks of a company, which is the so-called motive feature. For example, when a football manager has a lot of discretion, there could be some risk in the right valuation of that asset. Therefore, an auditor can help the regulators to check the values of such assets as a monitoring body. However, since auditors cannot guarantee that all risks are eliminated due to missing information, auditors can give reasonable assurance. Furthermore, auditors have a feature of uniqueness. The uniqueness of an audit exists because each engagement differs from each other. Professional football clubs for example differ from big clubs to smaller clubs, from limited liability companies to private companies, to different cultures, to different accounting conventions and so on. Since the football industry is worldwide and each club has its own financial structure, auditors are inevitable. Those differences are no problem, because

auditors have the ability to provide different audit teams, different audit procedures calculate different audit risks for each football club. On top of that, auditors work through a process, a systematically activity. The process has different audit phases in which different audit procedures are carried out. Finally, auditors have a professional judgement feature, which has to do with the use of the best knowledge and experience of experts in order to determine the quality of discretionary items on the financial statements.

In short, the features of external auditors bring more certainty in the financial statements of football clubs because of their independency, their way of work and their ability to provide experience and specialization to their clients. This will help the UEFA to keep the football industry alive in the future while other stakeholders will also have more certainty of the values published in the financial statements.

3.2.1. The effect of the fundamental auditor principles on the quality of financial statements

According to the PCAOB, external auditors have to comply with principles like independency, objectivity and professional skepticism which will lead to a better audit quality.
Auditor independency is characterized through integrity and an objective attitude towards the audit process. It requires also that the auditor can carry out the audit procedures without feeling pressure from the client side, in order to be as objective as possible (ICAEW,2015). Auditor independency will have an impact on the audit quality because it influences whether misstatements will be reported or not (Myers, Myers, & Omer, 2003).

Professional skepticism means that the auditors have to maintain attitude in which they have to be alert in circumstances where the chance of possible misstatements are likely. These misstatements could arise through error or fraud. Furthermore, the external auditor has to make a critical measure of how much evidence he needs in order to give a professional judgement (ICAEW, 2012).
On top of that, the IESBA have put more focus on the independency of auditors after the financial crisis. They implemented some measures and control systems in order to guarantee the independency of auditors. Therefore, an ethical code is developed by the IESBA in which fundamental principles are set up. These fundamental principles will give auditors a sort guideline on how to behave and how to act in certain situations where their independency could be affected. This means that auditors also have to recognize certain threats in the profession.

The first fundamental principle which is set out is integrity. This means that a professional auditor has to be righteous and honest in all professional business activities and relations. This also means that the auditor should avoid situations and information which can be misleading for the independency principle. When the client is providing the auditor false and misleading information, the auditor has to do everything in his power not to relate oneself to this misleading information.

Therefore, the auditor has to maintain a critical attitude towards the client in order to avoid clean opinions based on false information (Hayes, Gortemaker, & Wallage, 2014).

The second fundamental principle is the objectivity of the external auditor. This means that the auditor should never let his professional judgement being affected from outside influence like interest conflicts. For example, when a client is putting pressure on the auditor not to report a material misstatement while the material misstatement is actually detected. Not only the pressure from the client but also the pressure from within the audit company may not have an influence in the objectivity of the auditor. For example when the partner has a certain interest to maintain a good relationship with the client. The IESBA states that auditors still have to be independent, even if this means that the partner will fire you.

Thirdly, the external auditor has to maintain diligence and due care. Diligence is reached by following specific training in order to be up to date. The objectives are that the knowledge from an auditor will be maintained in order to keep your work at a professional level. This is important since in practice a lot of new developments are happening, like new laws and techniques. Furthermore, the auditor has to maintain due care towards professional standards. So, when auditors are in a hurry because of deadlines, this will not allow the auditor to skip certain auditor procedures like the testing phase. They auditor could do this in order to reach the deadline, but this would be considered as breaching the due care principle.

Confidentiality is the fourth fundamental principle which is provided by the IESBA. The auditor has a strict agreement that confidentiality information may not be shared with third parties, unless there is an extreme form of fraud. Also, the auditor cannot use the information for its own purposes. When a family member wants to invest in a football club for example, and the auditor knows that this football club is likely to make losses, then it is not possible to share information with family. This would breach the confidentiality principle.

The last fundamental principle is professional judgement which means that auditors are complying with relevant laws and regulations. Also, the actions of the auditor which can bring the profession in discredit should be avoided (Hayes, Gortemaker, & Wallage, 2014).

In short, all the fundamental principles influence auditor independency which often is measured with discretionary accruals. Nasution (2013) concluded the more independent auditors are, less discretionary accruals will occur. The reason for this has to do with how much room for flexibility is given to the client. The client could in turn hide bad performance or hide profits to use them in future periods.

3.3 What is financial statement quality

In the past 20 years a lot of definitions of financial statement quality have been released. The reason

for this has to do with the fact that different stakeholders brings along different perspectives which made financial statement quality a broad term (Knechel, Krishnan, Pevzner, Shefchik, & Velury, 2013).

The first attempt to form a framework of audit quality was done by the UK's Financial Reporting Council (FRC) in 2006. After extensive consultation the FRC defined in 2008 five drivers of financial statement quality: the culture of the firm, the skills, the personal qualities of the auditors, the effectivity of the audit process and the trustworthiness and utility of the audit report.
For each driver the FRC identified different potential indicators which measures the financial statement quality. The firm culture for example, means creating an environment in which high quality will be appreciated and rewarded. When this culture is impregnated within an organization, high quality of the financial statements will be more likely to follow.

Furthermore, the FRC states that when partners and staff personnel have sufficient time and resources to deal with different kind of problems, the financial statement quality will increase. Since the audit quality is determined by audit procedures, it is logically that more audit procedures will lead to a better quality but also need more time and resources in which audit skills can be executed. Other examples to measure financial statement quality have to do with the effectiveness of the audit process like the design of the audit methodology, available tools, available technical support and the maintenance of ethically independency standards.

The Government Accountability Office (GAO) defines financial statement quality as an audit which is carried out according the Generally Accepted Accounting Standards (Knechel, Krishnan, Pevzner, Shefchik, & Velury, 2013). To provide reasonable assurance, audited financial statements and the corresponding notes should be in accordance with GAAS and should not contain material misstatements. Material misstatements are considered a bad quality of the audit and therefore the financial statement quality is also low.
Other literature state that high financial statement quality means that people can rely on the information of the financial statements which makes it possible for stakeholders to make better estimations of the value of a company (Behn & Choi, 2008).

Behn, Choi & Kang (2008) state also that according to the Statement of Financial Accounting Concepts (FAC) the goal of the publications of financial statements is to provide useful information to stakeholders like investors, creditors and other interested parties who have to make rational decisions based on the information on the financial statements. Another definition of financial statement quality is the chance that an auditor provides a clean opinion for the financial statements which contain anyway material misstatements (Lee & Taylor, 2006).

As the literature shows us, a clear uniform definition of financial statement quality is hard to give

since there are different definitions of it. Instead of financial statement quality one can also talk about audit quality. However, the most common definitions of audit quality that is used comes from (De Angelo, 1981). He defines the audit quality as the market-assessed joint probability that a given auditor will both detect material misstatements in the client's financial statements and report the material misstatements. This implies that audit quality not only can be associated with actual audit quality, but also with the perceived audit quality. The perceived audit quality has to do with the reputation of the auditor and perceptions of stakeholders. This definition can be broken down into more components. First, the audit quality is derived from the chance that an auditor discovers a material misstatement. Secondly, the auditor has also to react correctly on the discovery of the misstatement.

The chance that an auditor discovers a material misstatement have to do with multiple factors which are related to office related factors like the firm size of an auditor, pricing fee of the audit, audit team factors, audit skills, the industry in which it is operating and client experiences. The chance that an auditor also react correctly on the discovery of a material misstatement has to do with factors like independency, non-audit services, objectivity, professionalism and other fundamental principles of the auditor.

The discovery of an error in the financial statements requires that proper resources will be used to effectively go through the audit processes. Reporting an error requires the auditor to take proper action at the end of the audit. This have to do with the financial statement quality in relation with the audit risks. The risk is that the auditor fails to adjust the auditor's opinion while the financial statements contain material misstatements.

Together all these factors can be placed in the so-called input factors of financial statement quality. The audit quality will be determined this way and will lead to a certain outcome. This outcome can be expressed in factors like litigation, reputation damage or higher customer appreciations. In the case of football clubs, a licensing ticket from the UEFA to participate in the highest competitions. When clubs are listed, higher stock prices will usually be the outcome.

Watkins et al. (2004) states that actual audit quality is reflected in financial statement quality, which is influenced through the degree in which the financial statement quality is monitored. The implication behind this are the reviews of the audit procedures, the supervision and the checkout processes. The perceived financial statement quality on the other hand has to do with the reputation of the auditor and the perceptions of the stakeholders about the auditors.

The paper of DeAngelo makes it also clear the bigger the incentive for the auditor to detect material misstatements, the bigger the value of the auditor's opinion. Watkins et al. (2014) stating in their paper that the reputation of an auditor could be very important, especially when supplying

audit quality. Wooten (2003) states that the incentives for Big 4 auditors are even bigger because of their reputation.

According to DeAngelo audit quality is dependent on audit competence and independency. Competence is associated with the professional skills of the auditor while independency is associated with the concept low-balling and audit fees. In the case of low-balling the initial fees will be set lower than the total costs that an auditor will have. The result will be that this client will stay in the future, in which the costs will be earned back. According to DeAngelo the costs will be considered sunk costs and therefore in the future the independency of auditors will not be affected.

Conservatism accounting will improve the audit quality because reported earnings will be timelier recognized on losses than in the case of unrealized gains in the future. Therefore, managers have less discretion to apply opportunistic behavior. Therefore, a conservative approach from the auditor's perspective will result in a better financial statement quality/audit quality since opportunistic reporting will be minimized.

From the client's perspective recognizing bad news on a timelier manner will result in a higher earnings response rate on the capital market. This reaction is among other things because of the assumption that stock returns provide all publicly available news, which basically means that stock prices reflect information.

3.3.1. Audit quality and financial reporting quality

Knechel et al. (2013) states in his study that financial statement quality is also a measure to determine the output of audit quality. The most well-known measure in the literature are the discretionary accruals which are based on the so-called Jones Model (Jones, 1991). Research shows that there is a negative relation between the level of discretionary accruals and audit quality. Financial reporting quality proxies are measures for audit quality where a higher audit quality means that there is more assurance that the financial statements give a fair and true view of the underlying economic state of the client (DeFond & Zhang , 2014). They also stated that the financial reporting quality positively relates to the audit quality. In their research they concluded that audit quality is a construct of what assures a good financial statement quality. A high audit quality provides a high financial reporting quality. A lot of time this will generate positive accruals. Higher accruals mean that the auditor gives more discretion to the client to continue a flexible accounting structure. This could lead to a situation in which bad results of the client could be hidden through earnings management. When the accruals are low, this indicates that the financial reporting quality is high (Krishnan, 2003).

On the one hand the financial reporting quality is a function of the audit quality, on the other hand audit quality is seen as a component of the financial reporting quality because the audit quality will

increase the credibility of the financial statements. As a component of the financial reporting quality, the proxy used to measure audit quality are usually discretionary accruals. There are a lot of models used in studies, like the Jones model, the Modified Jones model and the Dechow& Dichev model. However, while the Jones model is separating the discretionary accruals from the non-discretionary accruals, the Dechow& Dichev model takes the total accruals into consideration. By using such models, earnings management can be detected.

When looking at the output factors of audit quality, a high audit quality is often measured through negative audit outcomes like restatements or litigations. Also positive outcomes like a going concern could be a measurement. Fogel et al., (2013) stated that a going concern opinion (GC) is a form of auditor communication. This type of measurement communicates to the outside world whether the auditor have some concerns about the ability of the client to continue the company. A GC can be used as a proxy to measure audit quality because a high quality of auditors will increase the chances that the financial position of a client is evaluated correctly. Furthermore, there is a higher chance that the auditor is not influenced through possible pressures of the client to not give a going concern (Fogel-Yaari & Zhang, 2013).

Furthermore, the audit quality is also based on accounting corrections (Kenchel et al. (2013). Restatements are therefore also seen as a measure for audit quality. This happens when the audit quality was not optimal. Therefore, restatements are also used as a proxy for audit quality because an unfairly opinion is given about the financial statements.

3.4 The effect of a big-four auditor versus a non-big four auditor on the quality of financial statements

A lot of studies state that big four auditors (Deloitte, Ey, KPMG and EY) are providing a higher audit quality than non-big four auditors for several reasons. Big four auditors attach much value to their brand name due to their international setting. A good reputation attracts the biggest clients which also have financial benefits. In order to keep their reputation clean, they have to deliver good quality which indirectly means that litigation risks should be low.

First of all Big-Four auditors have more resources what enables them to deliver a higher quality service. Smaller audit-firms on the other hand with less resources have more incentives to put more focus on the cost than on the quality of the audit. However, big-four auditors have often large companies as clients like multinationals, governmental institutions or big professional football clubs at which the stakes are high.

Secondly, the results of being audit by a big-four audit firm in comparison with a non-big four audit firm is seen through a couple of things. First of all studies show that the Earnings Response Coefficient (ERC) is higher for clients that are being audited by a big four company. It means that providers of capital are perceiving more quality when companies are audited by a big four company,

because they are more certain about the quality of the financial statements at which their financial decision making are based on. Especially for listed companies, Khurana and Raman (2004) stated that investors will react much quicker after an earnings announcement when the company is audited by a big four firm. Secondly, for firms that are listed on the stock market studies show that the initial stock price offerings are less underrated when being audited by a big four company. This means that financial statement figures are more accurate for financial analysts and the capital market.

Furthermore one of the most important reasons why big four auditors provide higher audit quality is because they have to protect their brand name (Palmrose, 1988).

Firstly, providers of capital who have suffered losses due to bad financial statement quality are more likely to sue big four auditors. The chance of being sued as a big-four auditor is higher because it is expected that they have more money which makes the opportunity to claim damages more likely. Therefore, the potential litigation risks are higher and more costly for big four auditors (De Angelo, 1981).

However, litigation and reputation are closely related to each other because the incentives to provide high quality will be higher when litigation risks are higher and vice versa (Melumad and Thomas, 2003). Following this statement, the implementation of the financial fair play regulations of the football industry made the financial statements of football clubs publicly available for all stakeholders. Besides the financial statements, all stakeholders now can also see by who the club is audited. With the globally international setting of the football industry nowadays, auditor's brand name and litigation risk are therefore increased. Especially for a big four auditor it's important to deliver high audit quality to protect their brand name.

Furthermore, according to Raman and Wilson (1994) auditors' incentive to keep the brand reputation clean because reputation is a tool to be more attractive to new big clients, retaining current clients or recruiting talented individuals as employees outside the firm. Besides that, their brand can also help the firms in attracting clients for non-audit services (Elliot, 1998).

Because of the international setting and brand awareness of big four offices, researchers concluded that it's more likely that these auditors are more independent than non-big four auditors. In turn, (Fan & Wong, 2005) explained that independency lead to better audit quality, which is attractive for multinational companies in order to attract new providers of capital.

The same applies for attracting high quality personnel outside the firm. Since audit firms offer multiple services, the reputation of one department of the firm will also affect other departments. Therefore, reputation is not only to the extent of audit, but also have an impact in attracting new highly qualified employees in the non-audit services within the big-four company.

Furthermore, (Dye, 1991) stated that big four auditors show their quality by trying to distinguish

themselves based on other matters than public information. They want to be perceived as a high-quality firm by focussing on observable matters like showing that they are putting a lot of focus on training and education for their employees.

Big-four auditors also try to have a variety of clients which will make outsiders perceive that the audit firm is not depending too much on one big client but can leave when necessary. Because of this kind of diversity this will lead to a better perceived independency and competence of their employees, which in turn lead to a better reputation.

Furthermore, a common feature of big four auditors is that they report more on a conservative basis. This means that changes of overstating the earnings and assets will be less, something that typically is the case when lawsuits are being held against auditors. Professional football clubs for example have now to comply with and apply a lot of financial regulations, because in the past it turned out that the financial statements of football clubs reflected unrealistic higher values than was actually the case. As a result, the mandatory judgement of an independent auditor was one of the most important consequences that followed.

However, according to Basu et al. (2001) especially a big-four auditor will have more impact on football clubs since they tend to be more conservative, which means that they recognize bad news more quickly than good news. When auditors are more conservative, managers often will also choose conservative accounting policies. From providers of the capital market conservatism will be more favorable because they can notice early warning signals. Also from the auditor's perspective conservatism will be more favorable because this will result in less reputational risk. When assets are overvalued the impact on publicity will be much higher whereas understating the assets won't get much attention by the public. This is because understatements can only lead to positive surprises while overstating only result in negative surprises. Besides, being conservative as an auditor will constrain management opportunistic behavior. Less management discretion in turn will result in lower discretionary accruals. This means that big four auditors have more power to limit management discretion in which earnings are being managed.

3.5 Hypothesis development:

The Union of European Football Associations (UEFA), the governing body of all European football associations has stated that the financial instability of professional football clubs has created extremely difficult market conditions for football clubs in Europe. Former UEFA president Michel Platini explained,

' 50 per cent of clubs are losing money and this is an increasing trend. We needed to stop this downward spiral. They have spent more than they have earned in the past and have not paid their debts. We don't want to kill or hurt the clubs; on the contrary, we want to help them in the market.

The teams who play in our tournaments have unanimously agreed to our principles…living within your means is the basis of accounting but it hasn't been the basis of football for years now. The owners are asking for rules because they can't implement them themselves – many of them have had it with shoveling money into clubs and the more money you put into clubs, the harder it is to sell at a profit'.

Another change since the implementation of the FFP is that football clubs have to be audited by an external auditor. The UEFA's aim is that financial statements will be controlled by an independent third party in order to mitigate management discretion. The UEFA aims with mandatory independent audits on a more precise judgement of the financials of the football clubs in which the UEFA'S criteria set is met. The UEFA tries with the use of mandatory auditors to prevent managers to engage in various forms of earnings manipulation in order to avoid these regulations (Brooks, 2013). However, there are two possible scenarios that could arise with the implementation of the Financial Fair Play regulations. The first scenario could be that managers of professional football clubs have more incentives to conduct earnings management, in order to meet financial ratios to get their licensing rights from the UEFA or avoiding possible punishment and/or sanctions. Furthermore, according to Garcia et al., (2019) companies which are facing financial difficulties are more likely to engage in earnings management. Furthermore, according to the study of Kross & Sul (2012) it turned out that regulatory intervention and deteriorating accounting quality has an association in which managers try to find ways to engage in earnings management.

On the other hand, earnings management could decrease since the auditors are expected to be independent and mitigate management discretion which could enhance the financial statement quality. On top of that, Krishnan (2003) states that big four auditors are providing even higher quality respectively to non-big-four auditors. The main reasons for giving audit quality has to do with the brand name of big-four auditors (Palmrose, 1988) and higher litigation costs in case of weak accounting quality (DeAngelo, 1981). In other words, being audited by a big-four firm will lead to less earnings management. As a result of this scenario the following null hypotheses will be tested[5]:

H1: The financial statement quality of professional football clubs within Europe has not changed since the implementation of the FFP rule in 2010.

H2: The effect of the FFP rule in 2010 on financial statement quality of professional football clubs within Europe is not more pronounced if a club is audited by a Big-4 auditor.

[5] *Appendix C; figures 4 and 5, present the Libby Boxes in which the hypotheses are conceptualized.*

4. Methodology

4.1 Data Selection:

In order to empirically test the hypotheses, the sample selection will be consisted of only professional football clubs in the highest league of their nation from 17 different European member countries of the UEFA. The countries consists of the United Kingdom (Premier League & Championship), Germany (Bundesliga), Italy (Serie A and Serie B), Spain (La Liga, Secunda Division), France (League 1 and League 2), Belgium (First division A), The Netherlands (Eredivisie and Jupiler League), Sweden (Allsvenskan), Denmark (Superligaen), Portugal (Primera Liga), Ukraine (Ukrainian Premier Leage), Turkey (Super Lig), Switserland (Swiss Super League), Poland (Ekstraklasa), Norway (Eliteserien), Czech Republic (Czech First League), Bulgaria (Bulgarian first league) and Austria (Austrian Football Bunesliga). The main criteria for the data selection procedure of the clubs to be included in the sample is to have full financial data publications in their annual financial statements for reliability purposes. The research sample is restricted only to clubs participating within the elite divisions of each country's official championship for all years under investigation. All clubs have been participating in a football league and are licensed members of the Union of European Football Association (UEFA). Like the study of Dimitropoulos (2011) this research design tries to mitigate any possible biases arising from the relegations of football clubs to lower divisions. Besides, clubs in the elite divisions attract greater publicity, have increased chances for external financing and their financial statements provide greater reliability since they are permanently audited by certified chartered accountants.

What's more, clubs in the elite divisions are highly capitalized, are in the forefront of the national championships and due to their frequent participation in the UEFA competitions, they attract the interest of the public, regulators, fans, investors and other stakeholders. Using this sample will be more representative for the overall football industry. All data will be hand collected from each club's annual reports and manually processed. Financial statement data is either directly collected on the websites of the professional football clubs or using financial statement information published on Bureau van Dijk, Company Info, House of Companies and the Bundesanzeiger.

The sample is divided into two sub-periods. The event date will be from 2008 till 2012 as in 2010 the Financial Fair Play Regulations were actually implemented. The pre-FFP period will be the time period of 2008-2009 and the post-FFP period will be the time period of 2011-2012. Any differences occurred from 2010 will be analysed for fair comparison. Furthermore, the upper and lower 1 percent of the data distribution are eliminated in order to reduce the impact of outliers to reduce bias in the estimation models. Table 1 shows the sample selection procedure (Panel A) and the

annual distribution of the UEFA Member nations within the sample (Panel B). The final sample consists of 945 firm year observations and 189 professional football clubs.

Table 1. Sample selection procedure; number of clubs and the number of club year observations

Panel A: Criteria	No. of clubs	No. Firm-year observations
Total number of clubs on the Bureau Van Dijk database	1611	8055
Less: other than professional football clubs	-1455	-7259
Add: Hand collected professional football clubs	+34	+170
Remaining professional football clubs in the highest divisions	190	966
Less: duplicates	-1	-16
Less: Missing values		-5
Final sample of the professional football clubs	189	945

Panel B: Annual distribution of the UEFA Member Nations					
Nations	2008	2009	2010	2011	2012
Austria	2	2	2	2	2
Belgium	23	23	23	23	23
Bulgaria	7	7	7	7	7
Czech Republic	1	1	1	1	1
France	26	26	26	26	26
Germany	16	16	16	16	16
Italy	11	11	11	11	11
Netherlands	31	31	31	31	31
Norway	1	1	1	1	1
Poland	1	1	1	1	1
Portugal	4	4	4	4	4
Spain	31	31	31	31	31
Sweden	1	1	1	1	1
Switserland	1	1	1	1	1
Turkey	1	1	1	1	1
Ukraine	1	1	1	1	1
United Kingdom	31	31	31	31	31
Total	189	189	189	189	189

4.2 Research Design

To examine the effects of the UEFA FFP regulations on the football industry, an Ordinary Least Square regression model is used to explain the discretionary accruals and see whether there are differences in the pre-FFP period and the post-FFP period. Furthermore, a trend analysis is used to

show the development of the liquidity ratio and the leverage ratio as one of the key long-term objectives of the UEFA is to create financial viability. The discretionary accruals are used to measure the FFP effects on earnings management. Finally, the effect of the auditor firm size on earnings management within the football industry will be estimated by looking at the difference in discretionary accruals when the football clubs are audited by a big-four auditor or a non-big four auditor.

4.2.1 Empiric model

To examine the effects of the Financial Fair Play regulations on earnings management, a couple of variables are used. To empirically test hypothesis 1 the following regression model is used:

$$DACC = \beta 0 + \beta 1\text{FFP} + \beta 2\text{DLISTED} + \beta 3LN\text{SIZE} + \beta 4\text{IA} + \beta 5REVGR + \beta 6\text{LEV} + \beta 7CFO + \varepsilon$$

In order to detect and measure earnings management, a lot of research is already done to measure the quality of accruals. This paper will use the Modified Jones model because this model separates the discretionary accruals from the non-discretionary accruals (Dechow, Sloan, & Sweeney, 1996). Secondly, previous studies (Krishnan, 2003; Lee et al., 2003) concluded in their research that for cross-sectional studies it would be better to use the Modified Jones model, since working capital and performance will affect managers in reporting higher earnings. Referring to the research of Dechow et al., (1996), the following three steps are applied to the sample data with the discretionary accruals as the residuals to measure earnings quality:

1. $TACC_t = \Delta CA_t - \Delta Cash - \Delta CL_t + \Delta DCL_t - DEP_t$ where;

The total accruals in a certain year will consist of the change in the current assets between year t and t-1 (ΔCAt), the change in cash and cash equivalents between t and t-1 ($\Delta Cash$ t), the change in current liabilities between year t and t-1(ΔCLt), the change in current liabilities in the long-term liabilities between t and t-1 ($\Delta DCLt$), and the depreciation –and amortisation costs ($DEPt$). After calculating the total accruals, the Modified Jones model can be estimated. The calculation applies with the second equitation:

2. $\frac{TACC_t}{A_{t-1}} = \alpha_1 \frac{1}{A_{t-1}} + \alpha_2 \frac{(\Delta REV_t - \Delta REC_t)}{A_{t-1}} + \alpha_3 \frac{PPE_t}{A_{t-1}} + \varepsilon_t$ where;

Firstly, the total lagged assets will be calculated which are presented 3 times in the denominator. This is the difference between the total assets in year t and t-1. $\Delta REVt$ is the difference between the revenues in year t and t-1, $\Delta RECt$ is the difference between receivables between year t and t-1. $At-1$ are the total assets from t-1, and PPE are the Plant, Property and Equipment in year t. the alpha's ($\alpha 1$, $\alpha 2$, and $\alpha 3$) are firm specific parameters. These will be calculated with the OLS regression. The error term will describe which effects of the variables are not explained by the

model and gives therefore answer to the question of what the discretionary accruals are. In turn, the error term gives the degree of earnings management. The last step will show the discretionary accruals. This will be calculated with the following equitation:

3. $DACCt = TACCt - NDACCt$

To finish the last step of calculating the discretionary accruals, the total accruals should be subtracted by the non-discretionary accruals, which is shown in the final equitation[6]:

$$\frac{NDACC_t}{A_{t-1}} = \alpha_1 \frac{1}{A_{t-1}} + \alpha_2 \frac{(\Delta REV_t - \Delta REC_t)}{A_{t-1}} + \alpha_3 \frac{PPE_t}{A_{t-1}} + \varepsilon_t$$

In order to examine any differences between the pre-FFP period to the post-FFP a dummy variable "FFP" is added to the regression model which takes the value 1 for the post period of the FFP (2011-2012) and 0 if otherwise (2008-2009).

After the analysis on hypothesis 1, the 2th hypothesis is tested by examining whether the type of auditor in the post-FFP period will have an effect on the discretionary accruals. Therefore, a dichotomous variable BIG4 is added which receives 1 if the club is audited by a big four audit corporation (KPMG, DELOITTE, PwC or Ernst and Young) and zero 0 if otherwise. Following prior studies, this study uses discretionary accruals as a proxy to measure how much room auditors give managers to manipulate earnings, which in turn indicates the quality of audit work. The effect of the size of the audit corporation will be calculated with the following equitation:

$$DACC = \beta 0 + \beta 1\text{FFP} + \beta 2\text{BIG4} + \beta 3\text{FFP*BIG4} + \beta 2\text{DLISTED} + \beta 3LN\text{SIZE} + \beta 4\text{IA} + \beta 5REVGR + \beta 6\text{LEV} + \beta 7CFO + \varepsilon$$

4.2.2 Control variables

To eliminate bias, this research design will add some control variables which could have an effect on the dependent variable which are the discretionary accruals. The control variables will consist of whether a football club is listed or not, the size of the football club, the amount of intangible assets relative to total assets, the yearly revenue growth, the leverage and the operating cashflows of the company.

Firstly, a control variable is used for clubs that are listed or not (DLISTED). According to Burgstahler, Hail, and Leuz (2006) public companies operate under stricter institutional monitoring and legislative frameworks. According to the authors, public companies have stronger legal systems and capital market supervision which is associated with less earnings management, while unlisted firms have higher chances of earnings management because they have fewer controls and regulations. When

[6] However, the discretionary accruals could also be determined by selecting in STATA/SPSS the unstandardized residuals in step 2.

companies are public, earnings should be more informative which is monitored by certain financial institutions. Hence, these institutional monitoring on publicly listed companies will lead to less management opportunism and, therefore earnings management is expected to be lower for listed football clubs.

The second variable that is controlled for is the size factor (LNSIZE). Size is measured as the natural logarithm of total assets. Baroncelli et al. (2006) did a study on clubs with financial problems and the association with the size of the clubs. The authors found out that the bigger the clubs were, the more financial stability depended on profitability. Smaller clubs in size would be dependent on investment decisions which affected financial stability. Therefore, the expectation is that larger clubs will have more financial stability, expressed in financial ratios, than smaller clubs. The size of clubs could therefore lead to differences in earnings management due to investment decisions and financial stability factors.

Furthermore, According to Watts& Zimmerman (1990) large companies are less engaged in earnings management because they are under more regulatory scrutiny (Watts & Zimmerman, 1990). Likewise, Dimitropoulos (2011) provides empirically evidence that large clubs are associated with less discretionary accruals. Therefore, the expectation is that there will be a negative relation between the size of football clubs and earnings management.

Furthermore, since football clubs have relatively to other companies a lot of intangible assets, the control variable of intangible assets relative to total assets is added (IA). Intangible assets have higher changes of being manipulated by managers because it often needs management judgement. Due to management discretion about football club intangibles (player contracts, brand values etc.), values could be manipulated in order to reach specific earnings targets. As a result of that, the expectation is a positive relation between earnings management and the amount of intangible assets.

This paper also controls for leverage (LEV), which is measured as the ratio of total liabilities to total assets. According to Vanstraelen et al. (2005), firms that are highly leveraged engage more in earnings management in order to avoid debt covenant violations. Also according to Dimitropoulos (2011) it turned out that football clubs that are highly leveraged are associated with more discretionary accruals. Thus, the expectation is that that leverage will have a positive relationship with earnings management (Peeters & Szymanski, 2014).

Another control variable that is added is the yearly growth of revenues (REVGR), measured as the percentage change of the football club's sales from year t-1 to t. According to Lee, Li and Yue (2006), companies that have high revenue growth have higher chances of engaging in earnings management. The same applies for the football industry (Dimitropoulos, 2011), which is supported

by the theory of Dechow et al. (2010) where it is stated that firms with high revenue growth have more opportunity to manipulate earnings. The expectation therefore is that football clubs with high growth of revenues will engage in more manipulation of the club's earnings.

The next variable that will be controlled for are the cashflows (CFO), which is measured by the ratio of cashflows deflated by lagged total assets. Firms that have excessive cashflows have less incentives to engage in earnings management (Iqbal & Strong, 2010). Also in the football industry, clubs with increasing cashflows are less incentivized to manipulate accounting numbers, because funds are being reinvested in the business without resorting to external funds (Dimitropoulos, 2011).

5. Empirical analysis and statistic results

In this section the most important results will be outlined. First, the descriptive statistics will be explained, followed with a trend analysis of the working capital ratio and the leverage ratio for the period 2008-2012. Furthermore, a Pearson correlation test is carried out of the sample variables under investigation. Finally, the results of the regression model will be explained in order to form a conclusion about the hypotheses. Other additional results and figures such as normality assumptions, multicollinearity tests, heteroscedasticity test and linearity assumptions are added to the Appendix section and are shortly explained in section 4.5.

5.1 Descriptive Statistics

Table 2. Descriptive statistics

Panel A: Descriptive statistics of the sample variables without clustering the pre-FFP and post-FFP period. Research period contains full sample from 2008-2012.

	Count	Mean	SD	Median	Min	max	P10	P25	P75	P90
DACC	945	-0.16	0.67	-0.10	-3.88	2.38	-0.58	-0.30	0.02	0.25
BIG4	945	0.43	0.50	0.00	0.00	1.00	0.00	0.00	1.00	1.00
FFP	945	0.50	0.50	0.00	0.00	1.00	0.00	0.00	1.00	1.00
DLISTED	945	0.16	0.37	0.00	0.00	1.00	0.00	0.00	0.00	1.00
SIZE	945	16.87	2.01	17.04	11.98	21.16	14.15	15.42	18.24	19.61
IA	945	0.24	0.22	0.18	0.00	0.90	0.00	0.02	0.37	0.56
REVGR	945	0.24	1.05	0.02	-0.80	7.42	-0.40	-0.13	0.23	0.80
LEV	945	0.49	0.84	0.24	0.00	5.16	0.02	0.08	0.53	1.00
CFO	945	0.02	0.41	0.04	-2.24	1.42	-0.29	-0.05	0.16	0.33
N	945									

t-test, Significant at the 5% level

**Note: BIG4Auditor is a dummy variable with the value 0 when being audited by non-big four office and 1 if otherwise; FFP is a dummy variable with the value 0 for the years 2008-2009 and 1 for the years 2011-2012; DLISTED is a dummy variable with value 0 when not publicly listed and 1 when publicly listed; SIZE is the natural logarithm of total assets; IA is the intangible assets relative to total assets; REVGR is the yearly growth of revenues; LEV is the ratio of total liabilities by total assets; CFO is the ratio of cashflows deflated by lagged total assets. All variables are winsorized at the 1 and 99%. The research period is 2008-2012 (excluding 2010).*

Panel A of table 1 presents the descriptive statistics of all the sample variables over the time period in which the Financial Fair Play regulations are implemented by the UEFA. Among other things the results show the total of observations, the mean sample, the standard deviation and the maximum and minimum of all the sample variables over the time period 2008-2012 for the professional football industry.

First, the total observations in the data resulted in 730 firm year observations after eliminating duplicates, missing values and eliminating the bottom and top 1% of the sample. Furthermore, in the time period 2008-2012 the mean value of the discretionary accruals (DACC) within the professional football industry has a value of -16%. This means that the discretionary accruals are approximately 16% of the lagged total assets, which is a deviation from the zero, and an indicator that earnings management also exists within the football industry.

The results also show that about 43% of the football clubs is audited by big four office (Deloitte, KPMG, EY or PwC) which means that more football clubs are audited by a non-big four auditor, whereas only 16% of the football clubs are registered as publicly listed companies. The average intangible assets (IA) of the football clubs are 24% of total assets. A possible explanation is the fact that football clubs have a lot of discretion whether to classify the football players as intangible assets or not. Remarkable, the mean value of the leverage is 49% of total assets which makes it clear that the professional football industry is financially instable. It clarifies directly one of the reasons why the FFP regulation is implemented, namely, to improve this ratio over the long-term.

What's more, the average of cashflow's from operation are only 2% which is a low value compared with the revenue growth of 24%. This could be due to the great amount of money outflows to pay back creditors, bank loans and employee costs which is common in the football industry.

Panel B: Descriptive statistics of the sample variables with clustering the pre-FFP (2008-2009) and the post-FFP period (2011-2012). Research period contains clustered samples, excluding 2010.

	PRE-FFPR		POST-FFPR			
Variables	Mean	Std. Dev.	Mean	Std. Dev.	Mean Diff.	Sig.
DACC	-0.239	0.77	-0.119	0.54	-0.119	0.036**
BIG4	0.430	0.50	0.428	0.50	0.001	0.966
FFP	0	0.00	1	0.00	-1	.
DLISTED	0.161	0.37	0.167	0.37	-0.005	0.829
SIZE	16.810	2.04	16.932	1.98	-0.122	0.411
IA	0.238	0.22	0.232	0.23	0.006	0.717
REVGR	0.201	1.05	0.274	1.05	-0.072	0.353
LEV	0.497	0.84	0.487	0.84	0.010	0.870
CFO	-0.005	0.46	0.049	0.35	-0.054	0.071*

Mean Diff.: Mean difference of the variable between the 2 periods
Mean: Mean in pre-FFP and post-FFP period
** p<0.05, ** p<0.01*

**Note: BIG4Auditor is a dummy variable with the value 0 when being audited by non-big four office and 1 if otherwise; FFP is a dummy variable with the value 0 for the years 2008-2009 and 1 for the years 2011-2012; DLISTED is a dummy variable with value 0 when not publicly listed and 1 when publicly listed; SIZE is the natural logarithm of total assets; IA is the intangible assets relative to total assets; REVGR is the yearly growth of revenues; LEV is the ratio of total liabilities by total assets; CFO is the ratio of cashflows deflated by lagged total assets. All variables are winsorized at the 1 and 99%.*

Panel B of table 1 presents the descriptive statistics for the pre-FFP and post-FFP separately, in which the mean difference shows to what degree the variables have changed after the implementation of the FFP. At first, the descriptive results show that the mean of DACC in the post-FFP period contains 11.9% which means that the discretionary accruals has decreased in the time period 2011-2012, since the DACC in the pre-FFP period was 24.2%. The mean difference from the pre-FFP period of -11.9% which is also statistically significant at the 5% level, suggest therefore that during the post-FFP period earnings management decreased with 11.9%. Furthermore, the number of clubs that changed to a big-4 auditor remained almost the same but is not statistically significant. The results show also slight mean differences in the size, intangible assets, revenue growth and leverage but the results are insignificant. Interestingly, the mean difference of CFO is negative (-0.054) and statistically significant, indicating that the cashflows of football clubs decreased with 5.4% in the post-FFP period. A possible explanation for this could be that football clubs had to pay off short-term creditors in order to enhance the working capital ratio as one of the objectives of the UEFA.

5.2 Pearson Correlation Matrix of all the sample variables

Table 2. Pearson Correlation Matrix of all the sample variables.

	DACC	BIG4	FFP	DLISTED	SIZE	IA	REVGR	LEV	CFO
DACC	1								
BIG4	-0.027	1							
FFP	0.062	-0.003	1						
DLISTED	0.054	**0.421*****	0.008	1					
SIZE	**0.138*****	**0.082***	0.030	**0.205*****	1				
IA	0.065	0.022	-0.012	**0.107****	**0.335*****	1			
REVGR	-0.056	-0.008	0.035	-0.014	-0.037	0.003	1		
LEV	-0.049	0.077*	-0.006	-0.006	**-0.110****	**0.116****	0.023	1	
CFO	**-0.167****	0.049	0.065	0.066	**0.128*****	-0.051	-0.027	-0.063	1

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

*Correlation is significant on the 0,10 level
**Correlation is significant on the 0,05 level
***Correlation is significant on the 0,01 level

Note: All coefficients in bold indicates that the values are significant with an alpha level of 5% or lower (two-tailed test).

Table 2 shows the Pearson correlation coefficients of all the variables used in the time period 2008-2012. The results show that the discretionary accruals are negatively correlated with football clubs being audited by a big four auditor (-0.027), but the correlation coefficient is statistically insignificant (p>0.05). This means that it's statistically not assumable to conclude that there is an association between football clubs being audited by a big-4 auditor and less earnings management.

Furthermore, the discretionary accruals are positively correlated with the FFP (0.06), but the correlation coefficient is insignificant ($p>0.05$). This means that there is no statistical supported association between the FFP regulation and the rising of earnings management.

Corresponding with the results of Baroncelli et al.(2006), the correlation coefficient between discretionary accruals and size is positive (0.138) and is statistically strongly significant ($p<0.01$), suggesting that there is a positive association between the size of football clubs and the increase in earnings management. Also, discretionary accruals have a negative correlation coefficient (-0.167) with cashflows from operations and is statistically strongly significant ($p<0.05$), verifying the results of Dimitropoulos (2011) and suggesting that clubs with increasing cashflows from operations tend to be associated with higher earnings management.

What's more, the correlation between the FFP regulation and clubs that are being audited by a big-four office negative but insignificant, which means that it's not assumable to conclude that there is an association between the implementation of the FFP and clubs who switched from a big-four auditor to a non-big four auditor

The results show also a positive and significant correlation between publicly listed football clubs and clubs that are being audited by a big four auditor (0.421), and shows also that the bigger the clubs are, the more association there is with a big four auditor (0.082). For publicly listed clubs the results show positive and significant correlations with the size of the clubs (0.205) and the amount of intangible assets (0.107). The same positive and significant correlation applies for the size of a football clubs (0.105) and the amount of intangible assets (0.335), whereas smaller clubs tend to be associated with a higher leverage ratio (-0.110). What's more, there is a significant correlation between how big the football club is and the operating cashflows (0.128), which means that larger football clubs tend to have a correlation with operating cashflows due to the increasing publicity that they attract.

5.3. Trend analysis of the working capital and the leverage ratio

Figure 1 shows a trend analysis of the working capital ratio (WC) and the leverage ratio (LEV) within the football industry between the pre-FFP period and the post-FFP period. One of the main goals of the Financial Fair Play regulations was to protect the financial stability of football clubs. The UEFA intended with the implementation of the FFP that professional football clubs would enhance their working capital ratio and decrease their leverage ratio.

As expected, the results show an increasing trend over the years in the post-FFP period for the working capital ratio (2011-2012). This means that football clubs improved their liquidity, explained by the fact that one of the objectives of the FFP focussed on the stimulation of football clubs to fulfil their short-term payables on time.

Interestingly, for the leverage ratio the results show a decreasing trend in the pre-FFP period and an increasing trend till the implementation of the rule in 2010. However, in the post-FFP period again a decreasing trend is shown in the graph as expected. A possible explanation could be that clubs tried to get the most out of debt financing till the regulatory intervention took place. However, like the working capital ratio, another objective of the FFP regulations was to enhance the leverage ratio within the football industry, focussing on the long-term viability of European Football.

The overall conclusion according to the graph is that the objectives of the FFP to improve the financial capability of clubs, place necessary importance on the protection of creditors, ensure clubs settle the liabilities with players and other creditors, and encouraging the professional football clubs to operate more on equity financing instead of debt financing seems to be accomplished in the first two years of the post-FFP period.

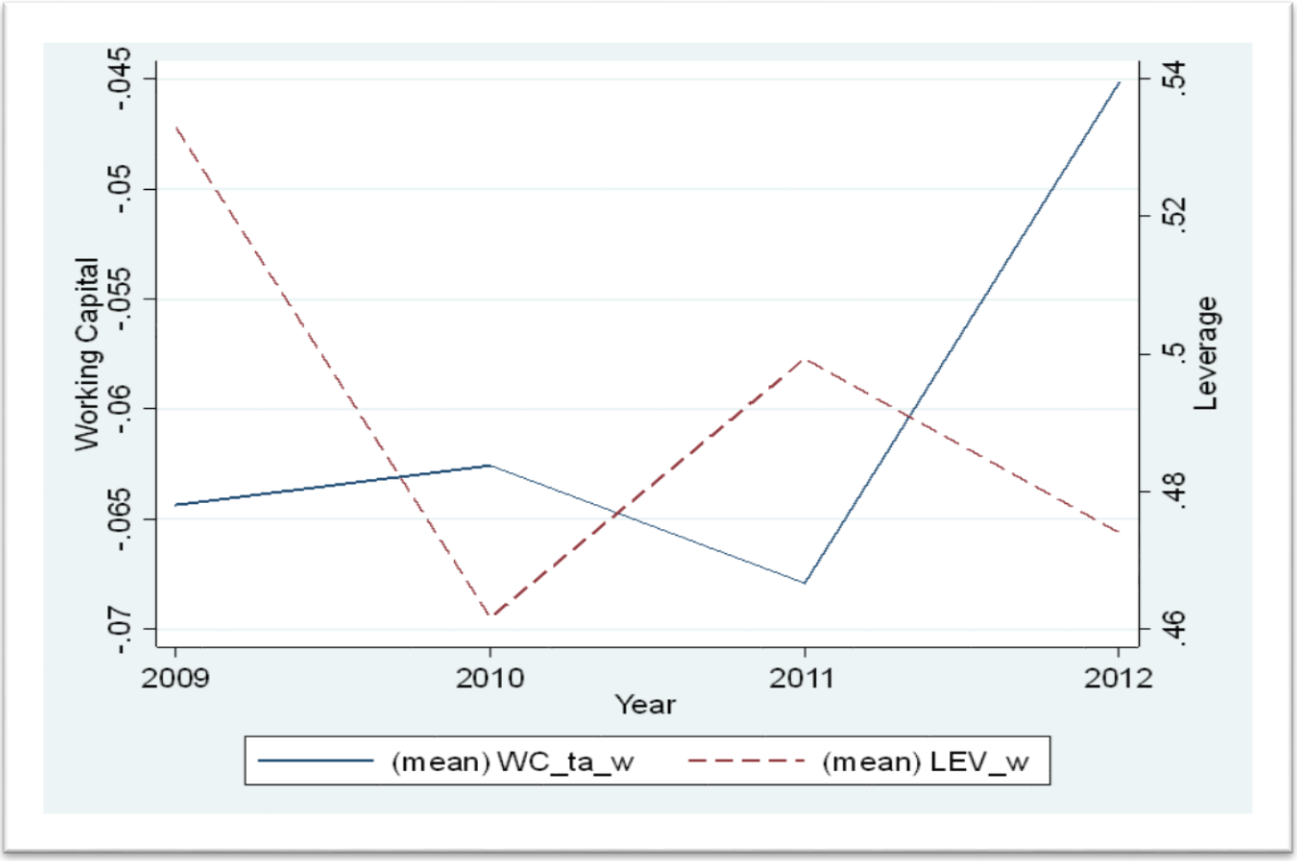

Figure 1. Trend Analyze of the working capital ratio and the leverage ratio of the professional football clubs between the pre-FFP period and the post-FFP period.

5.4 Regression analyses

In order to test the hypotheses an Ordinary Least Square regression model is used. Table 3 shows to which degree the model is significant. Therefore, an ANOVA table is used where we look at the F-statistic. Furthermore, the R-squared and the adjusted R-squared are examined in order to get an indication to which degree the model is interpretable. Table 4 gives the results of the regression which will be used in order to give an answer on the question whether the implementation of the

FFP regulations influenced earnings management (hypothesis 1), and what the moderating effect of a big-four auditor is on the relation between earnings management and the implementation of the FFP regulations (hypothesis 2). This will be explained by the coefficients and the p-values of the independent variables from the regression model. To investigate the relation between the Financial Fair Play regulations and the change in earnings management, and to test the moderating effect of a big-four auditor in the post-FFP period, the following regression models are used:

$$DACC = \beta 0 + \beta 1\text{FFP} + \beta 2\text{DLISTED} + \beta 3LN\text{SIZE} + \beta 4\text{IA} + \beta 5REVGR + \beta 6\text{LEV} + \beta 7CFO + \varepsilon$$

$$DACC = \beta 0 + \beta 1\text{FFP} + \beta 2\text{BIG4} + \beta 3\text{FFP*BIG4} + \beta 2\text{DLISTED} + \beta 3LN\text{SIZE} + \beta 4\text{IA} + \beta 5REVGR + \beta 6\text{LEV} + \beta 7CFO + \varepsilon$$

Table 3. ANOVA results and the model summary with the F-statistic, R-squared and adjusted R-squared

	H1	H2
R-squared	0.109	0.113
Adj. R-squared	0.098	0.098
F-statistic	3.206	2.605
P(F)	0.002**	0.006**

According to the results in table 3, the model shows a F-statistic of 3.206 and 2.305, with respectively p-values of 0.002 and 0.006 (<0.05) which means that the model is significant. Furthermore, the table shows R-squares of 10,9% and 11,3%, which gives an indication that the discretionary accruals (DACC) is explained by approximately 11% of the independent variables in both hypotheses. Also, the adjusted R-squares for both hypotheses are 9,8%. For both hypotheses, the R-squares are low which could be an indication that that the results of the regression are questionable in terms of interpretation. The change in the dependent variable (DACC) is not much explained by the independent variables. The low R-squares are an indication that the results of the regression are questionable in terms of interpretation. The change in the dependent variable (DACC) is not much explained by the independent variables.

Table 4. Ordinary Least Square Regression model for hypothesis 1 and hypothesis 2. The dependent variable is the DACC (discretionary accruals) which is a proxy for earnings management. The independent variables of interest are FFP and BIG4. The other independent variables are control variables.

Variables	**DACC (H1)**	**DACC (H2)**
Constant	-1.185***	1.124***
	(0.321)	(0.312)
FFP	0.091	0.040
	(0.061)	(0.078)
BIG4		-0.138
		(0.116)
BIG4#FFP		0.118
		(0.124)
SIZE	0.064***	0.063***
	(0.019)	(0.019)
IA	0.540***	0.542***
	(0.159)	(0.159)
DLISTED	0.035	0.068
	(0.067)	(0.077)
REVGR	-0.012	-0.012
	(0.033)	(0.033)
LEV	0.005	0.002
	(0.047)	(0.047)
CFO	-0.307	-0.306
	(0.188)	(0.188)

**Note: Standard errors in parentheses: *** p<0.01, ** p<0.05, * p<0.1*

**Note: BIG4Auditor is a dummy variable with the value 0 when being audited by non-big four office and 1 if otherwise; FFP is a dummy variable with the value 0 for the years 2008-2009 and 1 for the years 2011-2012; DLISTED is a dummy variable with value 0 when not publicly listed and 1 when publicly listed; SIZE is the natural logarithm of total assets; IA is the intangible assets relative to total assets; REVGR is the yearly growth of revenues; LEV is the ratio of total liabilities by total assets; CFO is the ratio of cashflows deflated by lagged total assets. All variables are winsorized at the 1 and 99%. The research period is 2008-2012 (excluding 2010). For hypothesis 2, the research period is 2011-2012.*

Table 4 show the results from the regression on the discretionary accruals in hypothesis 1 and 2. First, after the implementation of the Financial Fair Play regulations (FFP), the discretionary accruals (DACC) have a positive regression coefficient (0.091). The Post-FFP period has a positive but insignificant value of 0.091 which means that we cannot statistically conclude that football clubs engaged more in earnings management after the implementation of the financial fair play regulations. Therefore, the null hypothesis cannot be rejected, and the conclusion would be that for this sample the financial statement quality of professional football clubs within Europe has not changed since the implementation of the FFP rule in 2010. A potential explanation is that because the football clubs enhanced their financial performance since the new regulation, the incentives to conduct more earnings management decreased, as the clubs faced fewer financial difficulties since the FFPR (Kramer et al.,2011).

On the other hand, SIZE which is explained as the natural logarithm of total assets, has a positive and a strong significant value ($p<0.01$) with a regression coefficient of 0.064. Corresponding with the study of Baroncelli et al. (2006), this indicates that the larger the professional football clubs are, the more earnings management practices are conducted. A possible explanation could be that bigger football clubs in size are more engaging in earnings management because they depend more on stable probability figures. The effect of intangible assets (IA) on discretionary accruals has a positive regression coefficient (0.540) and is strongly significant ($p<0.01$). This suggests that football clubs with 1 % increase in intangible assets lead to an increase of 54% of the discretionary accruals, suggesting football clubs with more intangible assets will lead to more earnings management. Prior research clarified this by stating that intangible assets have higher chances of being manipulated by managers due to the amount of discretion they have (Rowbottom, 2002).

As for the effect of leverage on earnings management, the regression coefficient is positive (0.005) and verifies the same trend of previous research were highly leveraged firms engage often in earnings management to avoid debt covenant violations (Vanstraelen et al., 2005). However, because this trend is statistically not significant the assumption cannot be made that football clubs with high leverage lead to more earnings management practices. The same applies for DLISTED, which has a positive regression coefficient (0.035) but has an insignificant effect on the discretionary accruals. For football clubs with increasing cashflows, the regression coefficient shows that the impact on earnings management seems negative (-0.307). Although the result is insignificant, corresponding with the study of Dimitropoulos (2011) the regression coefficient is negative in which is concluded that clubs have less incentives to manipulate accounting numbers because increasing cashflows are often being reinvested in the club. However, because this coefficient is insignificant for this sample, the same conclusion cannot be made for this population.

Moving to the moderating effect of a big four auditor in hypothesis 2, the variable FFP#BIG4 show a positive but insignificant value (0.0118) on the discretionary accruals. Although the regression coefficient is positive, we can statistically not reject the null hypothesis, which indicates that the effect of the FFP rule in 2010 on the financial statement quality of professional football clubs within Europe is not more pronounced if a club is audited by a Big-4 auditor. However, if the results were assumed significant ($p<0.05$) the indication would be that even when clubs are being audited by a big-four auditor in the post-FFP period, earnings management increased compared to the pre-FFP period. In fact, the influence of a big four office then even increased earnings management ($0.118>0.091$), which would not be as expected.

However, in contrast with prior literature, where the suggestion is that big four auditors deliver good audit quality, for the post-FFP period this research find no differences and can't make the same

statistic conclusion due to insignificance values. The results on the control variables size and intangible assets remains the same as the conclusions made in hypothesis 1.

5.5 Additional tests:

5.5.1 The effect of a big-four auditor on earnings management within the football industry including the pre-FFP period:

Table 5. Ordinary Least Square Regression model whereby the dependent variable is DACC and the independent variable of interest is the BIG4, without separating the pre-FFP period and the post-FFP period (2008-2012), including 2010. All other variables serve as control variables.

Variables	Complete sample (DACC)
BIG4	-0.093*
	(0.055)
DLISTED	0.099
	(0.081)
SIZE	0.049***
	(0.018)
IA	0.328**
	(0.159)
REVGR	-0.029
	(0.046)
LEV	-0.013
	(0.044)
CFO	0.225
	(0.166)
Constant	-0.883***
	(0.292)

**Note: Standard errors in parentheses: *** p<0.01, ** p<0.05, * p<0.1*

**Note: BIG4Auditor is a dummy variable with the value 0 when being audited by non-big four office and 1 if otherwise; FFP is a dummy variable with the value 0 for the years 2008-2009 and 1 for the years 2011-2012; DLISTED is a dummy variable with value 0 when not publicly listed and 1 when publicly listed; SIZE is the natural logarithm of total assets; IA is the intangible assets relative to total assets; REVGR is the yearly growth of revenues; LEV is the ratio of total liabilities by total assets; CFO is the ratio of cashflows deflated by lagged total assets. All variables are winsorized at the 1 and 99%. The research period is 2008-2012 (excluding 2010).*

To zoom in on the effect of what single influence the type of auditor has on earnings management of the football clubs without taken the FFP as independent variable, the whole sample period is considered (2008-2012). While table 4 shows the results of what influence the FFP regulations had on earnings management (H1) , and what influence a big four auditor has on earnings management in the post-FFP period (H2), table 5 shows the regression results on the discretionary accruals whereby the dummy variable FFP is excluded.

The direct results of the influence of a big four auditor (BIG4) on earnings management within the

football industry has a negative and lightly significant value (-0.093), which suggests that clubs being audited by a non-big four auditor, will lead on average to less earnings management practices. Therefore, the results also suggest that without clustering the pre-FFP period to the post-FFP period, big- four auditors deliver on average better audit quality in the football industry than non-big four auditors. Furthermore, the results show as the previous results that the size of a company and intangible assets have a positive and significant effect on discretionary accruals.

5.5.2 The effect of the FFP regulations on earnings management including the difference between countries with high versus low legal enforcement

In order to control for country-fixed effects, this study follows the paper of Brown et al. (2014), in which they investigated distinguishes between countries on financial reporting enforcement and audit quality. Rather than the broader enforcement of securities market law and regulations, this paper focused especially on the financial statement and audit legislation.

In order to determine the country-fixed effects, an index score is used where high scores mean a high audit quality or high legal enforcement, with 32 as maximum score. In order to determine this, a difference is made between countries that score below the median and countries that score above the median (Appendix B, table 12).

First, a control dummy variable is made for countries with high legal enforcement versus countries with low legal enforcement. Countries with high legal enforcement got the value 1, otherwise 0.

In order to find legal enforcement differences between countries, Brown et al. (2014) considered whether countries have bodies that are responsible for monitoring and promoting compliance with accounting standards and whether that body can set accounting and auditing standards. Besides checking the existence of an enforcement body, also activeness of the bodies are considered e.g. whether reviews of financial statements are undertaken, whether they publish report outcomes of their reviews and whether enforcement actions are taken (requiring firms to revise and reissue financial statements). Finally, the extent of resources devoted to enforcement is taken as a proxy for regulatory intensity in a country. According to Appendix B (table 12), countries with low legal enforcement are Austria, Czech, France, Poland, Portugal, Spain and Turkey.

Table 6 presents the result of the interaction effect of legal enforcement on the relation between the FFP and earnings management. Although the regression coefficient gives a value of -0.123, the results are insignificant. Therefore, while previous studies suggest that a higher financial statement quality is expected in countries with high legal enforcement, the conclusion for this sample within the European football industry shows no interacting relationship with the effect of the FFP on earnings management. In Appendix B (tables 13-15), the results are insignificant and thus similar conclusions are taken on the relationship on a Big-4 auditor and financial statement quality.

Table 6. OLS Regression model including country-fixed effects as interaction effect on the FFP and earnings management

Variables	**DACC**
Constant	-1.256***
	(0.399)
FFP	0.182
	(0.156)
ENFORCE	0.088
	(0.163)
FFP#ENFORCE	-0.123
	(0.168)
DLISTED	0.035
	(0.067)
SIZE	0.064***
	(0.019)
IA	-
	0.548***
	(0.160)
REVGR	-0.013
	(0.034)
LEV	0.005
	(0.047)
CFO	0.305
	(0.189)

**Note: Standard errors in parentheses: *** p<0.01, ** p<0.05, * p<0.1*
**Note: ENFORCE is a dummy variable with the value 0 for countries with low legal enforcement and 1 if otherwise; FFP is a dummy variable with the value 0 for the years 2008-2009 and 1 for the years 2011-2012; DLISTED is a dummy variable with value 0 when not publicly listed and 1 when publicly listed; SIZE is the natural logarithm of total assets; IA is the intangible assets relative to total assets; REVGR is the yearly growth of revenues; LEV is the ratio of total liabilities by total assets; CFO is the ratio of cashflows deflated by lagged total assets. All variables are winsorized at the 1 and 99%. The research period is 2008-2012 (excluding 2010).*

5.5.3 Data assumptions tests:

In order to make validate conclusions about the results of the regression model, the normality assumptions had to be met in order to see whether the residuals were normally distributed.
First, the Shapiro-Wilk test for normal data is executed for each variable and the results show that for each variable the p-value were 0,00, which is below the significance level of 5% (Appendix B, table 8). This means that the null hypotheses cannot be rejected, which means that there could be an assumption that the variables are not normally distributed. The alternative hypothesis which assumes that the variables are normally distributed, is therefore rejected.
Furthermore, looking at the normal P-P-PLOT Regression Standardized Residual Dependent Variable

(Appendix C), the figure shows that the points around are not close to the linear line. This is again another indication that the variables are not normally distributed.

The third test of normality is done by executing scatterplots for each variable against the dependent variable (Appendix C), in which the points are not randomly spread which means that the assumptions of normality are not met. The scatterplots between the standardized predicted values and standardized residuals appears to be not completely concentrated on the central part but shows values that are dispersed. This may be an indication of heterogeneity, which is indeed the case according to the heterogeneity test (Appendix B, table 10). The p-value of the test is smaller than the significance level, rejecting the homogeneity assumption.

Table 9 in appendix B shows the results on multicollinearity which has a mean value of 1.07. The assumption often is that multicollinearity exists when the value is higher than 5. The results show that none of the variables have a high VIF value which is an indicator that all the independent variables have no high underling correlation.

Furthermore, all data is winsorized at the bottom and top 1%. Results on the normality histograms and other supportive figures regarding the normality and linearity assumptions can be found in Appendix C.

6.Conclusion:

In recent decades, the sport industry of professional football has transformed from a recreational and healthy activity into a large business and social event, attracting the interests of billions of people around the world. This led also to an increase in the number of stakeholders and conflicting interests, in which decisions made by the club management are tied to capital market incentives, regulatory interventions and its day to day supporter demands. To maintain sporting success at the interest of the supporters, but at the expense of financial performance, inefficient management decisions got many football clubs into liquidity problems. This made football clubs extremely dependent on external financial sources from the capital market to avoid bankruptcy. In order to save the football industry from collapsing financially, the Union of European Football Association (UEFA) introduced in 2010 The Financial Fair Play regulations which monitored the clubs' finances by requiring the submission of the annual accounts. One of the objectives of the UEFA was to improve the financial viability through improved working capital and leverage figures in the future. Furthermore, there had to be improvements in transparency, completeness and correctness of the financial statements of football clubs. Therefore, one important aspect of the measures taken was that clubs had to be audited by an independent auditor starting from 2010 in order to restore financial statement quality. However, these regulations led to conflicts of interests between the UEFA and the football clubs' financial and sporting interests since the implementation of the new regulation kept eyes on the accounting data. As a result, football clubs got less freedom in their financial activities which were used inefficiently to maintain intensity of the competitions. However, based on prior literature, the implementation of the FFP could therefore lead to different consequences. The suggestion is that when companies are highly under pressure by regulators, managers have more incentives to manipulate the financial statements in order to avoid adverse sanctions. For football clubs the worst outcome is that they won't get licensing rights which excludes them from participating in the highest competitions. On the other hand, since the regulation coincided with mandatory independent audits, the suggestion is that managerial discretion and earnings manipulation would be harder to conduct because of the auditor's independency and litigation risk. Knowing that, prior audit research also suggests that Big-4 auditors are perceived to deliver higher audit quality than non-Big 4 auditors.

Against this background, this paper investigated the relation between the financial statement quality of football clubs within Europe with the FFP rule in 2010. In order to do this, accounting data of 190 professional football clubs are collected over a 4-year period, in which the pre-FFP period (2008-2009) is compared with the post-FFP period (2011-2012), leaving the data sample to 945 club

year observations. The empirical results from the data showed an insignificant effect of the FFP on the discretionary accruals of the football clubs, which means that the level of earnings management showed no significant difference. This concludes that the financial statement quality of professional football clubs within Europe has not changed since the implementation of the FFP rule in 2010. Secondly, without the influence of the FFP rule the empirical results showed a slightly negative effect of a Big-4 auditor on earnings management, meaning that Big-4 auditors in the football industry deliver higher audit quality than non-big four auditors in general. Yet, the effect of a Big-4 auditor on earnings management since the FFP rule gave insignificant results. Therefore, the conclusion is that the effect of the FFP rule in 2010 on the financial statement quality of professional football clubs is not more pronounced if a club is audited by a Big-4 auditor. A potential reason for this could be that non-big four auditors put more effort in delivering higher audit quality since the FFP rule, considering the fact that all financial statements had to be submitted to a regulatory body and thus are double checked. To control for country-fixed effects I distinguished the countries with high legal enforcement and low legal enforcement. However, the interaction effects of this factor were insignificant and led to no relation to legal enforcement and earnings management within the football industry.

Finally, this paper adds also to the relevant literature that the UEFA's objective of improving the financial viability of football clubs made a promising start, since the descriptive trend analysis shows better performance of the working capital ratio and leverage ratio after the FFP implementation in 2010.

The implication of the findings is important for professional sport regulators, the accounting profession and other stakeholders. First, other regulators of the FIFA confederations like the AFC in Asia or the CAF in Africa could also use a rewarding system in order to improve financial performance in their continents. Likewise, other sport industries in financial distress should consider that a financial regulatory intervention could lead to improvements. Secondly, for the accounting profession in the football industry, big-four auditors should consider that there was no difference (since 2010) with non-big four auditors in terms of audit quality, which can lead to less negotiation power over the audit fees. Finally, in terms of credibility, for the investors there is no need to hesitate on financial statement quality, neither on the influence of which type of auditor is involved with the club's financial statements, since the results of this paper gave no significant results on deteriorating earnings quality. However, to make real long-term conclusions which can be translated to present, a longer research period should be considered.

7. Limitations and recommendations:

Nevertheless, this study has some limitations which provides scope for future research. Firstly, the empirical results are not representative for all the 55 UEFA member nations, since this paper represent only 17 member nations in the data distribution. For external validity purposes, it would therefore be better to take more member nations in the data distribution. Also, in terms of significance, employing a larger sample provides more information about the population and is the most practical way to increase the power of the hypothesis's test. Secondly, real long-term effects are not measured, since the time period after the FFP implementation in this sample only took 2 years (2011-2012). To examine long-term effects of the FFP such as earnings management or financial performance trends, it would be interesting to analyse a longer research time-period. Furthermore, the sample in this research is not evenly distributed across the UEFA member nations. It would be better when more clubs in smaller countries were involved in the data set in order to avoid any bias from country fixed effects. Another limitation of this study is that it was not possible to control for countries with lower audit quality due to equal distribution limitations. However, it would be interesting to use the audit quality index table (Appendix B) to control for this kind of country-fixed effects. Lastly, the sample period consists also of the period in which the financial crisis took place (2008). It would be fair to control for this factor because it is widely known that the financial crisis influenced international business in general. Future research that requires accounting data from football clubs, should take this into consideration when collecting data in order to prevent any biases.

An interesting recommendation for future research would be a diff-in-diff analysis between European football clubs and non-European football clubs, since the FFP regulation only applies for the European football industry. Another interesting recommendation for future research would be to compare other sport industries to the football industry, because while football is the greatest sport in Europe, sports in North America like basketball and ice hockey are experiencing the same socio-economic developments in the last decade as the football industry in Europe. Finally, not all football clubs have adopted IFRS. Therefore, interesting for future research would be to examine differences in management behaviour of professional football clubs that adopted IFRS and clubs who didn't.

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APPENDIX A: Variable Definitions

Table 6: Variable Definitions. The dependent variable for earnings management is calculated in STATA with the Modified Jones Model where the variables used in the Modified Jones Model are obtained from Bureau Van Dijk (Amadeus) via Wharton Research Data Services, Company Info, House of Companies, Bundesanzeiger or directly obtained from the annual reports stated on the club's official website. Respectively, audit information is obtained from Audit Analytics or directly obtained from the official club's website. The following table defines all variables used in STATA.

Table 7. Variables

Variables	Description	Scale	Data Source
DACC	Discretionary accruals, a proxy for earnings management	Continuous	Own calculation on STATA
NDACC	Non-discretionary accruals divided by total assets in year t-1	Continuous	Own calculation on STATA
Scaled_PPE	PPE/lagged total assets	Continuous	Own calculation on STATA
Term2	Delta of revenues-delta of receivables/ lagged total assets	Continuous	Own calculation on STATA
Inverse_lagTA	1/lagged total assets	Continuous	Own calculation on STATA
Scaled_TACC	Total accruals in year t divided by total assets in year t-1	Continuous	Own calculation on STATA
Lag_TA	Total assets in year t-1 (lagged total assets)	Continuous	Amadeus/ Bureau van Dijk/ Company Info/ House of Companies/ Bundesanzeiger
Delta_REC	Delta revenues in year t less delta net receivables in year t-1	Continuous	Amadeu/ Bureau van Dijk/ Company Info/ House of Companies/ Bundesanzeiger
Delta_REV	Revenues in year t less revenues in year t-1	Continuous	Amadeu/ Bureau van Dijk/ Company Info/ House of Companies/ Bundesanzeiger
TACC	Total accruals in year t Continuous	Continuous	Own calculation on STATA
$\alpha_{1,2,3}$	Parameters to be estimated, called alpha's, estimated by the OLS regression.	Continuous	Own calculation on STATA
ε_t	Residuals in year t	Continuous	Own calculation on STATA
Delta_CLdebt	Change in short term debt included in current liabilities in year t	Continuous	Amadeus/ Bureau van Dijk/ Company Info/ House of Companies/ Bundesanzeiger/ Own calculation on STATA
Delta_CL	Change in current liabilities in year t	Continuous	Amadeus/ Bureau van Dijk/ Company Info/ House of Companies/

			Bundesanzeiger/ Own calculation on STATA
Delta_CASH	Change in cash and cash equivalents in year t	Continuous	Amadeus/ Bureau van Dijk/ Company Info/ House of Companies/ Bundesanzeiger/ Own calculation on STATA
Delta_CA	Change in current assets in year t	Continuous	Amadeus/ Bureau van Dijk/ Company Info/ House of Companies/ Bundesanzeiger/ Own calculation on STATA
LEV	The ratio of total liabilities to total assets	Continuous	Amadeus/ Bureau van Dijk/ Company Info/ House of Companies/ Bundesanzeiger/ Own calculation on STATA
IA	The intangible assets relative to total assets	Continuous	Amadeus/ Bureau van Dijk/ Company Info/ House of Companies/ Bundesanzeiger/ Own calculation on STATA
SIZE	The natural logarithm of total assets	Continuous	Amadeus/ Bureau van Dijk/ Company Info/ House of Companies/ Bundesanzeiger/ Own calculation on STATA
CFO	The ratio of cashflows deflated by lagged total assets	Continuous	Amadeus/ Bureau van Dijk/ Company Info/ House of Companies/ Bundesanzeiger/ Own calculation on STATA
REVGR	The percentage change of the football club's sales from year t-1 to t	Continuous	Amadeus/ Bureau van Dijk/ Company Info/ House of Companies/ Bundesanzeiger/ Own calculation on STATA
Id	Unique company identifier for each club	Continuous	Own created value on STATA
FFP	A dummy variable which takes the value 1 for the POST-FFP period, 0 otherwise	Binary	Own created value on STATA
BIG4Auditor	A dummy variable with the value 1 for clubs that are either audited by KPMG, DELOITTE, PwC or EY, 0 otherwise	Binary	Amadeus/Bureau van Dijk/ Company Info/ House of Companies/ Bundesanzeiger/ Audit Analytics
Dlisted	A dummy variable with the value of 1 when the professional football clubs are publicly listed, 0 otherwise	Binary	Amadeus, Bureau van Dijk/ Company Info/ House of Companies/ Bundesanzeiger

NI	Net income	Continuous	Amadeus, Bureau van Dijk/ Company Info/ House of Companies/ Bundesanzeiger
Depreciation	Depreciation and amortization expense in year t	Continuous	Amadeus, Bureau van Dijk/ Company Info/ House of Companies/ Bundesanzeiger
Workingcapital	The working capital ratio (CA-CL)	Continuous	Own calculation
Year	Each fiscal year ranging from 2008-2012	Categorical	Amadeus, Bureau van Dijk/ Company Info/ House of Companies/ Bundesanzeiger
PPE	Gross property plant and equipment in year t	Continuous	Amadeus, Bureau van Dijk/ Company Info/ House of Companies/ Bundesanzeiger

APPENDIX B: Descriptive and data assumption tables

Table 8. Shapiro-Wilk test for all independent variables where DACC is the dependent variable.

	Shapiro-Wilk W		Test for normal data		
Variables	Obs.	W	V	Z	Prob>Z
SIZE	730	0.99169	3.937	3.349	0.00040
IA	730	0.91548	40.040	9.018	0.00000
REVGR	730	0.51239	230.987	13.302	0.00000
LEV	730	0.54478	215.642	13.134	0.00000
CFO	730	0.73963	123.339	11.768	0.00000
DACC	730	0.71366	135.644	12.001	0.00000

Table 9. Multicollinearity test

Variable	VIF	1/VIF
SIZE	1.22	0.820117
IA	1.17	0.854565
DLISTED	1.05	0.954064
LEV	1.04	0.960124
CFO	1.03	0.966291
FFP	1.03	0.993515
REVGR	1.01	0.995996
Mean VIF	**1.07**	

Table 10. Heteroskedasticity test

Breusch-Pagan / Cook-Weisberg test for heteroskedasticity
H0: Constant variance
Variables: Fitted values of DACC
Chi2 (1) = 342.52
Prob>chi2 = 0.0000

Table 11. OLS regression model for the Modified Jones model.

Variables	Scaled TACC
inverse_lagTA	139455.905**
	(58698.927)
term2	-0.191***
	(0.037)
scaled_PPE	-0.063
	(0.097)
R-squared	0.046
adj. R-squared	0.042
F-statistic	11.668
p(F)	0.000

Standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Table 12. Measuring Country Differences in Enforcement

Comparison of Enforcement Scores, by Year and by Whether the Country Adopted IFRS in 2005

Variable			*AUD-IT*	*ENFO-RCE*	*TOT-AL*	*AUD-IT*	*ENF-ORCE*	*TOT-AL*	*AUD-IT*	*ENFO-RCE*	*TOT-AL*
Year	*DEV*	*LEGAL*	*2002*	*2002*	*2002*	*2005*	*2005*	*2005*	*2008*	*2008*	*2008*
Range			*2–32*	*2–24*	*4–56*	*2–32*	*2–24*	*4–56*	*2–32*	*2–24*	*4–56*
Panel A: Countries that Adopted IFRS in 2005 ($N = 27$)											
AUSTRALIA	1	1	16	22	38	30	22	52	30	22	52
AUSTRIA	1	0	12	5	17	18	8	26	19	8	27
BELGIUM	1	0	12	12	24	18	22	40	22	22	44
CROATIA	0	0	2	5	7	2	2	4	14	8	22
CZECH	0	0	6	5	11	11	5	16	11	8	19
DENMARK	1	0	15	12	27	27	22	49	27	22	49
FINLAND	1	0	10	8	18	20	12	32	20	12	32
FRANCE	1	0	15	19	34	29	19	48	29	16	45
GERMANY	1	0	13	5	18	23	19	42	23	21	44
GREECE	1	0	7	5	12	17	9	26	17	9	26
HONG KONG	1	1	16	8	24	22	8	30	30	22	52
HUNGARY	0	0	7	8	15	9	8	17	6	12	18
IRELAND	1	1	15	8	23	21	8	29	29	12	41
ITALY	1	0	15	19	34	24	19	43	27	19	46
NETHERLANDS	1	0	7	5	12	13	8	21	24	19	43
NORWAY	1	0	15	12	27	25	22	47	25	22	47
POLAND	0	0	9	2	11	11	6	17	19	9	28
PORTUGAL	1	0	7	9	16	17	9	26	17	12	29
ROMANIA	0	0	4	5	9	6	5	11	6	9	15
SLOVENIA	0	0	9	8	17	11	8	19	11	8	19
SOUTH AFRICA	0	1	9	2	11	19	10	29	19	10	29
SINGAPORE	1	1	13	8	21	20	12	32	20	12	32
SPAIN	1	0	14	5	19	26	9	35	26	16	42
SWEDEN	1	0	17	5	22	25	5	30	25	9	34
SWITZERLAND	1	0	15	19	34	27	19	46	27	22	49
UKRAINE	0	0	2	2	4	4	2	6	4	2	6
UNITED KINGDOM	1	1	18	14	32	32	22	54	32	22	54
MOROCCO	0	0	4	2	6	6	2	8	9	2	11
NEW ZEALAND	1	1	14	2	16	20	19	39	24	19	43
PAKISTAN	0	1	7	8	15	10	8	18	10	8	18
PERU	0	0	9	2	11	8	5	13	11	5	16
PHILIPPINES	0	0	4	2	6	8	16	24	11	16	27
RUSSIA	0	0	12	6	18	22	6	28	22	6	28
TAIWAN	0	0	8	8	16	10	8	18	10	8	18
THAILAND	0	1	9	15	24	11	15	26	11	12	23
TURKEY	0	0	10	2	12	14	6	20	11	9	20
UNITED STATES	1	1	18	21	39	32	21	53	32	24	56

**This table is derived from (Brown, Preiato, & Tarca, 2014) and compares the enforcement scores by year and by whether the country adopted IFRS in 2005. However, to control for country-fixed effects in this paper we only assume the enforcement scores from 2008, in which the European countries in the data set are compared with each other. The higher the score, the more legal enforcement is presented in the country.*

Table 13. OLS Regression model with DACC as the dependent variable and ENFORCE as independent variable.

Variables	**DACC**
Constant	-0.920***
	0.327
ENFORCE	0.046
	(0.075)
DLISTED	0.049***
	(0.019)
SIZE	-0.326**
	(0.158)
IA	-0.029
	(0.047)
REVGR	-0.009
	(0.045)
LEV	0.224
	(0.168)
CFO	0.046
	(0.075)

**Note: Standard errors in parentheses: *** p<0.01, ** p<0.05, * p<0.1*
**Note: ENFORCE is a dummy variable with the value 0 for countries with low legal enforcement and 1 if otherwise; FFP is a dummy variable with the value 0 for the years 2008-2009 and 1 for the years 2011-2012; DLISTED is a dummy variable with value 0 when not publicly listed and 1 when publicly listed; SIZE is the natural logarithm of total assets; IA is the intangible assets relative to total assets; REVGR is the yearly growth of revenues; LEV is the ratio of total liabilities by total assets; CFO is the ratio of cashflows deflated by lagged total assets. All variables are winsorized at the 1 and 99%. The research period is 2008-2012 (excluding 2010).*

Table 14. OLS Regression model including country-fixed effects as interaction effect on the post-FFP period and earnings management

Variables	**DACC**
Constant	-1.060***
	(0.355)
BIG4Auditor	-0.413
	(0.336)
FFP	0.021
	(0.163)
BIG4r#FFP	0.399
	(0.335)
ENFORCE	-0.060
	(0.174)
BIG4r#ENFORCE	0.364

	(0.344)
FFP#ENFORCE	0.026
	(0.186)
BIG4#FFP#ENFORCE	-0.371
	(0.358)
DLISTED	0.074
	(0.079)
SIZE	0.062***
	(0.019)

**Note: Standard errors in parentheses: *** p<0.01, ** p<0.05, * p<0.1*
**Note: ENFORCE is a dummy variable with the value 0 for countries with low legal enforcement and 1 if otherwise; FFP is a dummy variable with the value 0 for the years 2008-2009 and 1 for the years 2011-2012; DLISTED is a dummy variable with value 0 when not publicly listed and 1 when publicly listed; SIZE is the natural logarithm of total assets; IA is the intangible assets relative to total assets; REVGR is the yearly growth of revenues; LEV is the ratio of total liabilities by total assets; CFO is the ratio of cashflows deflated by lagged total assets. All variables are winsorized at the 1 and 99%. The research period is 2008-2012 (excluding 2010).*

Table 15. OLS Regression model including country-fixed effects as interaction effect on a big-4 auditor and earnings management within the football industry

Variables	**DACC**
Constant	-0.913***
	(0.309)
BIG4Auditor	-0.051
	(0.125)
ENFORCE	0.024
	(0.063)
BIG4r#ENFORCE	-0.056
	(0.129)
DLISTED	-0.060
	(0.174)
SIZE	(0.082)
	0.050***
IA	(0.018)
	-0.333**
REVGR	(0.159)
	-0.029
LEV	(0.046)
	-0.013
CFO	(0.045)
	0.227

**Note: Standard errors in parentheses: *** p<0.01, ** p<0.05, * p<0.1*
**Note: ENFORCE is a dummy variable with the value 0 for countries with low legal enforcement and 1 if otherwise; BIG-4 is a dummy variable with the value of 0 when audited by a non-big 4 office and 1 if otherwise; FFP is a dummy variable with the value 0 for the years 2008-2009 and 1 for the years 2011-2012; DLISTED is a dummy variable with value 0 when not publicly listed and 1 when publicly listed; SIZE is the natural logarithm of total assets; IA is the intangible assets relative to total assets; REVGR is the yearly growth of revenues; LEV is the ratio of total liabilities by total assets; CFO is the ratio of cashflows deflated by lagged total assets. All variables are winsorized at the 1 and 99%. The research period is 2008-2012 (excluding 2010).*

APPENDIX C: Descriptive and data assumption figures

Figure 2: Top down pyramid structure of the governance within the professional football industry

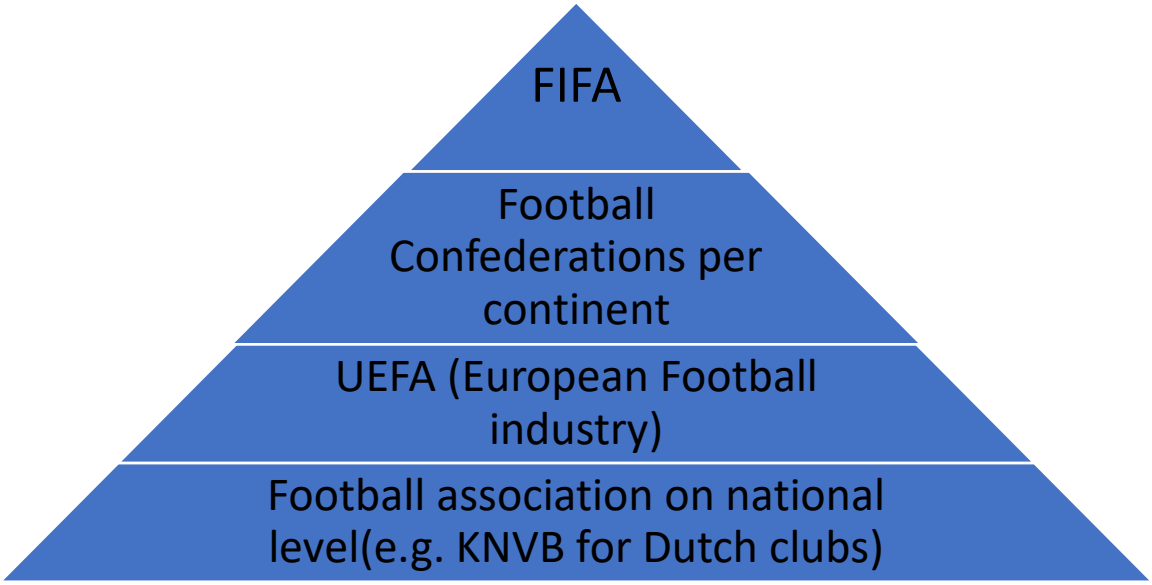


Figure 3: Conceptual framework

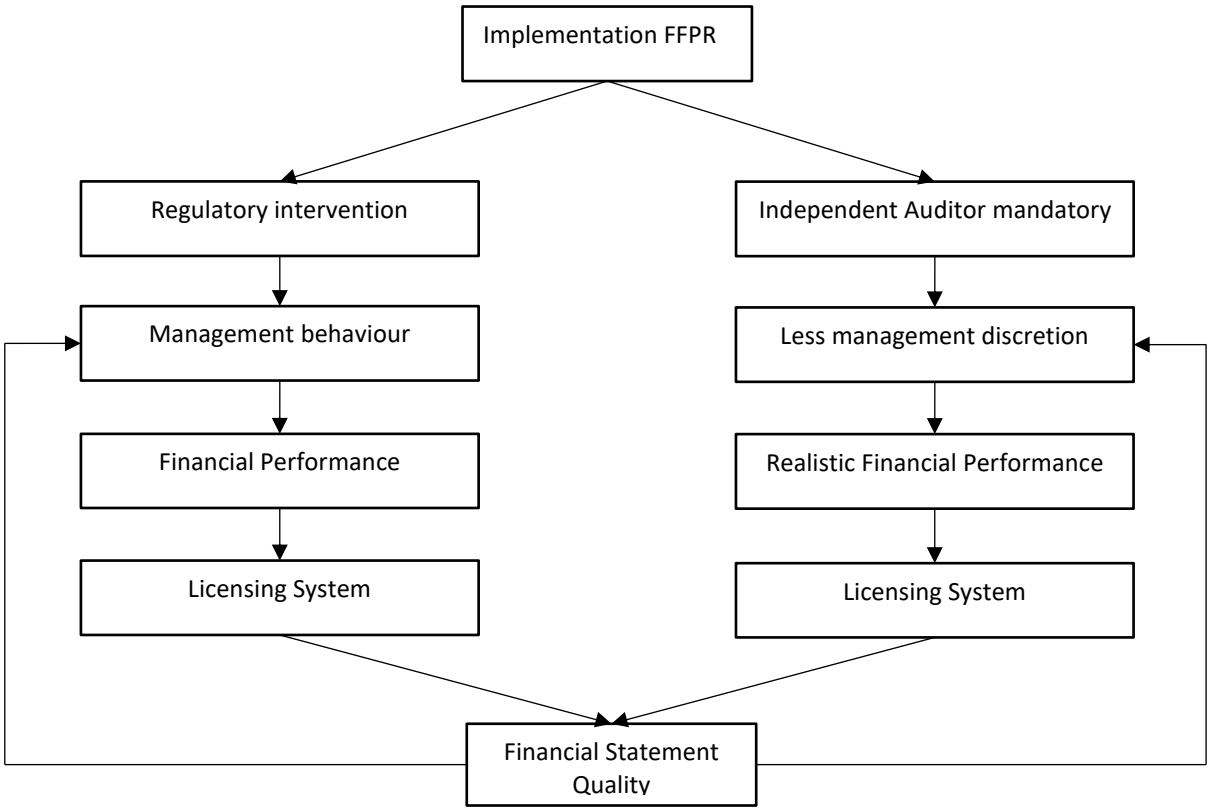


Figure 4: Libby boxes of hypothesis 1

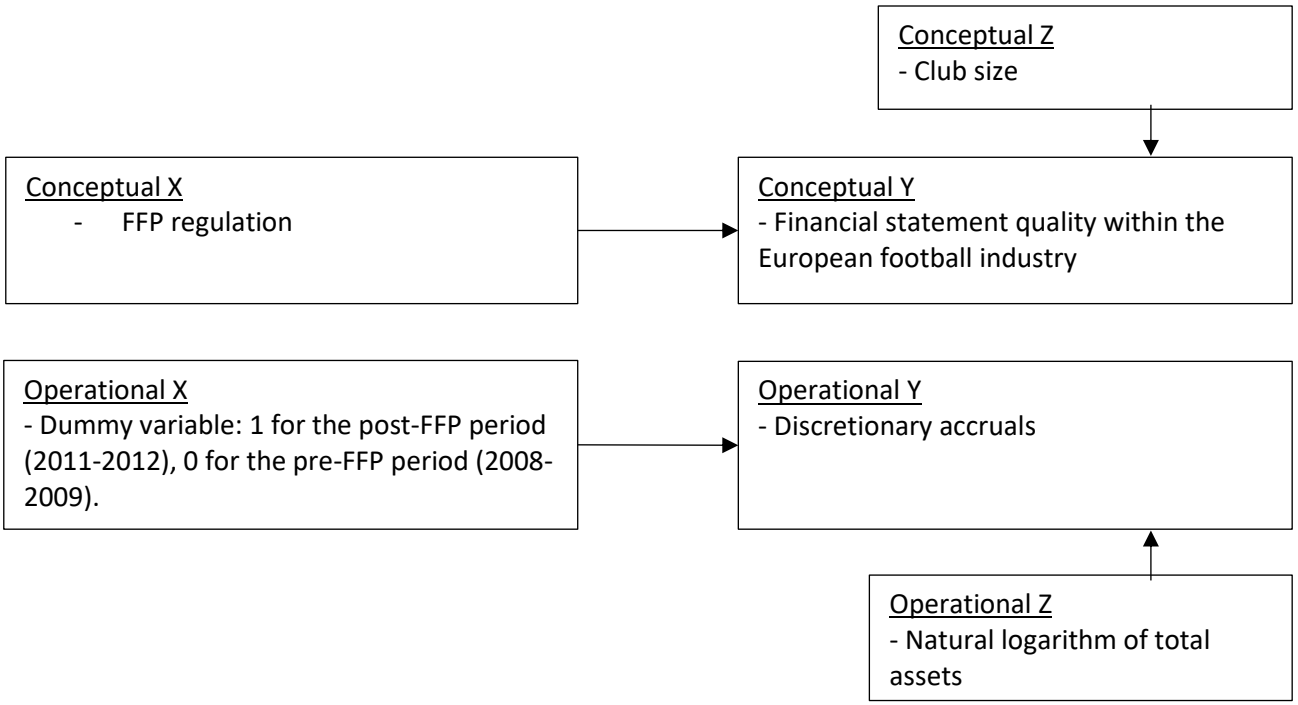


Figure 5: Libby boxes of hypothesis 2

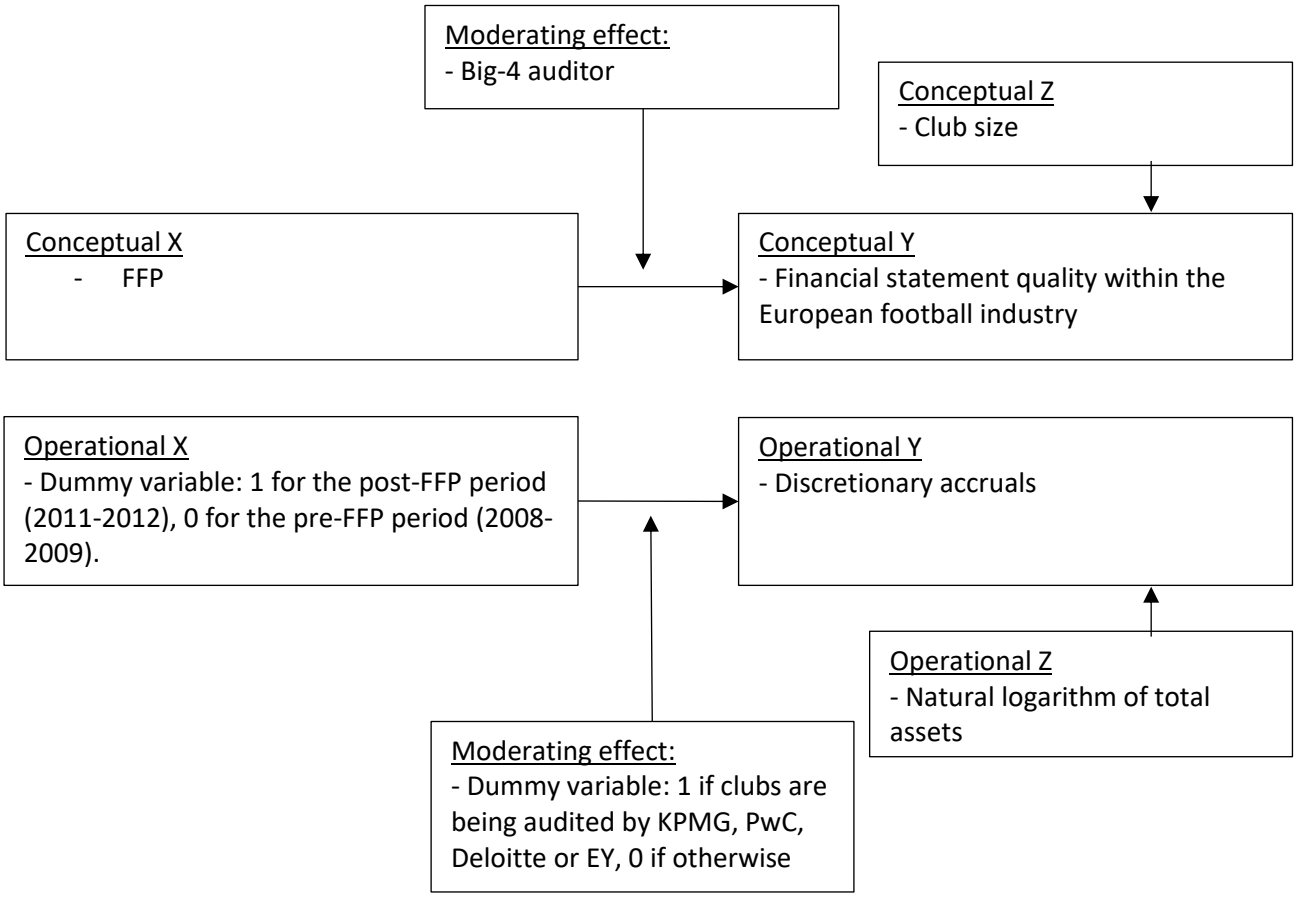


Figure 4: P-P-PLOT

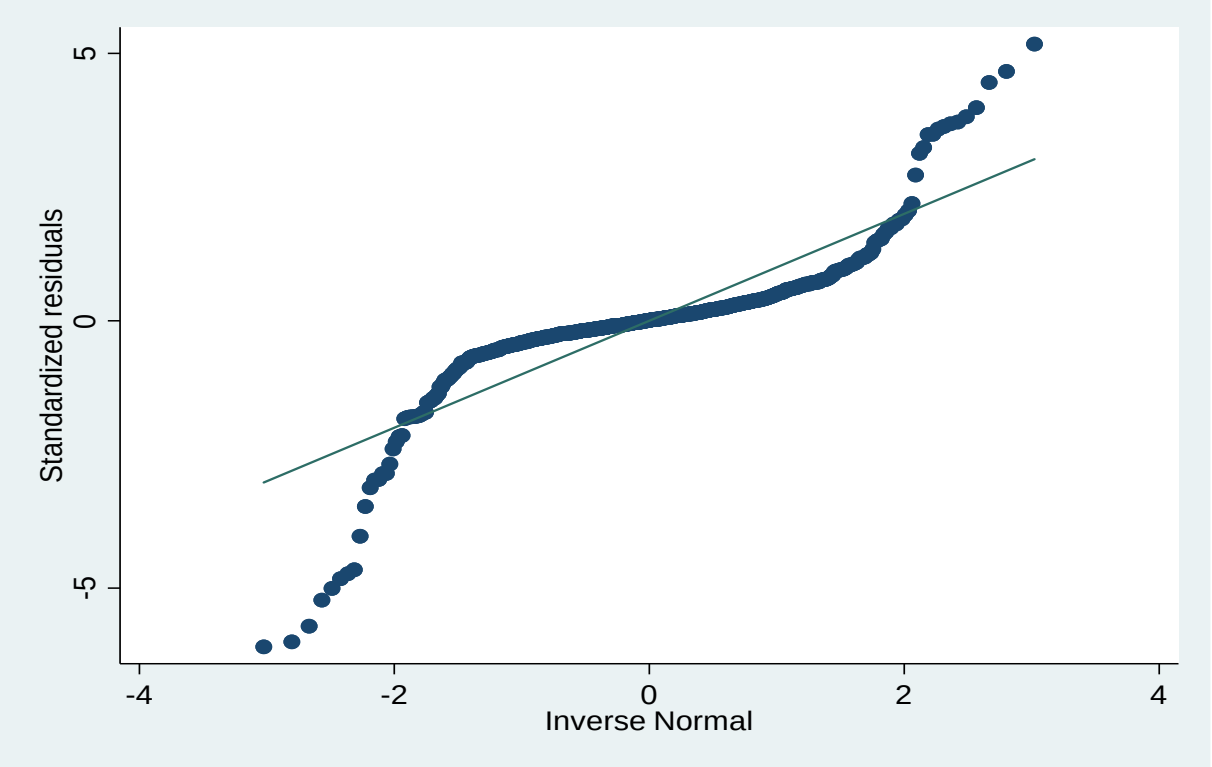
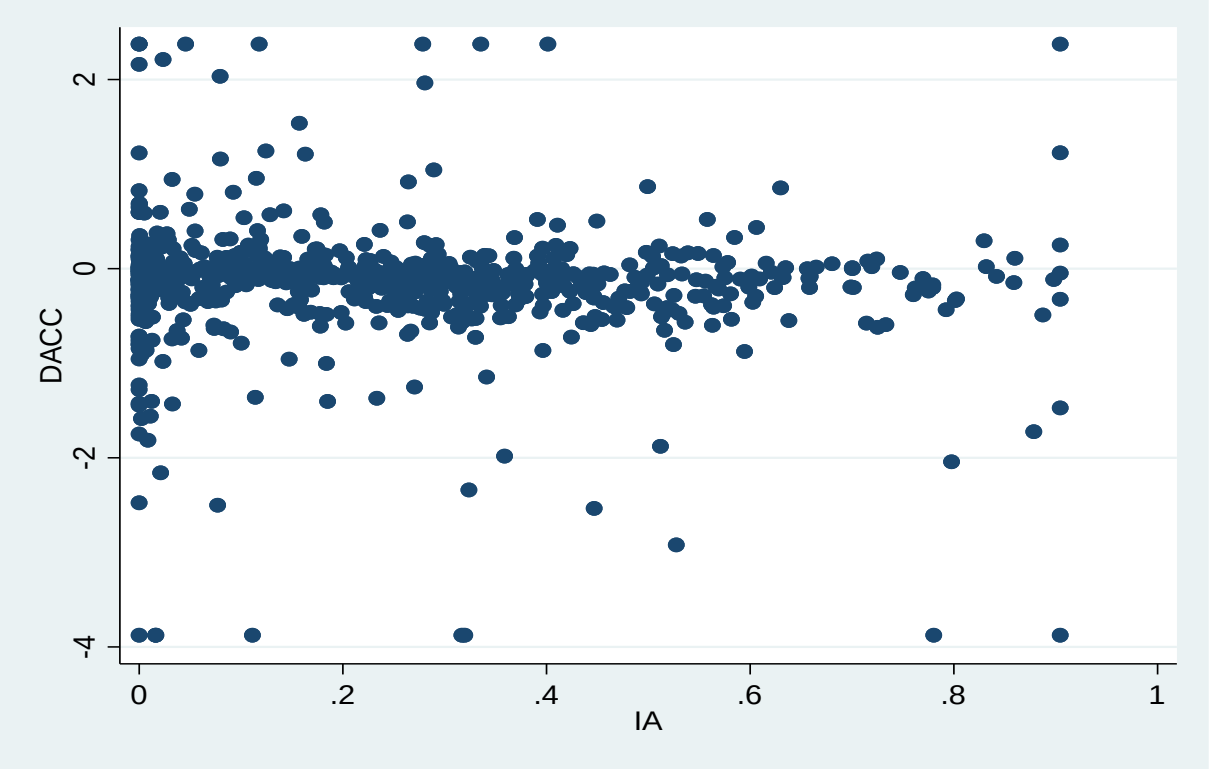
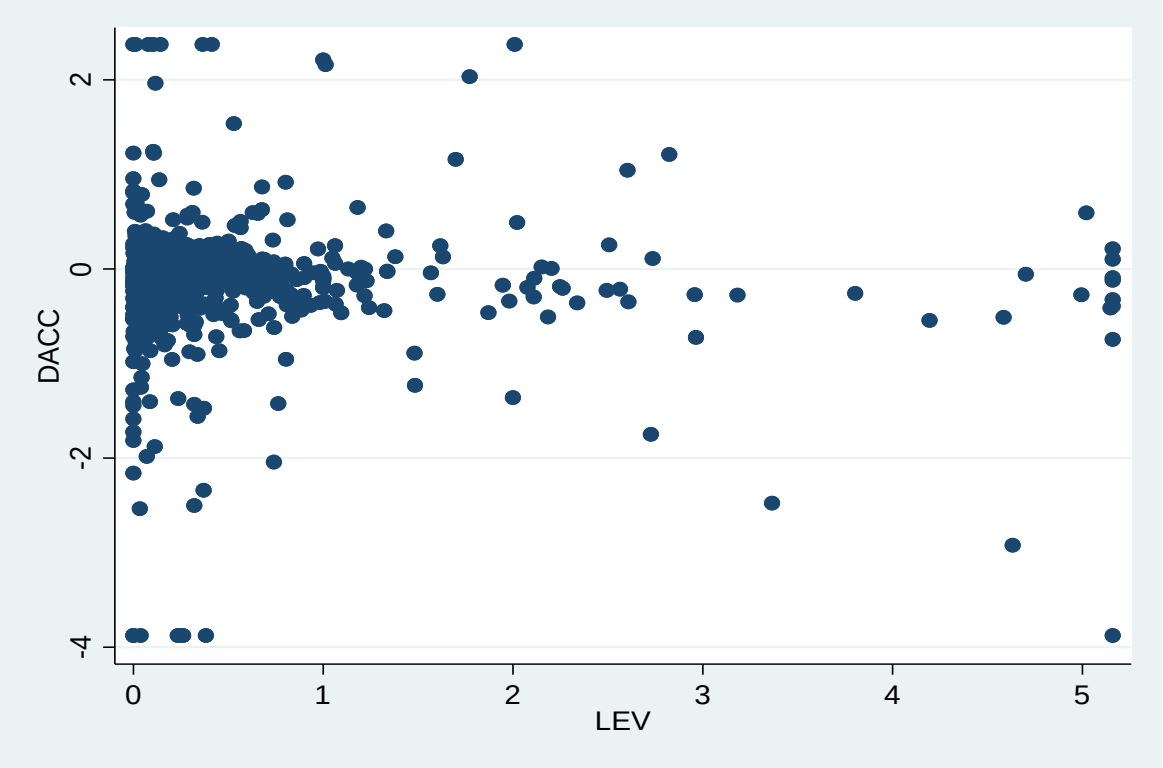
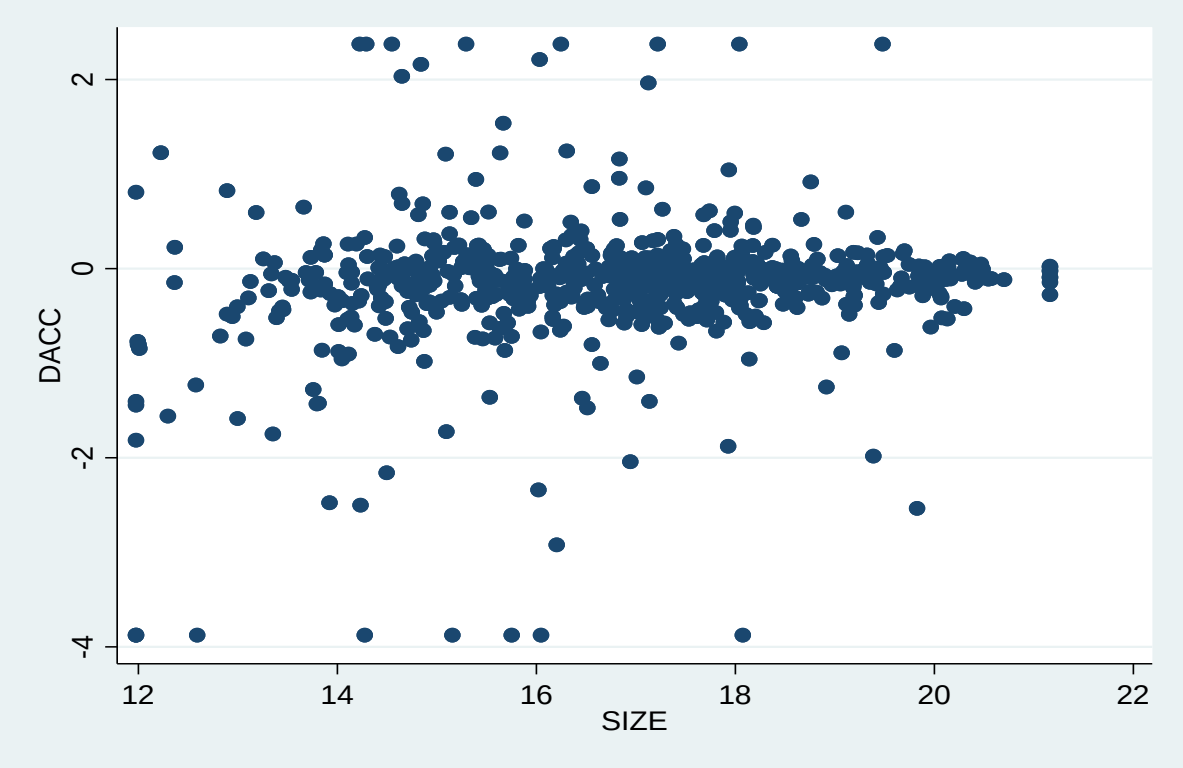


Figure 5: Scatterplots



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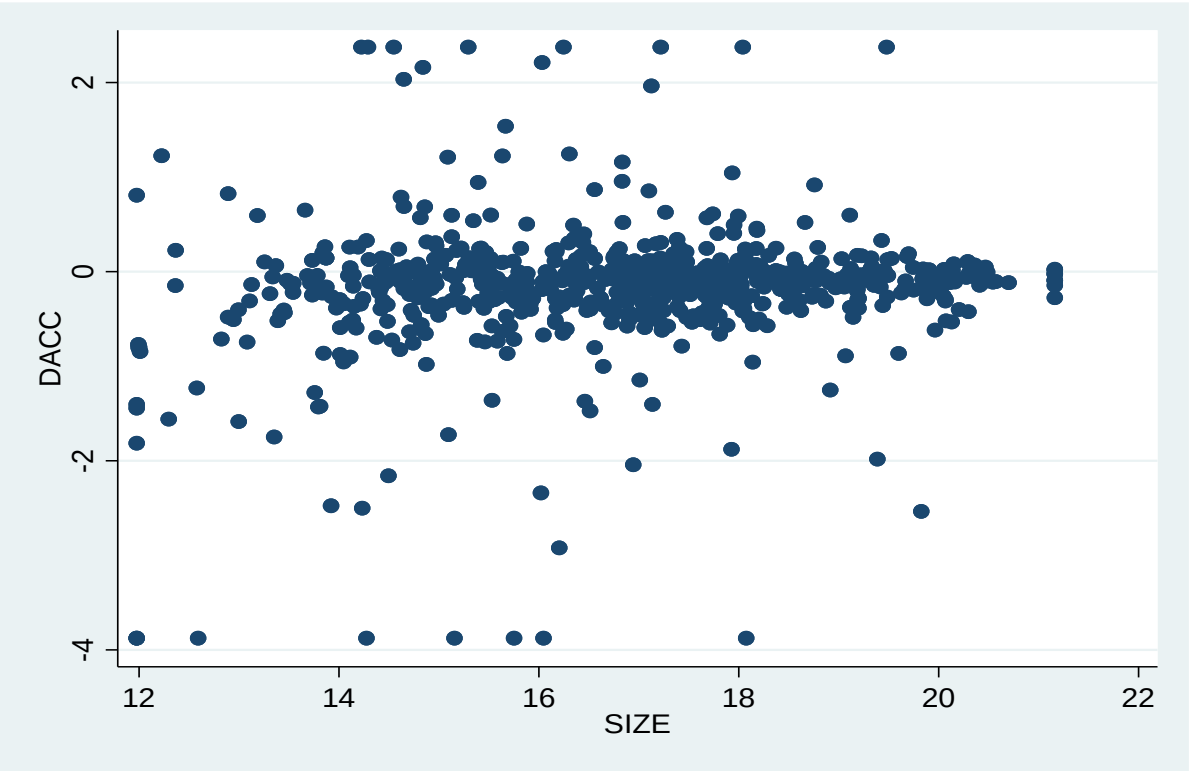
0
-2
-4
12
14
16
18
20
22
SIZE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16
18
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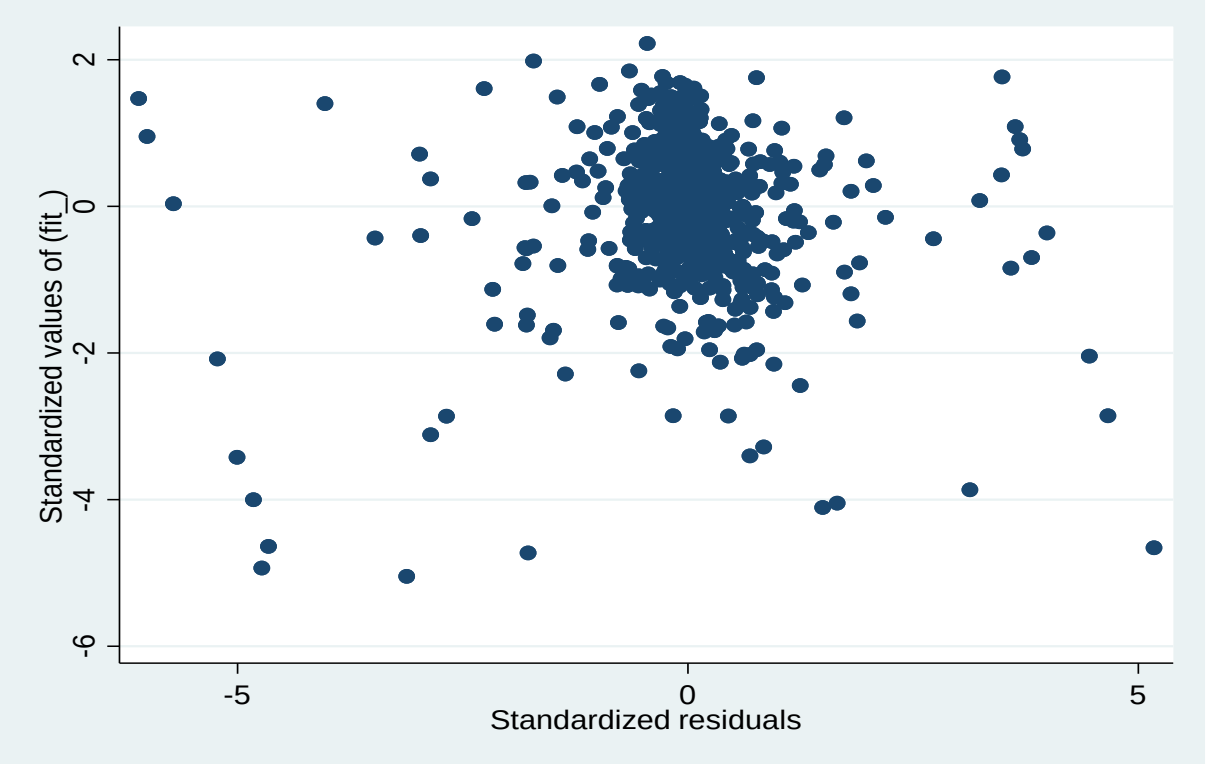
22
SIZE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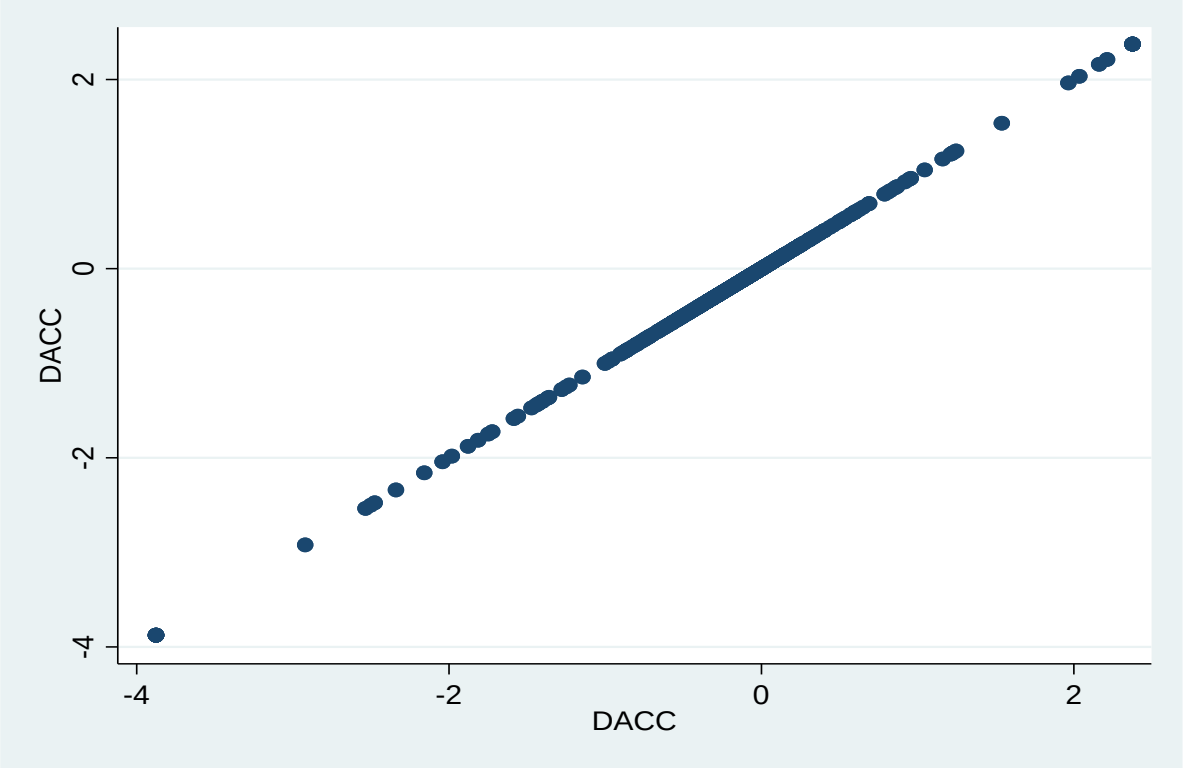
0
5
Standardized residuals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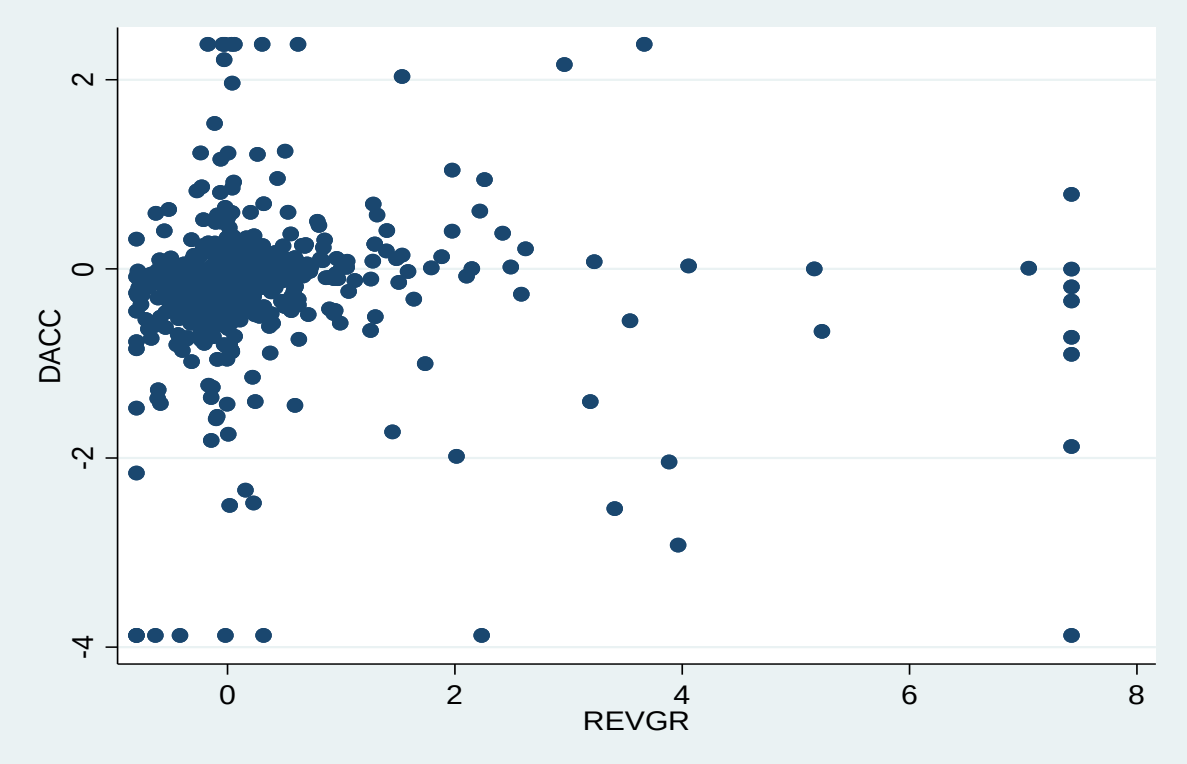
0
2
DACC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0
2
4
6
8
REVGR

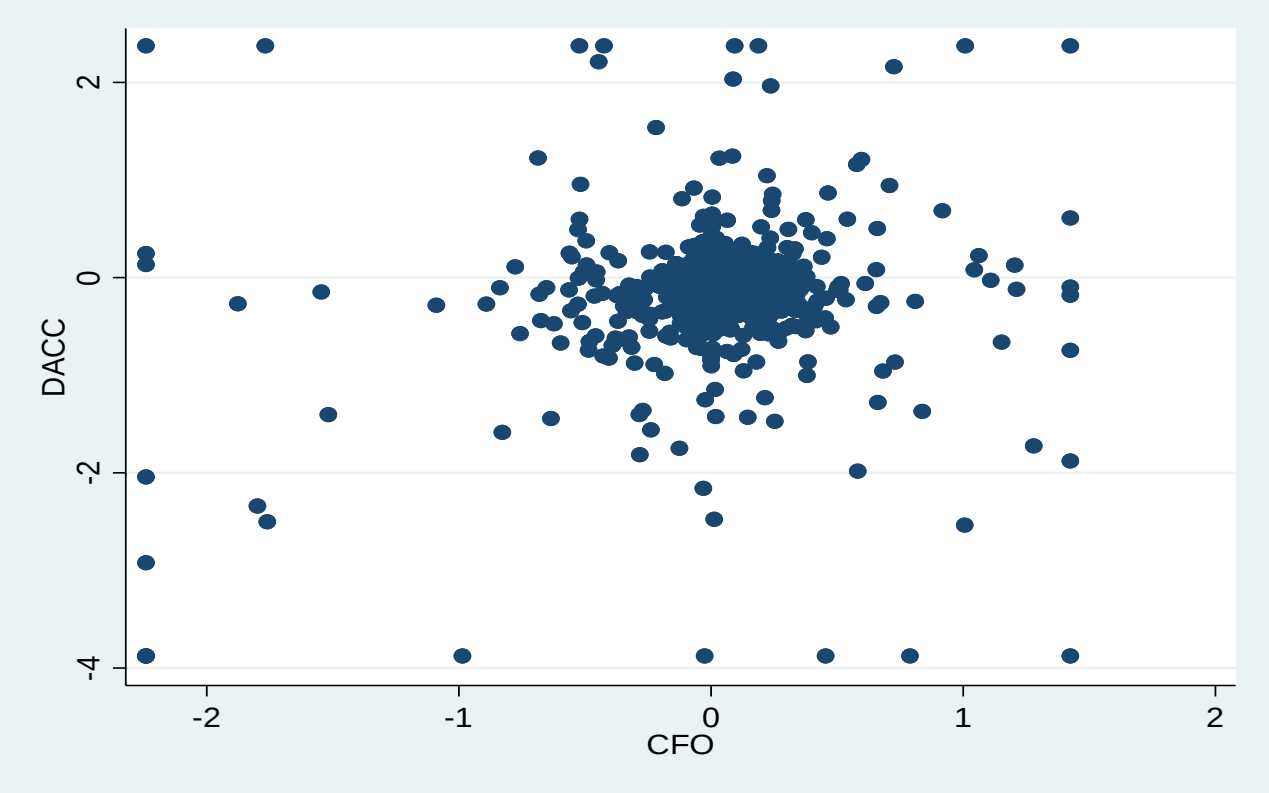
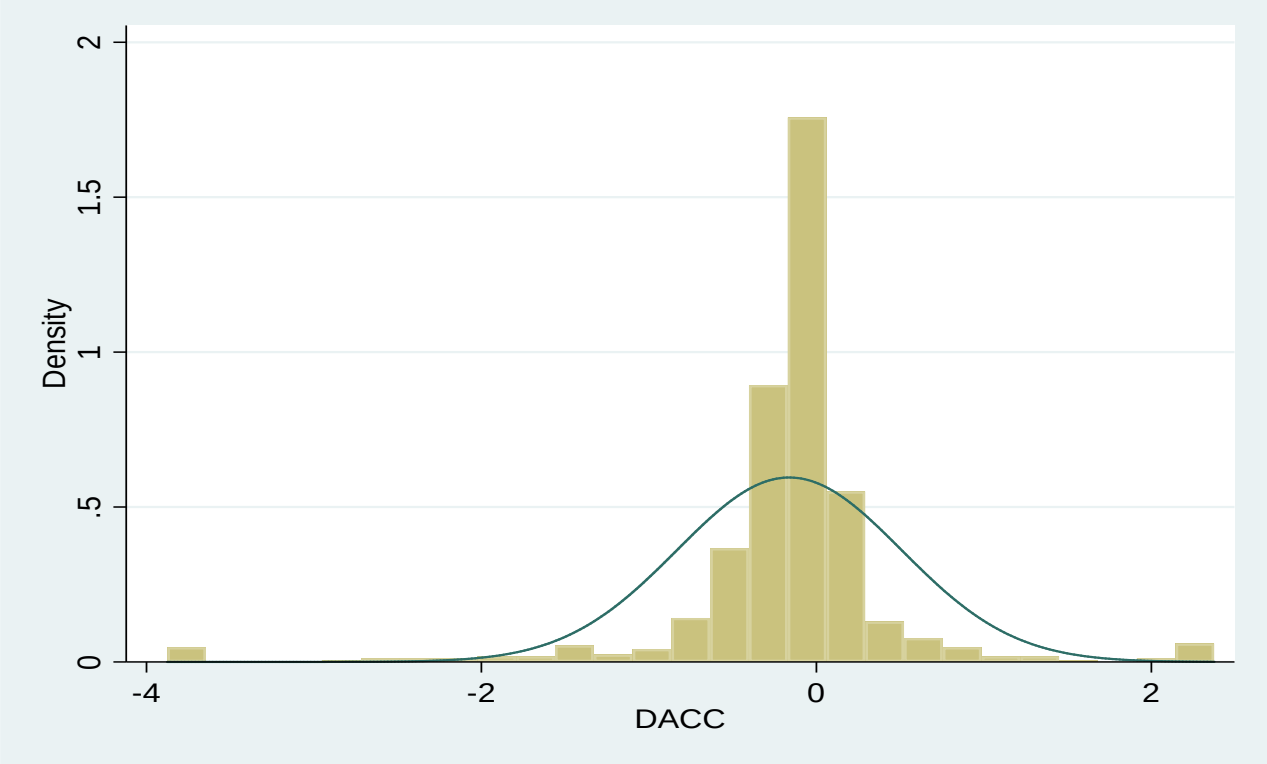
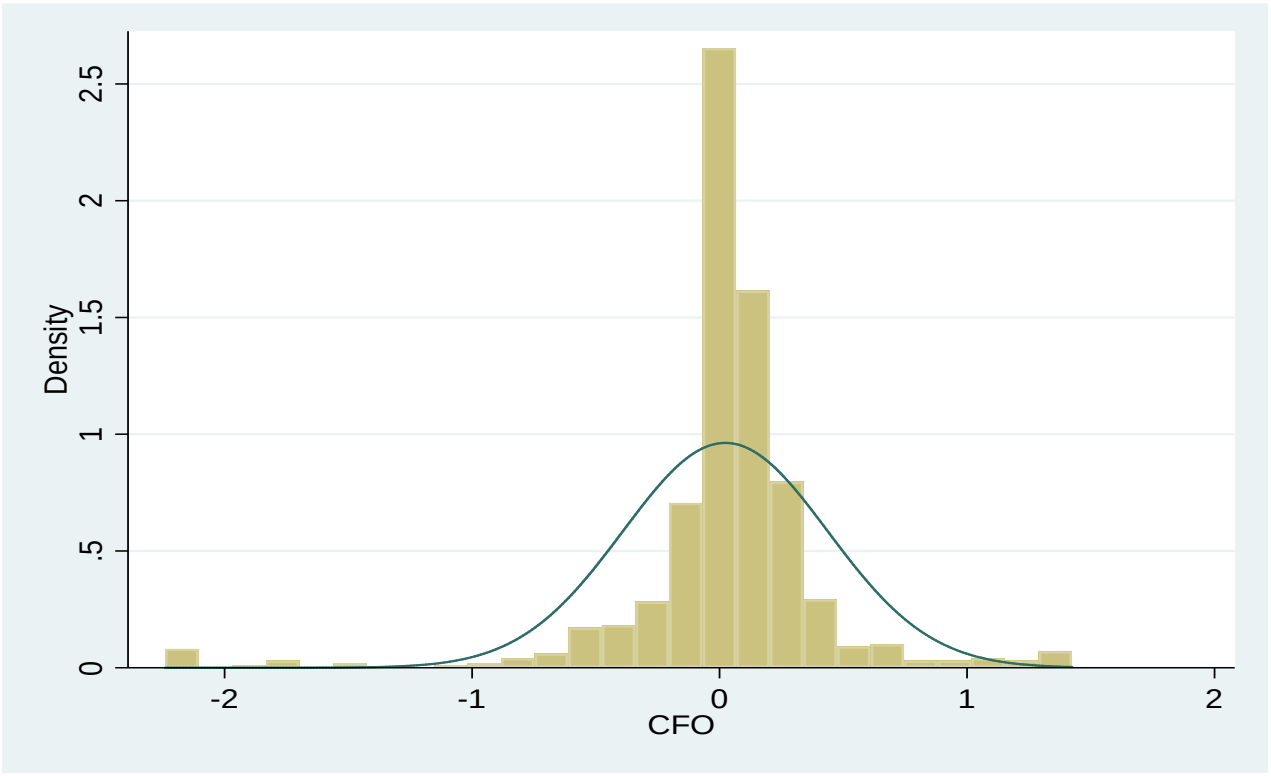


Figure 6: Histograms of the normal distributions per variable

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2.5
-2
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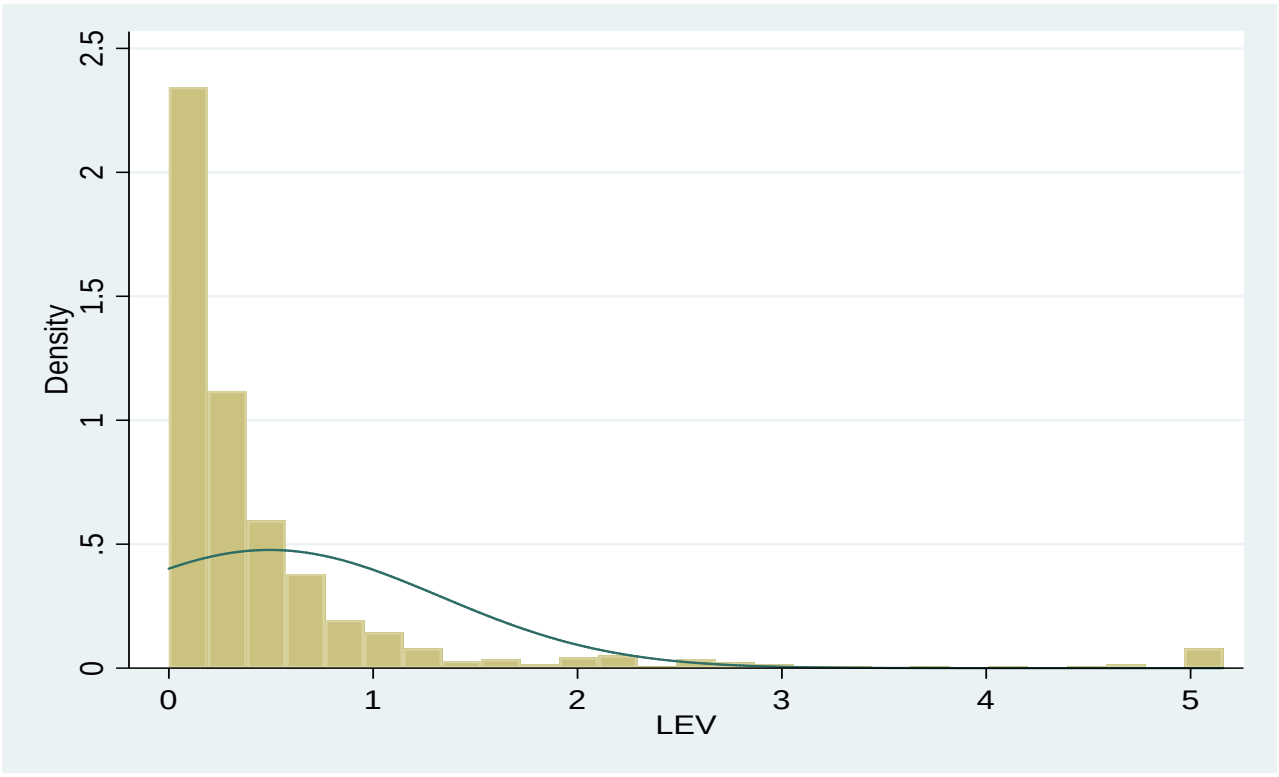
0
1
2
CFO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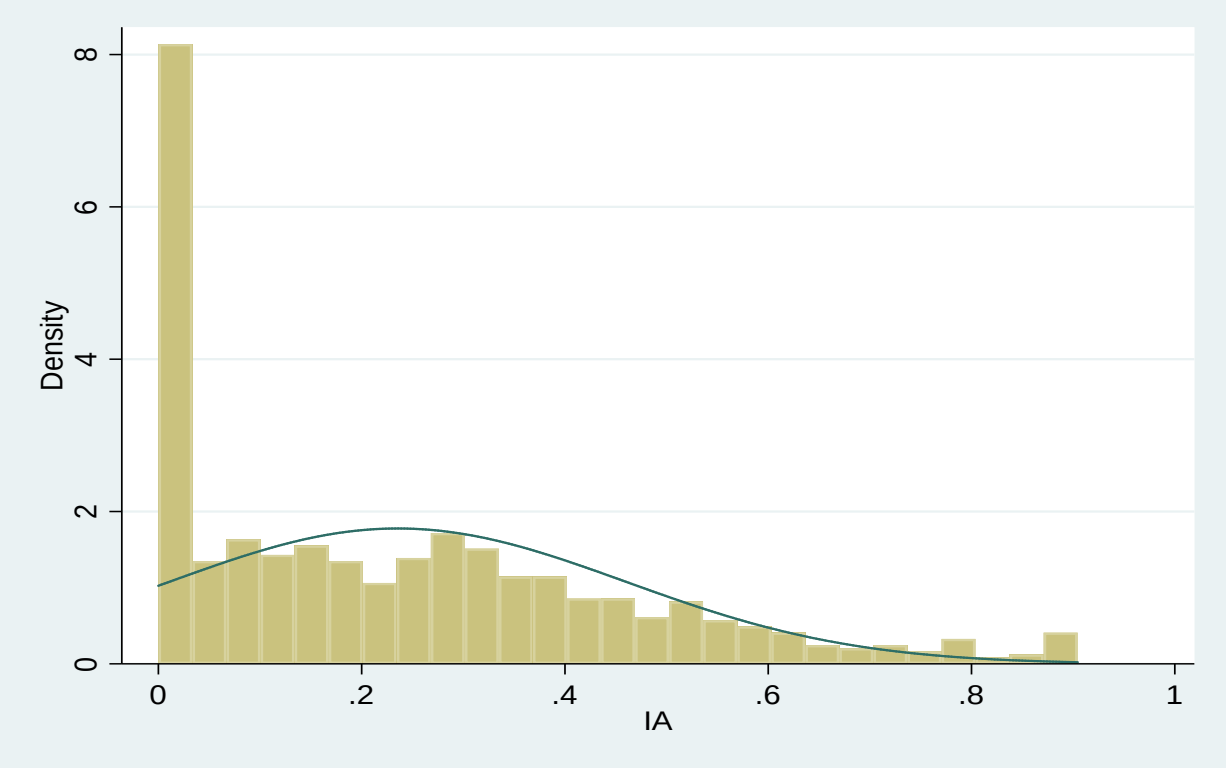
2.5
0
1
2
3
4
5
LEV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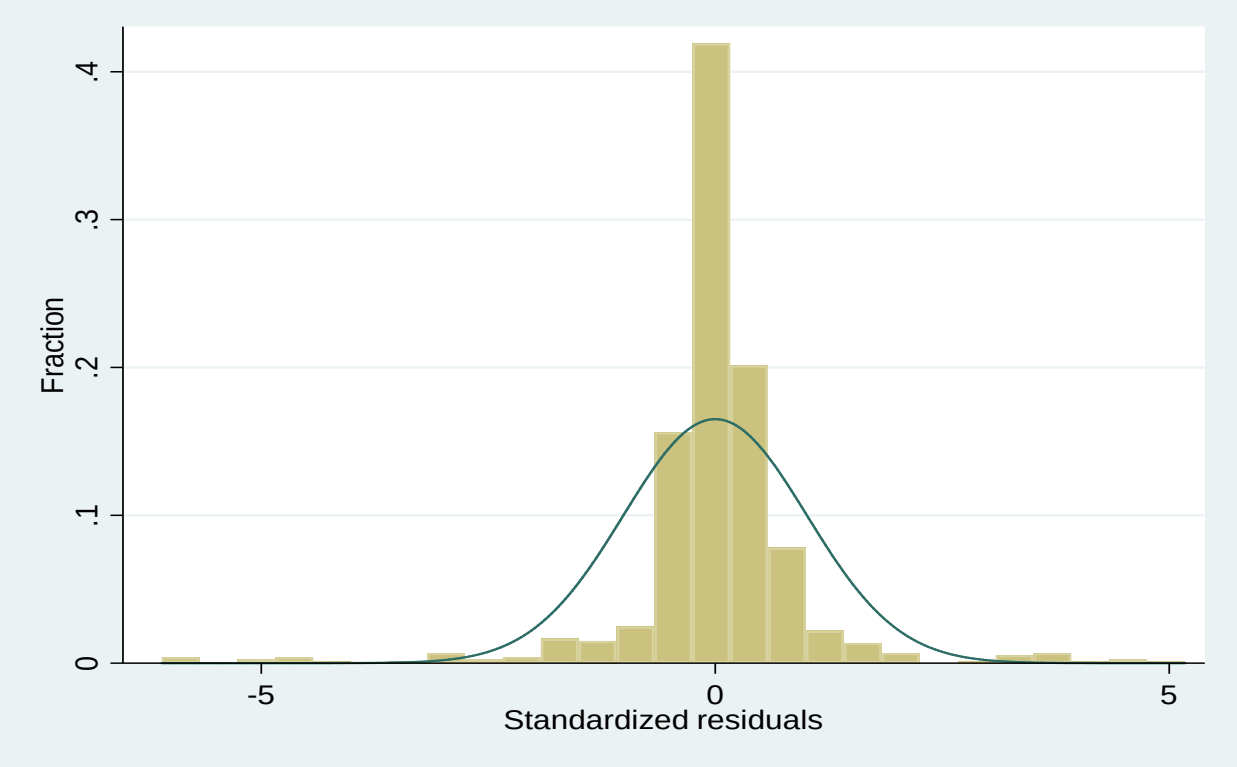
Fraction
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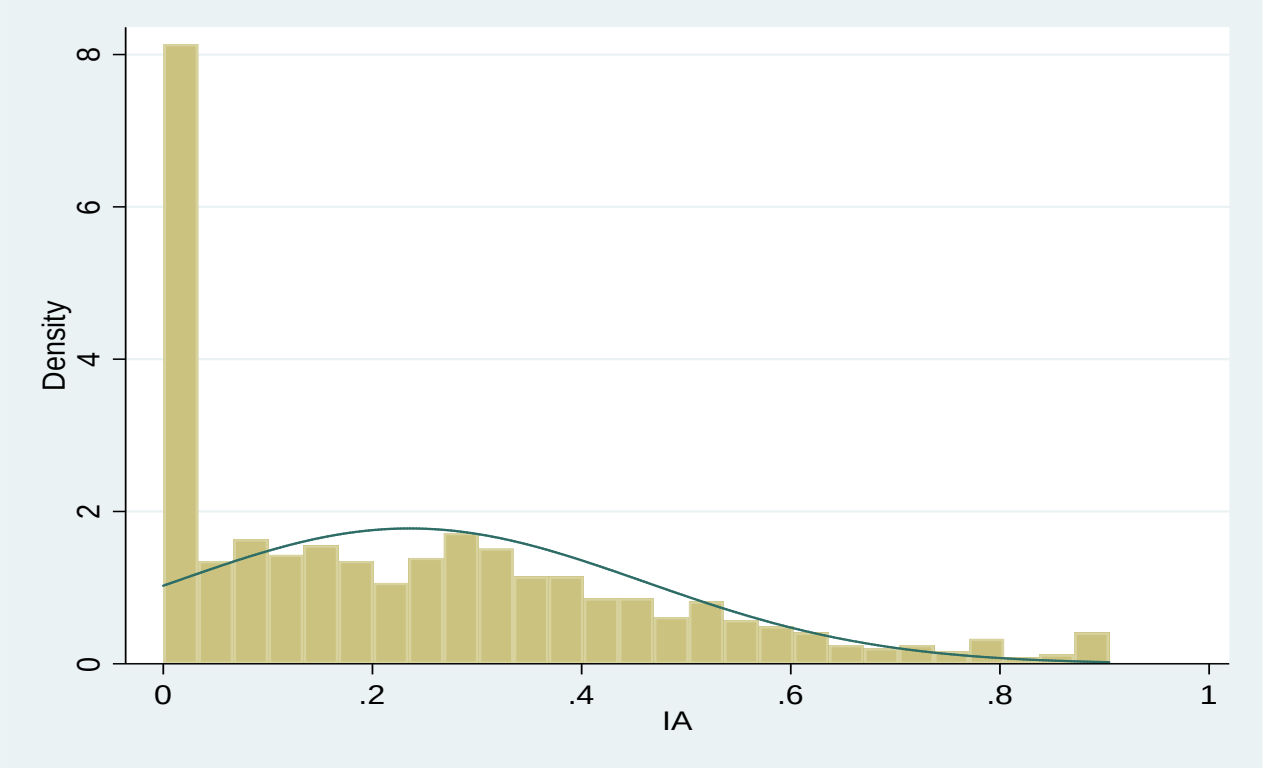
Standardized residuals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IA