



Master's Thesis: Strategy Economics

# **Culture, the determinant of a profitable football transfer?**

**Abstract:**

This paper investigates the role that cultural differences play in the profitability of a football transfer. Hofstede's framework of cultural dimensions is the foundation of capturing the cultural differences between the player and his future club. My dataset is based on all incoming transfers in the top 12 European leagues. My results show that cultural differences on the acceptance of unequal power distribution do not significantly impact the profitability of a transfer. A player's tenure at the club also does not depend on a player's relatively high long-term orientation.

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The views stated in this thesis are those of the author and not necessarily those of the supervisor, second assessor, Erasmus School of Economics or Erasmus University Rotterdam.

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## 1. Introduction

The transfer system in the football industry has seen several changes in the past years. Before 1995, players were restricted in the freedom of labor movement by their current club regardless of whether their contract had expired (Feess & Muehlheusser, 2003). In December 1995, the European court of Justice changed it accordingly, so players were able to change clubs after their contract had expired. Overall, the transfer system was originally introduced to redistribute the revenues from large to small clubs, but Hoey, Peeters and Principe (2021) show that this desired effect is only minor and primarily rewarding for middle income clubs. Regardless, the system does allow for increased competitiveness of European football clubs that need to deal with more financial restrictions. Financial gains from an outgoing transfer can give financial room for multiple potential investments to improve the club's performance. I.e., the club can invest more in the club's youth academy with the prospect of high returns, both sportive and financial, from future youth players. Furthermore, the club can also budget differently, allowing the salary cap to be increased, being able to attract (better) players with higher wage demands. It can be assumed that a club's performance on the transfer market should not be disregarded and that this is a strategic tool to compete with the larger clubs of Europe.

Previous literature has explored parts of the question of what determines the value of a football player. Metelski (2021) identified that primarily young players were targeted by clubs of prominent European league like England, Italy and Germany. Average transfer fees would decrease after a certain player's age was reached. Also, Ruijg and Van Ophem (2015) investigated the determinants behind the transfer of a player, where age and the average minutes played significantly affected the probability of a player's transfer.

However, there has been little to no coverage about the determinants of the potential profits that come after the acquisition and sale of a player. That is, what factors play a role in the profitability of engaging in football transfers? When acquiring a player, how to maximize the margin? Talented players may be acquired based on their promising qualities, but will they also fit in well with the team? Why is it that Brazilian players primarily make their transfer to Portugal and Argentinian primarily to Italy and Spain? Is it purely out of convenience or will the player have a higher chance of succeeding in a country where he feels more at home? That is what I have researched in this

paper. More specifically, I have investigated the role that cultural differences play in the profitability of a transfer. I have constructed the following research question:

*RQ: “Do cultural differences between a player and the country of their future club influence the profitability of a transfer?”*

An answer to this question would clarify whether clubs should consider incorporating cultural differences in their transfer strategy. Optimization of employee acquisition can create a competitive advantage, if implemented correctly (Hameed & Waheed, 2011). To answer this question, I have performed a linear regression analysis of incoming player transfers of the top 12 European football leagues. I have measured cultural differences with Hofstede’s framework of cultural dimensions. I have specified the total impact of culture by looking at the cultural dimensions that are also logically applicable to the football scene. I have measured the profitability of transfers with the monetary value of player transfer fees. The comparison of acquisition and selling price provides a good proxy for the transfer profit.

This paper is scientifically relevant because of three reasons. Firstly, the current literature of football transfers primarily revolves around the estimation of the market value of players (He, Cachucho & Knobbe, 2015; Majewski, 2016; Müller, Simons & Weinmann, 2017) or the optimization of youth player development with the goal of maximizing player transfer revenues (Balliauw, Bosmans & Pauwels, 2022; Metelski, 2021). However, there is little research on the period after the transfer of the player. Was the transfer successful or should the club have decided differently? This paper also introduces the measure of both transfer success and failure in the additional analysis as the difference between the transfer fee paid and received by the club. This creates the start for the literature to explore further into evaluation techniques of transfers. Furthermore, the incorporation of cultural differences between the player and the club in my model creates a unique perspective not seen before in the literature. Lastly, my paper questions the applicability of Hofstede’s framework of cultural dimensions in the football context.

This paper is socially relevant as it explains the impact of cultural differences and the potential issues that the club needs to overcome. My results suggest that cultural differences do not influence the profitability of a transfer, therefore providing support for clubs to scout for players across borders. As players and their contracts represent the largest portion of a club’s assets (Franceschi,

2023), it is relevant to know what determines and what can influence that value. Clubs can use my findings to make more informed decisions on setting up their scouting network.

The paper will be structured as follows. In section 2, the theoretical framework, I will provide a contextual background of the transfer system and its role in the football context. Additionally, I discuss the concepts that are necessary to understand the context of this research and the hypotheses to answer the research question. In section 3, data and methodology, I explain the data acquisition process and the methods that were used. Moreover, I explain the variables that I have used in my models and give the corresponding argumentation for inclusion. In section 4, results, I will analyze the results of my models. In addition, I have performed additional analysis and robustness checks. Finally, in section 5, conclusion, I provide an answer to the research question and discuss the limitations of this research.

## 2 Theoretical Framework

### 2.1 Contextual Background

In this section, I will discuss the contextual background of this thesis. Section 2.1.1 provides a historical overview of the transfer system. Section 2.1.2 explains the motivations of both the player and the club for engaging in a transfer. Section 2.1.3 discusses the link between the player performance and the financial performance of the club.

#### 2.1.1 The transfer system

In the history of football, player transfers have played a large part in the fundamentals of the economics of the football industry. The transfer system was introduced as a safeguard to protect the continuity of the sport (Lee, 1995). In short, the transfer system regulates that players can move from different clubs in return for financial compensation to the original club. In line with Simmons' argumentation (1997), clubs strive to maximize their performance by i.e., assembling the best possible team, where eventually a selection of clubs will outclass the majority. However, part of the excitement of sports lies in the unpredictability of the outcome of games. A study of the Spanish football leagues showed that viewers' enjoyment was positively affected by a balanced league (González-Gómez & Picazo-Tadeo, 2010). If the competition is unbalanced, viewership may decline, resulting in a reduction in revenue. Additionally, without the transfer system, clubs would be able to poach the players with high potential, leaving no compensation for the clubs who developed the players (Simmons, 1997). This would remove the incentive for clubs to invest in player development, which in the long run would also harm the football industry.

Before 1995, clubs had to pay a fixed transfer fee regardless of whether the player's contract had expired, reducing the player's ability to switch between clubs (Feess & Muehlheusser, 2003). One famous example that would change the transfer system from then onwards was the case of the Belgian football player Jean-Marc Bosman. In 1990, after expiration of his contract with Club Luik, he wanted to make a transfer to USL Dunkerque, but his request could not be fulfilled as both clubs could not agree on a transfer fee. This case went to court as a violation of the free mobility of employees and eventually on December 15, 1995, the European court ruled in favor of Bosman (Binder & Findlay, 2012). Players whose contracts had expired were able to change between clubs within the EU without the requirement of financial compensation for their previous club.

As a direct impact, European clubs needed to write-off a substantial amount of their player valuations due to the inability of receiving financial compensation for an expired contract (Szymanski, 2010). Additionally, players whose contracts were close to expiration were able to leave at lower transfer fees. Szymanski (2010) explains that the Bosman ruling improved the negotiation position of the player, resulting in an allocation of the economic benefits from a transfer to go to the player instead of the selling club. In response to this, another effect was that clubs such as in Italy and the Netherlands agreed on longer contract durations with players (Simmons, 1997). As Simmons explains it, the contract duration displays the optimal distribution of risk between both the club and the player. The player bears the risk of needing to fulfill his contract, preventing potential transfers. The club bears the risk of the player not reaching his potential or getting injured with salary payment continuing until the contract expiration.

Moreover, the Bosman ruling also removed the restriction on the number of foreign players that clubs could have. As an effect, the player base of large football leagues, such as the English Premier League, saw an increase in the number of foreign players (Radoman, 2017). In September 2001, additional changes were made to protect both small clubs and players' labor rights by i.e., introducing youth development compensation and limiting the maximum duration of contracts (European Commission, 2002).

### 2.1.2 The motivations behind the transfer

For both player and club, there are incentives to engage in a player transfer. From the player's perspective, economic decision making is based on both risk and utility. Firstly, a player's career typically lasts less than 20 years (Ribeiro & Lima, 2019) which is considerably shorter than the average career length. Thus, a player primarily obtains his financial returns in half the duration of the average employee. This shows the importance of decision making in a player's career, since the financial returns earned during his career will need to finance his utility after retirement as well.

Secondly, the possibility of an injury creates uncertainty for a player's career. The contract length can decrease the uncertainty whereas financial compensation can improve the player's utility. Additionally, a player with high potential may not realize the expectations. However, as Frick (2011) stated, if a player is confident about his capabilities, he would never sign a contract with a long duration as this creates the risk of underpayment. Ribeiro and Lima (2019) also discussed the



possibility of a player making a transfer to a lower league. This could be due to several reasons. I.e., the player's quality decreases and therefore cannot compete at the original level. Furthermore, players who are experiencing a lack of playing time may want to make a transfer to a lower league to either further develop themselves or to revive their career.

For the club, the motivations for engaging in transfers are based on financial and sportive goals. Firstly, based on Simmons' argumentation (1997), clubs want to maximize their sports performance by assembling the best possible team. The acquisition of new players from other clubs can i.e., stem from the need for a variety of players in a team's selection. Having employees with different skill sets enables a firm to remain flexible with several alternative options to operate (Diamantidis & Chatzoglou, 2018). In the context of football, variety allows a squad to implement different tactics and playstyles. This flexibility can help to improve the chances of winning against opponents with different playstyles. As there are so many different types of players, it is not realistic or efficient to develop all players internally. Human capital is a valuable asset, because it cannot be duplicated by others due to the uniqueness of an employee's skill set (Anitha, 2014). The need for a specific player type can change by the season, whereas the development of players can take multiple years. Employee engagement, thus the development of players, can create a competitive advantage, if implemented correctly (Hameed & Waheed, 2011).

Secondly, financial goals can primarily be achieved by the sale of a player. The sale of a player has a direct impact on financial performance, reflected in the merits received from the outgoing transfer. He, Cachucho and Knobbe (2015) concluded that player performance shows a positive correlation with market value. It is therefore in the club's interest to increase a player's performance to optimize the potential future return at the transfer. Nowadays, the transfer result is not simply a convenient addition to a club's financial performance. While the largest European clubs all have a negative transfer result (Deloitte, 2022), it is primarily the middle-income clubs, such as Ajax, Dortmund and Benfica, that benefit from the redistribution of the transfer system (Hoey et al. 2021). In the annual report of Ajax, it was even stated that the sale of a large outgoing transfer is needed to finance their current expenses (Ajax, 2022). For clubs with small financial power, it is no longer an option, but a necessity to engage in transfers to continue their operations.

### 2.1.3 The Player Value

In section 2.1.2, I discussed that clubs could engage in player transfers to improve their financial performance. However, how does a club maximize their transfer result? To maximize the result, a club should, simply said, minimize their input and maximize their output (Gerrard, 2014). Let's first discuss the output, or more specifically, the player value. In the literature of determining the player value, multiple different determinants have been used. McHale, Scarf and Folker (2012) created a model that analyzed the player statistics, such as completed passes, dribbles and crosses. The model showed that high successful player statistics would lead to increased probabilities of goals scored and matches won. Highly rated players were therefore associated with above average player performance. In addition, Sæbø and Hvattum (2015) their statistical analysis showed that the nationality of a player was a strong determinant of the player value as well. Non-EU players are valued less, since clubs have to face a quota on these types of players, whereas homegrown players of especially large leagues, such as the Premier League, are valued more. Sæbø and Hvattum (2015) also make the argument that certain countries such as Latin American ones tend to perform well at the international tournaments. These nationalities can greatly benefit players as international experience, especially at the highest level, is associated with higher value as well.

Moreover, the player's age tends to increase the player's value on a linear basis, but exponentially decreases the value as well. More experienced players reduce the uncertainty of the player's performance (Carmichael, Forrest & Simmons, 1999). The potential of a player may be high, but the fewer data available of a player, the higher the risk that he will not meet the expectations. Older players tend to have a higher risk for injuries or decrease in quality as their physique reduces (Sæbø and Hvattum, 2015). Therefore, the value of a player diminishes after a certain age (Metelski, 2021), the probability of selling an old player for more in the future can be reduced.

Furthermore, specific traits of players that are rare on the labor market create scarcity that increases the value of a player. Bryson et al (2013) showed that European clubs were willing to pay 15.4% higher salary for players who had the two-footed ability.

Lastly, Garcia-del-Barrio and Pujol (2007) performed a study of the distribution of economic rents of transfer of Spanish football players. This study showed that the club's reputation for the development of players positively influences the value of a player. The investment in a higher quality youth academy is positively associated with increased player value (Balliauw, Bosmans &

Pauwels, 2022). Thus, a continuous investment in the development of youth players can therefore be rewarded on the condition that successful transfers are realized.

On the other hand, a club should minimize their input or in other words, make cost-efficient investments. Not only the development, but also the identification and acquisition of talented players is crucial to maximizing the output of player transfers (Gerrard, 2014). Clubs who have designed their transfer strategy correctly can set themselves apart from the competition.

## 2.2 Hofstede's Culture framework

In this section, I will elaborate on the cultural dimensions of Hofstede and its link to the football industry. In section 2.2.1 I create the link between culture and its impact on employee's performance. Afterwards in sections 2.2.2-2.2.4 I discuss the three cultural dimensions that I have investigated. Correspondingly, I have added the hypotheses for each dimension that I will test to answer my research question.

### 2.2.1 Culture's impact on employee's performance

As discussed in section 2.1.3, the player's value is determined by multiple factors, one of them, the nationality of the player. Previous literature primarily links this to the relation of nationality with experience at international tournaments (Sæbø and Hvattum, 2015). Overall, it can be assumed that an employee's performance increases with experience as familiarity with a task increases an employee's efficiency. However, this paper will investigate another aspect that is linked with the nationality of the player/employee, namely, the cultural background.

In line with Hofstede's argumentation (2011), culture is an important determinant for the employee's performance. A strong organizational culture is associated with enhanced employee performance where an understanding of the different cultures is an effective tool to maximize the organization's output (Irfan, 2016). Employees can operate differently based on their background. I.e., employees that act in organizations with high power distance are more dependent on their managers and function less proactively (Khatri, 2009). Furthermore, organizations with high levels of collectivism reduce the employee's view of work as an obligation and increase their intrinsic motivation (Francesco & Chen, 2004). Overall, the difference in cultures creates a gap between an employee's and the firm's expectations of their function. To bridge this gap, a transition period is required so the employee can function in line with the firm's practices. Thus, in the football context, a player may experience challenges to adapt to the practices of his new club when cultural differences are high. Cultural differences, or cultural distance is a widely used variable in economic literature (Lago, Lago-Peñas & Lago-Peñas, 2023; Maderer, Holtbrügge & Schuster, 2014; Peeters, 2021). My expectation is that these challenges can lower the profitability of a transfer. In this section I will discuss three cultural dimensions of the framework created by Hofstede (2011), namely, power distance, individualism and long-term orientation. For each dimension, I will explain how each dimension can create a challenge for the player to adapt to the club's practices.

### 2.2.2 Power distance

Hofstede (2011) defined power distance as the extent to which people accept that power is unequally distributed. This creates an environment where people are more tolerable to following others who are higher up in the hierarchy. In the football context, there are several inequalities that may cause disturbance within the group, such as differences in wages or expectations with regards to obedience. A study by Wang and Guan (2018) showed that the individual's perception of power distance can determine the effectiveness of authoritarian leader. This suggests that managers can instruct their players more effectively when the player is also acceptant towards high power distance. Players who are less acceptant may not be willing to follow instructions without questioning, which can slow down the process.

However, cultures with low power distance promote employee interaction and allow for creative input of employees that is essential to the innovative process of a team (Dartey-Baah, 2013). Yet, high power distance can demotivate the employees' innovation due to the reliance on their superiors (Awaah, 2022). Players are not stimulated to speak their mind in case they have a different view than their manager. E.g., a team may perform poorly, while the coach may not have the solution to solve it. High power distance would prevent players from providing constructive feedback whereas low power distance positively moderates the interaction between player and coach to solve these issues (Vidyarthi, Anand & Liden, 2014).

Additionally, high power distance decreases the job satisfaction of employees and reduces their commitment to their organization (Rafiei & Pourreza, 2013). Inequality among the players can disrupt the team's process of improvement as the team's performance is dependent on the commitment of all individuals.

Moreover, Hofstede (2011) also points out that high power distance creates acceptance towards unequal income distribution. A study of the German league showed that the within-team wage distribution can positively moderate the team's performance (Franck, & Nüesch, 2011). However, performance was the highest when the wage dispersion was either high or low. Franck and Nüesch explained that people's dissatisfaction about salary was primarily determined by people within the same income scale. Especially in the football context, the salary differences between players can be substantial. Wage inequality within teams is nothing but standard with the biggest determinant being the positional difference (Kahn, 1991). I.e., strikers are paid more than defenders or goalies.

While this is generally accepted, dissatisfaction of players exists when players' compensation does not align with their performance, especially when teammates earn more who perform relatively worse. High power distance could therefore prevent players from expressing their discontent about their salary.

Overall, the literature shows that power distance creates both benefits and drawbacks for an organization, but the implications primarily depend on the perspective of the employee. Depending on the employee's acceptance towards power distance, the difference in the power distance of the player and the club impedes the player from performing well. Therefore, my first hypothesis is as follows:

*Hypothesis 1:*

*"The culture difference in power distance between the player and the club decreases profitability of a player's transfer."*

An answer to this hypothesis would clarify whether clubs should take into consideration the player's cultural background regarding the acceptance of power distance. In case a club's culture is defined by a strict hierarchy with limited room for top-down discussion, it could be advisable to scout for players originating from high power distance countries. My expectation is that minimizing the absolute culture difference of power distance can result in the coaching process of the manager to be most effective, improving the profitability of the transfer.

### 2.2.3 Individualism vs collectivism

Individualism is explained by Hofstede (2011) as the extent to which society is integrated into groups. Cultures defined by individualism require individuals to take care of themselves, whereas cultures defined by collectivism expect everyone to look out for each other. As Hofstede (2011) stated, individualism stands for speaking what's on your mind, whereas collectivism opposes that by prioritizing the harmony in the group. The difference in these two beliefs can lead to conflicts in the player's communication with the group and the coach.

In a study of Chinese employees Hui, Yee and Eastman (1995) discovered that collectivist employees experienced higher job satisfaction and showed more commitment to their firm compared to individualists. Collectivist employees experienced better interpersonal relationships

with their colleagues. In the football context, collectivism creates better connections between players both on and off the pitch, improving the team's performance.

Another study that compared individualist and collectivist employees showed that collectivist employees were more willing to perform effort beyond their job description (Ramamoorthy et al, 2007). Players can be incentivized to perform better in case they feel more affiliated with their team.

On the other hand, Sidle (2009) poses the argument that individualism can also motivate employees to achieve greatness. This motivation stems from the need to experience appreciation for one's accomplishments. In a large questionnaire study, Mohamed et al. (2013) discovered that employees who experienced an individualistic culture were more eager to perform better. This was the case because employees would individually benefit through promotion or payment increase. Thus, in industries where above average performance is rewarded, individualism is the preferred method. This is parallel to the football industry, where players are rewarded with upgraded contracts or bonus payments through pay-for-performance schemes.

Overall, the literature is inconclusive about whether individualism or collectivism is the preferred organizational culture. Still, football is a team sport, where in modern day football, not the best players, but the best team wins. The cultural dimension individualism can act as a potential barrier to create cohesion within a group, therefore disrupting the performance of the collective (Franke, Hofstede & Bond, 1991). Translating this to our context of a football club, players with a cultural background of a high level of individualism are less likely to be a team player, having preference to maximize their own utility at the cost of the team. I.e., a player may choose to attempt to score himself out of egoism, while assisting the ball to the teammate would have been the better choice. My expectation is that a balance between individualism and collectivism is the best combination to maximize the team's performance. Individualist players can bring the team to the next level through their motivation to achieve appreciation for their high-class performance. Collectivist players can improve the team's performance by their increased motivation to serve the team out of affiliation with the group. Therefore, I pose the following hypothesis:

*Hypothesis 2:*

*"The culture difference in individualism/collectivism between the player and the club increases the profitability of the player's transfer."*

An answer to this hypothesis would clarify whether clubs should adjust their scouting strategy based on whether the player is an individualist or a collectivist. I expect the team assembly to be most effective when there is a balance of both. Therefore, clubs with an individualist culture should scout for players from a collectivist culture.

#### 2.2.4 Short-term vs Long-term orientation

Short-term orientation is defined by Hofstede (2011) as the need for immediate satisfaction of the current needs with people's preference for utility now instead of the future. A player with less importance for the future could show behavior that negatively affects the club.

As Hofstede and Minkov (2010) explained, short-term oriented cultures expect immediate gratification for their needs.

A study of Chinese military showed that employees with a long-term orientation had better job performance (Lin, Lee & Hou, 2015). This relates to both in-role and out-of-role performance. Lin et al. explained that the long-term orientation led to increased commitment of the employees to the firm. The long-term orientation resulted in the employee's personal goals to be aligned with the organizational goals. Employees responded with a willingness to build on a future within the firm, instead of solely profiting from the firm's extrinsic motivators, such as salary. In the football industry, you can see the parallel where talented players must face the choice of leaving their club after one successful season or staying longer to further develop themselves. The short-term orientation can make the player decide to sign with another club that offers improved financial compensation. Selling a player earlier than desired by the club will be at the expense of his current club, because the potential transfer fee could have been larger if the player had stayed longer. Moreover, longer tenure is associated with improved player's performance (Akgündüz & van den Berg, 2013). Players are better acquainted with the system played at the club due to their years of experience at the club. It is therefore in the club's interest to maximize the player's tenure at the club.

Additionally, Hofstede (2011) describes that in cultures of short-term orientation, success is viewed as something that is achieved through luck, whereas in cultures of long-term orientation,



it is viewed as something that can be achieved through hard work. As argued by Sims, Ruppel and Zeidler (2016), people with a short-term orientation experience more difficulties with adapting to new situations such as changing work environments. This is because people focus their view on the level of effort required now, instead of looking ahead at the benefits reaped in the future. In the football context, short-term orientation can lead to irresponsibility of taking care of themselves. As Hofstede (2011) put it, instant gratification regardless of the consequences. A lack of responsibility of self-care can increase the proneness of getting injured, reducing the availability of the player to the club.

To summarize, the literature primarily provides evidence that improved employee performance is associated with long-term orientation. Next to the performance, the loyalty of the employee to the firm is also higher, decreasing the chances of quitting the firm. Relating to the football industry, I therefore expect that the player's tenure at the club is longer when he stems from a long-term orientation culture. This results in the following hypothesis:

*Hypothesis 3:*

*"A transferred player's tenure at the club is longer when his culture score increases towards a long-term orientation."*

An answer to this hypothesis provides clarity into the loyalty of a player to the club. Clubs that are looking for an addition for the long-term may want to refrain from scouting for players in short-term oriented countries. To minimize the squad turnover rate, thus maximizing the player's tenure helps the club to further improve their team's performance.

### 3. Data & Methodology

In this section I will first explain from where I gathered the data that I have used for my analysis. Furthermore, I will discuss the parameters used which have led to the final dataset. Moreover, I will explain the methodology that I have used, namely an event study type. Ultimately, I will discuss the variables that I have used and how I will operationalize them to test my hypotheses.

#### 3.1 Data assembly

For my research I have assembled a dataset that consists of two components, namely, the cultural dimension data of Hofstede and the football player data of Transfermarkt.de.

##### 3.1.1 Cultural data

Firstly, for the cultural dimension data I have retrieved all dimension scores from [hofstede-insights.com](https://www.hofstede-insights.com). This is a website that provides the scores for all of the included countries. Although the nationalities of the football players may go beyond this selection of countries, for this study I have only selected transfers of players whose nationality was also included in the Hofstede dataset. Considering that my hypotheses are based on the dimensions, power distance, individualism and long-term orientation, I have created a variable for each dimension for both the player's nationality and the club's nationality. I.e., for evaluating whether the transfer of Erling Haaland to Borussia Dortmund was profitable, I will compare the culture scores of Norway (player's nationality) with the culture scores of Germany (club's nationality).

##### 3.1.2 Football Data

Secondly, I have gathered the football data from Transfermarkt.de. This is an online platform that provides estimations of players' value and collections of their performance statistics. The website also provides player details, such as their age, transfer history and most importantly, their nationality. Thanks to the help of André Jakob, data scientist at Transfermarkt, I was able to obtain a dataset with the necessary variables. Transfermarkt is willing to provide data for scientific purposes but has a limit of providing data up to 40.000 rows, therefore, I had to limit my parameters of time and football leagues accordingly. The data sample will exist only of outgoing transfers of the top 12 leagues of Europe per UEFA coefficients standings per 3-4-2023. Since the transfer values of players have seen a large uprise in recent years, I have chosen for the time period of 1-1-2010 until 1-2-2023.

### 3.1.3 Dataset

As an initial dataset, I have started with a total of 65.996 outgoing transfers in the period 2010-2023 of the top 12 European leagues. Afterwards I cleaned the data, so that my dataset was without missing values, primarily transfer fee related data. Transfer fees can either be unknown or nonexistent because a club has internally developed the player at their own academy. This step of removing observations with missing data results in a total of 16.261 observations. Afterwards, I combined the cultural data with the football data and I excluded all players whose nationality was not included in the Hofstede cultural dimension dataset. This resulted in a dataset of 11.170 observations.

Ultimately, I wanted to create a sample with comparable observations. As discussed in section 2.1.2, Hoey et al. (2021) showed a redistribution effect of the transfer system. Moorhouse (1999) showed that clubs of the top European Leagues were primarily making losses on their transfer results. This is the case because clubs do not only acquire players with the purpose to develop them and selling them at a higher price in the future. Primarily clubs with the highest financial power purchase players at their peak to improve their sportive performance, not necessarily their financial performance. To make a distinction between players who are acquired to improve the club's financial performance and those who to primarily improve the sportive performance, I calculated the average transfer fee that a club has paid for their incoming transfers. Afterwards, I filtered my dataset so it only included players whose transfer fee was below the average. My assumption was that if a club would pay more than their average spending on a player, then it would not be with the goal to make a profit of them. Additionally, I have excluded all players whose contract would expire within 1 year. I did this because my expectation was that the short remaining contract duration could negatively affect the transfer profits without the cultural differences being the cause. Finally, I have excluded all players who were acquired on a free transfer basis. I wanted to compare transfers that bear similar levels of risk. Acquiring a player on a free transfer basis can be perceived as a low-risk investment, because the loss of investment is minimal, namely 0. After this filtering process, I ended up with a total sample of 1,852 observations.

### 3.2 Method

For my analysis I will make use of a linear regression model. The model estimates the coefficient that minimizes the sum of squares of the differences between the observed and the predicted values.

I have chosen this model because I wanted to display the monetary impact that cultural differences may have. Given the nature of my data, normality was a difficult assumption to hold. While the distribution of i.e., age was relatively normal, my explanatory variables of cultural differences are based on Hofstede's framework. The cultural scores show large gaps and peaks in the distribution. I have tried to partially solve this problem by

### 3.3 Variables

In this section, I will explain the variables that I have operationalized to test my hypotheses.

#### 3.3.1 Dependent variables

For hypothesis 1 and 2, I am interested in whether the transfer was profitable. My assumption from an economic perspective is that a transfer is profitable when a club sells the player in the future for a higher price than for which he was acquired. Therefore, I have measured *profit* as the difference between transfer fee sold and acquired.

For hypothesis 3, I investigate the tenure of the player at the club. The variable *tenure* is calculated by the difference of the date of arrival at the club and the date of departure. This is a continuous variable expressed in years.

#### 3.3.2 Independent variables

The independent variable is derived by the absolute difference in cultural score between the player's and the club's nationality. Since the cultural score can range from 0 to 100, the difference in cultural score ranges between -100 and 100. For hypothesis 1, I have created the variable *pwd diff* which displays the difference in cultural score of power distance. For hypothesis 2, I have created the variable *idv diff* which shows the difference in cultural score of individualism. For hypothesis 3 I have created the variable *Long Term* which shows the player's cultural score of long-term orientation.

#### 3.3.3 Control variables

##### 3.3.3.1 Age

As discussed in the literature review, age had both a positive linear effect as an exponentially negative effect on the player's value (Carmichael, Forrest & Simmons, 1999). Since the player's value is correlated with the transfer fee for which the club sells the player, I expect age to indirectly have an impact on the profitability of the transfer. A player is typically at his prime around the age of 25-27 (Dendir, 2016), where he has a substantial level of experience and still has several seasons

left to play in his career. Experience through the years would therefore have a positive linear effect on the value of the player. Yet, each additional year results in fewer remaining years for the player to play in his career as he becomes older, suggesting a negative quadratic effect. To account for this complex effect of age I have created both the variable *age* to control for the linear effect and the variable *age2*, which is the quadratic variable of *age*, to control for the exponential effect of age.

#### 3.3.3.2 Tenure

Age captures part of the effect that experience brings to the value of the player. However, tenure displays the time invested by the player at the club he will leave. My expectation is that young players especially need to play a number of years at their club before making a transfer to another club. When the player plays for a longer period at a club, then the adaptation period at the start becomes relatively shorter, allowing for a longer period to perform at the highest level. To control for this, I have created the variable *tenure*, which is the numbers of years between the joining and the leaving date of the player.

## 4. Results

In this chapter I provide you with the insights of my research. Firstly, in section 4.1 I discuss the descriptive statistics of my dataset. In section 4.2 I have run my analyses on the 3 hypotheses. I interpret the coefficients, provide argumentation for the outcome, and accept or reject the corresponding hypotheses. In section 4.3 and 4.4, I have performed additional analyses and robustness checks, respectively.

### 4.1 Descriptive statistics

To obtain a better understanding of my dataset, I have created table 1, which shows the descriptive statistics of my total sample. The total amount of observations is 1,852, where some variables have some missing values. These can primarily be found at the cultural difference variables (PwD Diff, Idv Diff, Lt Diff, Total Diff). This happens, because not all cultural dimension scores are provided for the nationalities of the players in my dataset.

*Fee Paid* is the transfer fee that the club has paid to acquire the player, whereas the *Fee Sold* is the transfer fee that the club receives at the sale of the player. The difference between these variables is displayed in the main dependent variable *Profit*. *Profit* also creates the basis for dependent binary variable *Transfer Success* and *Transfer Failure*, which I will use in my additional analyses. The minimum value of the transfer fees is 500, which is in line with my understanding, because I trimmed my dataset accordingly that only players are included that were acquired on a paid basis. Since the majority of the transfers happen on a free basis, I have also created a model that includes these cases in my robustness tests. The maximum value of *Fee Sold* is 81.6 million, which is the Serbian center forward Dusan Vlahovic who made his move from Fiorentina to Juventus. The maximum of *Fee Paid* is different, because Vlahovic hasn't left Juventus yet. The 18.6 million refers to Rafinha who left from Leeds United to FC Barcelona.

*Age* displays an average of 24.95 years. As players can make multiple transfers throughout their career, the average age of a transfer is likely to be between 25-27. *Tenure* displays the number of years that a players stays at his club, whereas on average players remain 1.62 years at their club before making a move.

*Transfer Success* and *Transfer Failure* show mean probabilities of 30 and 68 percent, respectively. It is more likely that a transfer will lead to a failure than a success, which is logical, considering the competitiveness of football, only a small percentage of players making it to the professional level (Grossmann & Lames, 2015).

**Table 1: Descriptive Statistics**

Statistic	N	Mean	St. Dev.	Min	Pctl(25)	Pctl(75)	Max
Fee sold	1,852	3,480,840	8,196,440	0	0	2,812,500	81,600,000
Fee paid	1,852	2,464,997	2,921,973	500	500,000	3,200,000	18,600,000
Age	1,852	24.95	3.63	17.15	22.10	27.55	37.61
Age2	1,852	635.65	185.56	294.03	488.26	758.94	1,414.30
Top 4 League	1,852	0.55	0.50	0	0	1	1
Tenure	1,852	1.62	1.50	0.00	0.58	2.11	11.99
Pwd Diff	1,709	12.19	14.58	0.00	0.00	22.00	75.00
Idv Diff	1,709	16.61	19.27	0.00	0.00	30.00	74.00
Long Term	1,678	15.68	17.59	0.00	0.00	28.00	79.00
Total Diff	1,640	80.26	75.57	0.00	0.00	145.00	264.00
Log(Fee Paid)	1,852	14.00	1.35	6.22	13.12	14.98	16.74
Profit	1,852	1,015,842	7,835,467	-18,000,000	-1,800,000	655,360	78,400,000
Transfer Success	1,852	0.30	0.46	0	0	1	1
Transfer Failure	1,852	0.68	0.47	0	0	1	1
Foreign	1,640	0.61	0.49	0.00	0.00	1.00	1.00

Descriptive statistics of the dataset used for my analyses.

#### 4.2.1 Hypothesis 1: Power Distance

In table 2, the results of the logistic regression for testing hypothesis 1 are provided. The dependent variable is *Profit* with explanatory variable *Pwd Diff*. Additionally, league and year fixed effects are included.

The coefficient of *Pwd Diff* is negative but insignificant. An increase of 1 point of the absolute difference between the cultural score of power distance between the player and the club, increases the decreases the profit by 7,839 EUR, *ceteris paribus*. In other words, if the player is more or less acceptant towards an unequal distribution of power compared to the club's culture, then it would decrease the profitability of the transfer. The economic magnitude of the coefficient depicts a relevant effect. Assuming a linear effect of the cultural score difference, if the cultural score difference of power distance would be 10, then compared to the average, profit decreases by 7.7% ( $-7,839 * 10 / 1,015,842 * 100\%$ ), *ceteris paribus*. However, as I said, the coefficient is statistically insignificant. Hypothesis 1 is therefore rejected, because there is no statistical evidence provided that the difference in the cultural score of power distance decreases the profitability of a transfer.

A potential explanation for this could be that the cultural dimension of power distance does not apply to the football setting as it would to society. The cultural dimensions of Hofstede are based on national culture. At least, the cultural differences may not be noticed as much within a football team, potentially because a strict hierarchy already applies to football teams in general. The difference in culture on a national level would therefore not apply to a player's personal acceptance towards power distance.

Moreover, regarding the coefficients of *age* and *age2*, my expectations are met. The effect of experience over the years is captured by the variable *age* showing a positive effect, significant at a 1 percent level. The effect of fewer remaining years to play and physically becoming older is captured by the variable *age2* showing a negative effect, also significant at a 1 percent level.

In addition, the variable *Tenure* underlines that the more years of development a player has at the club, the more value he can represent at his sale. The coefficient is positive and significant at a 1 percent level. An additional year of the player at the club increases the profit of the player's sale by 149% ( $1,513,503 / 1,015,842 * 100\%$ ), *ceteris paribus*. This emphasizes the importance of a club to keep a player on board for a longer period to sell the player at his peak.



**Table 2: Linear regression of Pwd Diff on Profit**

	<i>Dependent variable:</i>
	Profit
Pwd Diff	-7,839.090 (13,165.880)
Age	2,637,304.000*** (587,929.600)
Age2	-58,234.430*** (11,466.290)
Tenure	1,513,503.000*** (132,791.200)
Constant	-32,772,101.000*** (7,462,462.000)
Observations	1,679
R <sup>2</sup>	0.141
Adjusted R <sup>2</sup>	0.125
Residual Std. Error	7,407,638.000 (df = 1648)
F Statistic	8.994*** (df = 30; 1648)

*Note:* \* p<0.1; \*\* p<0.05; \*\*\* p<0.01

Linear regression with explanatory variable *Pwd Diff* on dependent variable *Profit*. Explanatory variable *Pwd Diff* displays the absolute difference between the cultural score of the player and the selling club on the dimension of Power Distance. Variable *Profit* takes the value in EUR of the difference between the transfer fee for which the player was sold and for which he was acquired.

#### 4.2.2 Hypothesis 2: Individualism

In table 3, the results of the logistic regression for testing hypothesis 2 are provided. The dependent variable is *Profit* with explanatory variable *Idv Diff*. Additionally, league and year fixed effects are included.

**Table 3: Linear regression of Idv Diff on Profit**

	<i>Dependent variable:</i>
	Profit
Idv Diff	-6,240.470 (9,850.059)
Age	2,592,290.000*** (585,770.400)
Age2	-57,324.150*** (11,422.230)
Tenure	1,547,235.000*** (132,435.200)
Constant	-32,507,644.000*** (7,430,790.000)
Observations	1,677
R <sup>2</sup>	0.142
Adjusted R <sup>2</sup>	0.127
Residual Std. Error	7,370,889.000 (df = 1646)
F Statistic	9.109*** (df = 30; 1646)
<i>Note:</i>	* p<0.1; ** p<0.05; *** p<0.01

Linear regression with explanatory variable *Idv Diff* on dependent variable *Profit*. Explanatory variable *Idv Diff* displays the absolute difference between the cultural score of the player and the selling club on the dimension of Individualism. Variable *Profit* takes the value in EUR of the difference between the transfer fee for which the player was sold and for which he was acquired.

The coefficient of *Idv Diff* is negative but insignificant. An increase of 1 point of the absolute difference between the cultural score of individualism between the player and the club, decreases the profit by 6,240 EUR, ceteris paribus. Assuming a linear relationship of this effect, a difference of i.e., 10 points of Individualism decreases the profit of the transfer by 6.1% ( $-6,240 * 10 /$

1,015,842 \* 100%), *ceteris paribus*. Expressed differently, when a player stems from a culture that is either more Individualist or collectivist than the club where he arrives, the profitability of the transfer decreases. Although the effect is economically relevant, the coefficient remains statistically insignificant. Therefore, I reject my hypothesis 2.

A potential explanation for the small magnitude of the effect could be similar to the argumentation provided for hypothesis 1. The cultural dimension of individualism may not apply to the football setting as it would to society. Players who come from either individualist or collectivist cultures may behave differently at the club than in their own society. People may change their behavior accordingly to align with the new environment, resulting in a limited impact on whether the transfer will be profitable.

Additionally, culture and thus culture differences may play a role in the profitability of the transfer. The larger the difference, the higher the difficulty of the player to adapt to the new culture. Regardless of whether the cultural dimensions of Hofstede are valid to capture this effect, deconstructing culture in subcategories, such as individualism, may have proven to result in economically irrelevant effects. Individualism may only explain a small portion of the total effect that culture differences may create.

Ultimately, something that may apply to all of my results is that my model is constructed assuming a direct effect of cultural differences that may lead to an impact on transfer profits, whereas this effect may actually be indirect. Cultural differences can lead to difficulties of adaptation of the player, resulting in a worse form of the player, potentially resulting in a failed transfer. This in turn leads to the potential investment not showing financial returns. All in all, my results may show that a different model would have been preferred to capture this indirect effect potentially better.

#### 4.2.3 Hypothesis 3: Long-term orientation

In table 4, the results of the linear regression for testing hypothesis 3 are provided. The dependent variable is *Tenure* with explanatory variable *Long Term*. Additionally, league and year fixed effects are included.

**Table 4: Linear regression of Long Term on Tenure**

	<i>Dependent variable:</i>
	Tenure
Long Term	-0.002 (0.002)
Age	0.284** (0.111)
Age2	-0.002 (0.002)
Constant	-3.662*** (1.406)
Observations	1,648
R <sup>2</sup>	0.211
Adjusted R <sup>2</sup>	0.197
Residual Std. Error	1.379 (df = 1618)
F Statistic	14.918*** (df = 29; 1618)
<i>Note:</i>	*p<0.1; **p<0.05; ***p<0.01

Linear regression with explanatory variable *Long Term* on dependent variable *Tenure*. Explanatory variable *Long Term* displays the cultural score of the player on the dimension of Long-term orientation. Variable *Tenure* displays the number of years that a player remains at the club before his next transfer.

The coefficient of *Long Term* is negative and insignificant. We can interpret this coefficient as follows: An increase of 1 point of the player's cultural score of long-term orientation decreases the number of years that a player stays at the club by 0.002 years. Again, although statistically significant, the economic magnitude is irrelevant. A player's tenure may be shorter if there are

different views regarding the short-term and long-term future between the player and the club, but this effect is so minimal, that I have to reject hypothesis 3.

A potential explanation can be that the long-term orientation of a player does not apply to the benefit of the club but to the player himself. As discussed in section 2.1.2, a player's choice is dependent on both risk and utility. Considering the importance of financial stability, leaving a club early to sign for a club who offers a higher wage may potentially damage his career, but guarantee financial returns in the future. Regardless of whether the club profits from the player's sale, the player may therefore value his own future over the club, resulting in a minimal impact on the player's tenure at the club.

Moreover, the decision for a player to stay or leave may be less dependent on the player's long-term orientation, but more on opportunities elsewhere. A player without clubs wanting to sign him has no other choice than to stay at the current club. The freedom of choice to make a transfer really starts when the player's contract expires. Until that moment arrives, the choice to leave may not correspond to whether the player thinks about the future.

### 4.3 Additional Analysis

For my additional analysis, I thought it was interesting to not only look at the profitability of a transfer, but also to consider the probability of a successful and failed transfer. In other words, what is the impact of cultural differences on the chance that a transfer results in success or failure? Additionally, I was interested in the tenure of players, making a distinction between those who stay for a long time and those who leave within 2 seasons at the club. Finally, I have done an analysis for whether clubs should scout in foreign countries in the first place by comparing the impact on the profitability by nationality differences.

#### 4.3.1 Success or failure

I have recreated my dependent variable into the variable *Transfer Success* which takes value of 1 whenever the transfer fee the selling club receives is higher than for which the club has acquired the player. Additionally, I have created dependent variable *Transfer Failure* which takes value of 1 whenever the transfer fee the selling club receives is lower than for which the club has acquired the player.

In table 5, the results of the logistic regressions of alternative hypotheses 1 and 2 are provided. The dependent variable is *Transfer Failure* with explanatory variable *Pwd Diff* and *Idv Diff*. Additionally, league and year fixed effects are included.

**Table 5: Logistic regression of Pwd/Idv Diff on Transfer Success/Failure**

	<i>Dependent variable:</i>			
	Transfer Success		Transfer Failure	
	(1)	(2)	(3)	(4)
Pwd Diff	0.002 (0.004)		-0.003 (0.004)	
Idv Diff		0.001 (0.003)		0.001 (0.003)
Age	1.372*** (0.237)	1.373*** (0.237)	-1.211*** (0.225)	-1.217*** (0.225)
Age2	-0.028*** (0.005)	-0.028*** (0.005)	0.024*** (0.004)	0.024*** (0.004)
Tenure	0.446*** (0.046)	0.445*** (0.046)	-0.402*** (0.045)	-0.400*** (0.044)
Constant	-19.027*** (3.022)	-19.008*** (3.023)	17.022*** (2.874)	17.048*** (2.875)
Observations	1,677	1,677	1,677	1,677
Log Likelihood	-835.264	-835.395	-858.935	-859.117
Akaike Inf. Crit.	1,732.529	1,732.790	1,779.871	1,780.234

*Note:*

\* p&lt;0.1; \*\* p&lt;0.05; \*\*\* p&lt;0.01

Logistic regressions with explanatory variables *Pwd Diff* and *Idv Diff* on dependent variables *Transfer Success* and *Transfer Failure*. Explanatory variable *Pwd Diff* (*Idv Diff*) displays the difference between the cultural score of the player and the selling club on the dimension of Power Distance (Individualism). Variable *Transfer Success* (*Transfer Failure*) takes the value of 1 when the club receives a transfer fee that is higher (lower) than for which the player was acquired.

In line with my results for the linear regression for hypothesis 1, the coefficients of *Pwd Diff* are insignificant for both models 1 and 3. In this case the coefficient is positive for model 1 that measures the success probability, while it is negative for model 3 that measures the failure probability. Using marginal effects, on average, an increase of 1 point of the absolute difference between the cultural score of power distance between the player and the club, increases (decreases) the probability of the transfer being a success (failure) by 0.04 (0.05) percentage points, ceteris paribus. Assuming a linear relationship of this effect, a difference of i.e., 10 points of power distance can result in the chance of success (failure) to increase (decrease) by 0.4 (0.5) percentage points. Compared to the average success rate of 30% (failure rate of 68%), the relative effect would be an increase of 1.3% (decrease of 0.7%) of the probability of a successful (failed) transfer (success:  $0.4/30 * 100\%$ , failure:  $0.5/68 * 100\%$ ). Again, in line with what we have seen before, the effect is statistically insignificant, but now it also appears economically irrelevant. Even when assuming large differences in cultural scores, the increase (decrease) in the probability of success (failure) is limited.

A potential explanation for the sign of the coefficient being positive in model 1, would be that players who are relatively more acceptant towards unequal power distribution, may cause less conflicts within the hierarchy. Players may be more willing to follow the instructions of the coach, leading to better performance of the player, increasing the likelihood of the player's transfer being a success. The negative coefficient in model 3 may be explained by the same logic. A player who may be more willing to listen to his coach is more likely to follow the instructions, thus reducing the probability of becoming a failure.

In line with the results for the regression of hypothesis 2, the coefficient of *Idv Diff* in models 2 and 4 are also statistically insignificant. Using marginal effects, on average, an increase of 1 point of the absolute difference between the cultural score of individualism between the player and the club, increases (decreases) the probability of the transfer being a success (failure) by 0.01 (0.01) percentage points, ceteris paribus. Although the effect is small, the sign shows that players who are relatively more individualistic or collectivist compared to their club's culture, are double-edged. While the results of table 2 showed that the profits increase, table 5 displays that the chances of both success and failure increase. In other words, clubs who want to scout more risk-seeking may want to acquire players who stem from individualist culture. However, similar to results seen



previously, the coefficients of models 2 and 4 are insignificant and this time, the economic magnitude of *Idv Diff* remains limited.

Regarding the economic irrelevance of both coefficients, a potential explanation could be that in line with previous argumentation at section 4.2.1, the cultural dimension of individualism does not apply to the football setting.

#### 4.3.2 Long Stay

The results of hypothesis 3 showed that the effect of differences in long-term orientation was relatively small on the tenure of a player. However, players tend to stay at a club for a couple of years before making their transfer to another club. It might therefore be more interesting to see whether players are likely to stay for a longer period of time compared to a short tenure of 1 or 2 years. Clubs face difficulties with the assembly of their team as they need to find replacements when players leave the club. These difficulties can be minimized when the club acquires players that tend to stay longer at the club. I have therefore created a binary variable *Long Stay* which takes the value 1 if a player remains at the club for longer than 2 years.

In table 6, the results of the logistic regression of additional analysis 2 are provided. The dependent variable is *Long Stay* with explanatory variable *Long Term*. Additionally, league and year fixed effects are included.

Similar to the results of hypothesis 3, the coefficient of *Long Term* is insignificant and negative. Using marginal effects, on average, an increase of 1 point of the player's cultural score of Long-Term orientation, decreases the probability of the player remaining longer than 2 years at the club 0.1 percentage points, *ceteris paribus*. Assuming a linear relationship of this effect, an absolute difference of i.e., 10 points Long-term orientation can result in the chance of a *Long Stay* to decrease by 1 percentage points. Compared to the average rate of players staying longer than 2 years (40%), the relative effect would be a decrease of 3% of the probability of the player staying longer than 2 years ( $-1/30 * 100\%$ ). No large effects are found here. A potential explanation might be that the difference in cultural score on long-term orientation may not be the determinant for whether a player remains at the club for a longer period. Relatively high scores of long-term orientation increase the probability of employees to remain at their current organization (Sims, Ruppel & Zeidler, 2016). Thus, perhaps the only important factor may be the long-term orientation score of the player, not the club.

**Table 6: Logistic regression of Long Term on Long Stay**

	<i>Dependent variable:</i>
	Long Stay
Long Term	-0.006 (0.004)
Age	1.213*** (0.216)
Age2	-0.020*** (0.004)
Constant	-18.083*** (2.834)
Observations	1,648
Log Likelihood	-896.749
Akaike Inf. Crit.	1,853.497
<i>Note:</i>	* p<0.1; ** p<0.05; *** p<0.01

Logistic regression with explanatory variable *Long Term* on dependent variable *Tenure*. Explanatory variable *Long Term* displays the cultural score of the player on the dimension of Long-term orientation. Variable *Long Stay* takes the value of 1 when the player remains at the club for more than 2 years.

#### 4.3.3 Foreign vs home grown

Since the season 2008/09, clubs that are active in UEFA competitions are required to have at least 8 home-grown players within their squad of 25 players (UEFA, 2019). This rule was introduced to protect the development of locally trained talents as clubs were primarily acquiring players from foreign countries in the past. However, foreign talent may also be a determinant of transfer profitability, potentially offsetting the effect that cultural difference has. Acquiring players with experience from different leagues can add valuable information to the team's strategy, improving the chances of winning (Baur & Lehmann, 2007). I have created the variable *Foreign* to test whether a club should prefer foreign players over players with the same nationality as the club.

In table 7, the results of the linear regression of additional analysis 3 are provided. The dependent variable is *Profit* with explanatory variable *Foreign*. Additionally, league and year fixed effects are included.

The coefficient of *Foreign* in the regression on *Profit* is insignificant. As an interpretation, the profitability of a transfer decreases by 13,478 EUR when the player has a different nationality than the club, *ceteris paribus*. Compared to the average profit per transfer (1,015,842 EUR), the relative effect would be a decrease of 1.3% of profitability ( $-13,478/1,015,842 * 100\%$ ). This minimal effect is interesting, because players acquired from foreign countries are generally of higher quality (Yu et al, 2020) and the acquisition improves the average football performance, especially in lower tier leagues (Berlinschi, Schokkaert & Swinnen, 2013). Furthermore, players of another country can bring more a more diverse way of thinking from their personal experiences, decreasing the chances of failure as well. Heterogeneous teams tend to perform better, as the diversity allows for different viewpoints and experiences that the team can use to solve problems (Ingersoll, Malesky & Saiegh, 2017). However, the scouting of foreign players may cost more than within your own country, making a club more selective with acquiring players from abroad as the risk of failure is larger. Developing players from your own country may therefore be more profitable.

**Table 7: Linear regression of Foreign on Profit**

	<i>Dependent variable:</i>
	Profit
Foreign	-13,478.430 (402,015.000)
Age	2,833,996.000*** (610,969.800)
Age2	-62,371.710*** (11,933.610)
Tenure	1,578,601.000*** (136,816.200)
Constant	-35,376,477.000*** (7,733,420.000)
Observations	1,608
R <sup>2</sup>	0.145
Adjusted R <sup>2</sup>	0.128
Residual Std. Error	7,468,447.000 (df = 1577)
F Statistic	8.896*** (df = 30; 1577)
<i>Note:</i>	*p<0.1; **p<0.05; ***p<0.01

Linear regression with explanatory variable *Foreign* on dependent variable *Profit*. *Foreign* takes value 1 if the nationality of the player equals the nationality of the club. Variable *Profit* takes the value in EUR of the difference between the transfer fee for which the player was sold and for which he was acquired.

#### 4.4 Robustness Tests

As a control for the reliability of my results, I have performed multiple robustness tests. Firstly, I have ran an additional linear regression using the total absolute differences in culture between the player and club's cultural scores. Secondly, I have changed my dependent variable as a logarithmic variable. Furthermore, I have adjusted my sample solely looking at forward players. Finally, I have done an analysis by including the control variable  $\log(\text{fee paid})$ .

##### 4.4.1 Total absolute culture difference

In table 8, the results of the logistic regressions of robustness test 1 are provided. The dependent variables are *Profit* with explanatory variable *Total Diff*. Additionally, league and year fixed effects are included.

The variable *Total Diff* is constructed by the sum of the absolute value of each of the 6 cultural dimensions. The goal was to see whether the incorporation of all cultural dimensions would lead to different magnitudes than when the scope was on one of the subcategories. Since the difference in cultural score per dimension ranges from 0-100 and there are 6 dimensions, the maximum range of cultural difference is between 0-600. Typically, countries that are comparable, such as Denmark and Sweden, show a total absolute difference of 59. If you were to compare countries that are more different, such as Denmark and Brazil, the total absolute difference is 193.

The coefficient is positive but insignificant at a 1 percent level. An increase of 1 point of the absolute difference between the cultural score between the player and the club increases the profit made of the transfer by 333 EUR, *ceteris paribus*. Similar to the regressions of the first 2 hypotheses, the effect is statistically insignificant, but also appears economically irrelevant. The result may prove that both the scope of the total culture difference and the culture difference of one dimension provides similar results. It raises the question whether the cultural dimensions of Hofstede correctly capture the effect of cultural differences or whether the effect of cultural difference exists.

**Table 8: Linear regression of Total Diff on Profit**

	<i>Dependent variable:</i>
	Profit
Total Diff	333.168 (2,648.100)
Age	2,882,814.000*** (613,516.200)
Age2	-63,357.010*** (11,983.760)
Tenure	1,544,244.000*** (137,097.400)
Constant	-35,787,940.000*** (7,763,230.000)
Observations	1,611
R <sup>2</sup>	0.143
Adjusted R <sup>2</sup>	0.127
Residual Std. Error	7,503,790.000 (df = 1580)
F Statistic	8.791*** (df = 30; 1580)
<i>Note:</i>	*p<0.1; **p<0.05; ***p<0.01

Linear regressions with explanatory variable *Total Diff* on dependent variable *Profit*. Explanatory variable *Total Diff* displays the absolute difference between the cultural scores of the player and the selling club on all 6 dimensions. Variable *Profit* takes the value in EUR of the difference between the transfer fee for which the player was sold and for which he was acquired.

#### 4.4.2 Log(Profit)

Transfer profits in my dataset range from -18 million to 78.4 million. Since my model of linear regression assumes a constant variance across my population, I also wanted to create a model with a logarithmic operated dependent variable, namely,  $\text{Log}(\text{Profit})$ . Although my sample's distribution of profit was relatively normal, heteroscedasticity could still be a problem.

In table 9, the results of the regressions of robustness test 2 are provided. The dependent variable is  $\text{Log}(\text{Profit})$  with explanatory variables  $\text{Pwd Diff}$ ,  $\text{Idv Diff}$  and  $\text{Total Diff}$ . Additionally, league and year fixed effects are included.

The results are similar to my original results. The explanatory coefficients of all models are insignificant. However, the coefficient of  $\text{Pwd Diff}$  displays a positive sign. To interpret, an increase of 1 point in the absolute cultural difference of the dimension power distance, increases the profits by 1 percent, ceteris paribus  $((e^{0.01} - 1) * 100\%)$ . This result would suggest the opposite of my model in table 2. A higher absolute cultural difference in power distance would be beneficial for the profitability of a transfer. In section 2.2.2 I already explained that the literature had multiple views on the pros and cons of either high or low power distance cultures. It is therefore to be expected that the coefficient can go either way.

Regardless, the signs and the economic magnitudes of the other coefficients are similar to my original results and all coefficients remain statistically insignificant, thus supporting the robustness of my results.

**Table 9: Linear regression of Pwd/Idv/Total Diff on Log(Profit)**

	<i>Dependent variable:</i>		
		Log(Profit)	
	(1)	(2)	(3)
Pwd Diff	0.010 (0.022)		
Idv Diff		-0.001 (0.016)	
Total Diff			0.006 (0.004)
Age	5.673*** (0.965)	5.680*** (0.965)	5.832*** (0.991)
Age2	-0.116*** (0.019)	-0.116*** (0.019)	-0.119*** (0.019)
Tenure	2.268*** (0.218)	2.263*** (0.218)	2.243*** (0.221)
Constant	-79.840*** (12.248)	-79.741*** (12.247)	-82.454*** (12.538)
Observations	1,679	1,679	1,611
R <sup>2</sup>	0.209	0.209	0.212
Adjusted R <sup>2</sup>	0.195	0.195	0.197
Residual Std. Error	12.158 (df = 1648)	12.158 (df = 1648)	12.119 (df = 1580)
F Statistic	14.519*** (df = 30; 1648)	14.510*** (df = 30; 1648)	14.157*** (df = 30; 1580)

*Note:* \*p<0.1; \*\*p<0.05; \*\*\*p<0.01  
 Linear regressions with explanatory variables *Pwd Diff*, *Idv Diff* and *Total Diff* on dependent variable *Log(Profit)*. Explanatory variables *Pwd Diff* (*Idv Diff*/ *Total Diff*) display the absolute difference between the cultural score of the player and the selling club on the dimension of Power Distance (Individualism/ all Dimensions). Variable *Log(Profit)* takes the logarithmic value in EUR of the difference between the transfer fee for which the player was sold and for which he was acquired.



#### 4.4.3 Forward Players

Sæbø, O. D., & Hvattum (2015) showed that the player's value depended on the position. Especially forward players tend to represent higher market value than i.e., defenders or goalies. A potential explanation for this is because the forward players can be seen as the players who have the most direct impact on scoring goals, thus a more direct impact on winning the game. I have created a subsample where I filtered my dataset solely on players who were forward oriented, such as right wingers, left wingers, center-forwards and attacking mid-fields.

In table 10, the results of the regressions of robustness test 3 are provided. The dependent variables are *Profit* with explanatory variables *Pwd Diff*, *Idv Diff* and *Total Diff*. Additionally, league and year fixed effects are included.

In line with the results of my main models, there is no statistical significance. The sign of the coefficient of *Pwd Diff* is now positive instead of negative like in table 2. Potentially, the absolute difference in the acceptance towards unequal power distribution is more important for forward players as their importance of the team is highlighted by their contribution of scoring goals. Importance can come with overconfidence, potentially resulting in conflicts if the player has a relatively lower cultural score of Power Distance than the club.

**Table 10: Linear regression of Pwd/Idv/Total Diff on Profit. Attackers only.**

	<i>Dependent variable:</i>		
		Profit	
	(1)	(2)	(3)
Pwd Diff	7,061.894 (21,069.320)		
Idv Diff		7,679.521 (16,213.660)	
Total Diff			2,882.046 (4,329.654)
Age	2,050,298.000** (1,009,216.000)	2,054,893.000** (1,009,184.000)	2,476,992.000** (1,094,522.000)
Age2	-45,891.360** (19,819.040)	-46,016.240** (19,818.870)	-54,404.290** (21,603.810)
Tenure	1,980,950.000*** (236,137.700)	1,979,247.000*** (236,021.500)	1,991,093.000*** (242,838.200)
Constant	-27,348,725.000** (12,798,135.000)	-27,371,368.000** (12,792,747.000)	-32,857,183.000** (13,784,334.000)
Observations	688	688	658
R <sup>2</sup>	0.169	0.169	0.171
Adjusted R <sup>2</sup>	0.131	0.132	0.132
Residual Std. Error	7,673,509.000 (df = 657)	7,672,855.000 (df = 657)	7,797,985.000 (df = 627)
F Statistic	4.465*** (df = 30; 657)	4.469*** (df = 30; 657)	4.322*** (df = 30; 627)

*Note:*

\* p&lt;0.1; \*\* p&lt;0.05; \*\*\* p&lt;0.01

Linear regressions with explanatory variables *Pwd Diff*, *Idv Diff* and *Total Diff* on dependent variable Profit. Explanatory variables *Pwd Diff* (*Idv Diff*/ *Total Diff*) display the absolute difference between the cultural score of the player and the selling club on the dimension of Power Distance (Individualism/ All Dimensions). Variable *Profit* takes the value in EUR of the difference between the transfer fee for which the player was sold and for which he was acquired.

#### 4.4.4 Transfer Fee paid

As discussed in the literature review, clubs should minimize their input and maximize their output (Gerrard, 2014). However, you would expect that those players who succeed in football are the ones of the highest quality. Yet, quality comes at a price. When Real Madrid invested 45 million Euros for Vinicius Junior in 2018, expectations were high from the fans. Input should have an association with output. As a check for potential omitted variable bias, I have created another model that controls for the input. I have created the control variable *Log(Fee Paid)* which displays the transfer fee that the selling club originally invested to acquire the player. Since the transfer fees display a right-skewed distribution, I operationalized the variable on a logarithmic scale. Since transfer fees inflate over time, (Poli, Ravenel & Besson, 2017).

In table 11, the results of the regressions of robustness test 4 are provided. The dependent variables are *Profit* and *Log(Profit)* with explanatory variables *Pwd Diff* and *Idv Diff*. Additionally, league and year fixed effects are included.

Based on these results, I notice three things. Firstly, the explanatory variables' coefficients are still insignificant, suggesting that my models are robust. Secondly, in models 1 and 2 I can see that the coefficients of *Pwd Diff* and *Idv Diff* have decreased in magnitude compared to the models of table 2 and 3. Seeing that the control variable *Log(Paid)* has a significant negative effect on profit, I can assume that a portion of this effect is now explained by *Log(Paid)*. The input of a player should be considered as an important determinant for the profitability of a transfer. As the investment of a transfer fee increases, the likelihood diminished that the player is being acquired for development and future sale purposes. The maximum potential profits may increase with the level of transfer fee paid, but on average, the models 1 -4 show that it reduces profitability. Thirdly, models 3 and 4 show that the coefficients have actually increased in magnitude compared to models 1 and 2 in table 9. The exclusion of *Log(Paid)* has therefore led to a negative bias for both models with *Profit* and *Log(Profit)* as dependent variables.

**Table 11: Linear regression of Pwd/Idv Diff on Profit/Log(Profit)**

	<i>Dependent variable:</i>			
	Profit		Log(Profit)	
	(1)	(2)	(3)	(4)
Pwd Diff	-2,837.506 (13,163.300)		0.021 (0.021)	
Idv Diff		-3,142.612 (9,921.967)		0.007 (0.016)
Age	2,621,010.000*** (584,965.000)	2,624,191.000*** (585,096.700)	5.200*** (0.938)	5.200*** (0.938)
Age2	-57,605.910*** (11,405.110)	-57,658.210*** (11,406.960)	-0.105*** (0.018)	-0.105*** (0.018)
Tenure	1,564,194.000*** (132,429.900)	1,563,570.000*** (132,426.200)	2.228*** (0.212)	2.222*** (0.212)
Log(Paid)	-378,987.400** (158,232.700)	-376,696.200** (158,342.700)	-0.542** (0.254)	-0.524** (0.254)
Constant	-27,718,827.000*** (7,671,474.000)	-27,807,941.000*** (7,678,761.000)	-67.310*** (12.298)	-67.233*** (12.313)
Observations	1,677	1,677	1,677	1,677
R <sup>2</sup>	0.145	0.145	0.202	0.201
Adjusted R <sup>2</sup>	0.129	0.129	0.187	0.186
Residual Std. Error (df = 1645)	7,360,598.000	7,360,478.000	11.799	11.802
F Statistic (df = 31; 1645)	9.021***	9.023***	13.417***	13.384***

*Note:*

\*p&lt;0.1; \*\*p&lt;0.05; \*\*\*p&lt;0.01

Linear regressions with explanatory variables *Pwd Diff* and *Idv Diff* on dependent variables *Profit* and *Log(Profit)*. Explanatory variables *Pwd Diff* (*Idv Diff*) display the absolute difference between the cultural score of the player and the selling club on the dimension of Power Distance (Individualism). Variable *Profit* takes the value in EUR of the difference between the transfer fee for which the player was sold and for which he was acquired. Variable *Log(Profit)* takes the logarithmic value in EUR of the difference between the transfer fee for which the player was sold and for which he was acquired.

## 5. Conclusion

After an evaluation of my results, I have found statistical significance for hypotheses 2 and 3. However, the economic magnitudes of the effects were relatively small, therefore I have rejected all three hypotheses. Reflecting on my research question, I have discovered that cultural differences between the player and the club do not have a significant impact on the profitability of a transfer, nor the player's tenure at the club. Following my additional analyses, I have seen that this also holds for the probability of a transfer success or failure. Although the acquisition of foreign players decreases the profitability of a transfer, this effect was also minimal and insignificant. My robustness checks confirmed the statistical insignificance of cultural differences.

## 6. Limitations and future research

In economic literature, Hofstede's framework of the 6 cultural dimensions is widely used and one of the foundational building blocks for the definition of national cultural differences. One of the main assumptions of my model was that this framework would correctly capture the cultural differences between the player and the club. However, it remains questionable whether the framework is valid in capturing this variation. In future research, an alternative measurement of culture may be preferred to check the robustness of my results.

Furthermore, my model assumes a direct effect of culture on profit, while it may in fact be indirect. The dependent variable of my model was predominantly *profit* which captures the level to which the club makes a profit from the sale of the player. Yet, the profits gained from a transfer go beyond the financial benefits directly gained from the transfer. A club can also benefit on a sports basis by having a fundamental player for your squad for multiple years. A profitable sale does not necessarily mean that the transfer was unsuccessful. In addition, the effect of culture on financial performance can be perceived as an indirect effect. The cultural differences can lead to difficulties for the player to adapt to the new club, potentially harming his performance on the pitch, hurting the chances of the club selling him for a higher value in the future. Future research could investigate the operationalization of different dependent variables. A model of the direct impact of cultural differences on the players' performance, by i.e., number of minutes played, can be a good start. The link with financial performance can afterwards be created by using the instrumented variable of player's performance by cultural differences.

Additionally, I may have performed an additional analysis on the impact of the player being foreign or of the same nationality as the club, but there is more to find than cultural differences. The differences in language can complicate the communication within a team (Lavric et al. 2008). I noticed from my dataset that Brazilian and Argentinian players tend to primarily make a transfer to Portugal and Spain, respectively. Moreover, not only the language, but also the presence of other players of the same country can potentially help players to overcome culture differences. Future research can both look into the impact of the language difference and the presence of fellow countrymen on the transfer profitability.

Moreover, I noticed that my dataset provided by Transfermarkt contained limitations as well. I.e., the dataset includes both permanent and loan transfers. The dataset does not make a distinction, allowing the presence of observations where a player joins a club for 2 million and leaves on loan basis after 1 month. My model will recognize this case as an unprofitable transfer because the transfer fee paid will be 0, whereas actually this event should not be included in the first place.

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