

Specific Causes of Financial Crisis at Barcelona and Countermeasures

Kehan Chen

Rutgers, the State University of New Jersey, New Brunswick, New Jersey, the US, 08901

**Corresponding author. Email: kc1102@scarletmail.rutgers.edu*

ABSTRACT

FC Barcelona club, named as Futbol Club Barcelona, was founded in 1899 by groups of German, Swiss, Spanish and English football players, became the first most valuable football club and received countless honors worldwide. However, COVID-19 epidemic and salary structure has increased financial crises for the club over past two years. Hence, the focus of this research is on specific causes, especially salary structure, of the financial crisis at FC Barcelona and their treatment. For the research purpose, this paper uses secondary research method, and the information related to FC Barcelona has been gathered from different articles as well as relevant websites. To conclude, club's management made incorrect strategy i.e. "Buying and Paying Players" which increased the financial burden rather than the revenue. Costly purchase player, namely Philippe Coutinho, is not worth the high paid amount and is responsible for a heavy wage bill. In addition, Luis Suarez and Ivan Rakitic have not yet been replaced instead of age above 30 and low performance. The major reason behind the high paid football players in FC Barcelona club is their celebrity personality, which attracts more teenagers to join Club.

Keywords: *Fc Barcelona, High- Paid, Low Performance, Financial Crises, Salary Structure*

1. INTRODUCTION

During the last two years, football clubs has been facing the serious financial crises due to the COVID-19 epidemic, which in turn imbalanced the revenue and expenditure of club. Due to high expenses and low revenue, club's management face the problem of rising debt. Furthermore, crown epidemic has increased difficulties to meet fund from internal and external sources. Hence, outstanding expenditure on wages and transfers are the characteristics that complete the panorama of most of the national and international football [6].

This paper focuses on the FC Barcelona club, named as Futbol Club Barcelona. The club was founded in 1899 by groups of German, Swiss, Spanish and English football players; and thus, the club became the first most valuable football club in the world due to the team and operation operate in Barcelona. Hence, FC Barcelona club received countless honors and a high status worldwide. However, the COVID-19 epidemic has increased financial crises for club over past two years.

There are multiple studies focus on the research topic, such as impact of salary structure of FC Barcelona on

Financial Crises. However, these researches used either primary quantitative method or primary qualitative method. These researches are not secondary qualitative, which means they did not use website articles to conduct research. However, current research used two web articles and blogs that mainly focus on financial crises of FC Barcelona Club due to salary structure of experienced players [3, 5]. Hence, secondary research method creates difference between current research and research conducted past in the same topic.

Further, it is identified that the focus of past researches were not on the performance of player. Past researches only highlighted salary structure [7]; however, current research cover salary structure, salary cap, player's performance, club's rules and regulations, epidemic period (COVID-19), low performance above age players, etc. Hence, current research cover multiple topics rather than only single topic. Through effective use of current research, management of FC Barcelona could easily identify the reason behind financial crises in FC Barcelona Club.

The main innovation in current research is that it highlighted the name of some low energy but high salary players that are increasing financial debts on club. Micro

and macro environment plays an important role in the financial crises of Barcelona club; hence, club is facing financial challenges due to micro as well as macro situation. The focus of this research is on the combination of two situation, such as crown epidemic and pay structure of football player [7].

This research paper use secondary qualitative research method to answers research questions as follows and their countermeasures. In secondary research method, peer reviewed literature review from past studies from 2010 to 2021 has been used. The basic reason behind selecting the secondary qualitative is to identify the main reason behind the causes of financial crises in FB Barcelona Club [8]. Hence, peer reviewed literature review has been used to examine the following research questions:

1) What are the specific causes of the financial crisis at FC Barcelona?

2) Is salary structure of FC Barcelona Club the main reason behind financial crisis at FC Barcelona?

a) Why high-paid, low-energy players was introduced in a way that was too much above the market price and why they did not meet the specific needs of the club?

b) How to clean up high-paid, low energy workers or to get them to take a pay cut to a position that suits their abilities and the market.

c) How to reasonably control the team's future salary structure after they have been demoted.

3) What is the club's correct transfer needs and development needs are?

This research not only identifies the causes of the financial problems in the FC Barcelona club i.e. salary structure but also provides the ways to treat financial crises. Thus, this research will be helpful for the management of Barcelona club in identifying the actual problem behind financial crises and their treatment in the epidemic period.

2. ANALYSIS

Based on the study researched by Barajas & Rodríguez, it is examined that number of football clubs have strong and successful players, which demand high salaries than the market. These players are included in the category of high paid and high-energy players. However, with the passage of time, some of the high-energy players does not play in the same tactics like past. Beside this, epidemic situation of country changed the transfer processing over the past four years within football clubs; and thus, transfer fees has been very inconsistent with the specific needs of the clubs [2]. In addition, the purchase of a number of high-paid and underpaid players at transfer fees above market prices have seriously damaged the team's salary structure. Similar is the issue faced by

FC Barcelona Club, where players are requesting high paid salary than the market price.

Not only players but also club's management made incorrect strategy i.e. "Buying and Paying Players". Management needs to rethink as this strategy increases the financial burden rather than the revenue [5]. Costly purchase players, namely Philippe Coutinho, have not been worth the high paid amount and are responsible for a heavy wage bill. The FC Barcelona Club also owes transfer add-on fees to various clubs with whom it has previous agreements in place. Flynn reported in Forbes that the combined cost of only Philippe Coutinho is €126 million (\$153 million) [5].

Philippe Coutinho is the single player that increases the debt crises on FC Barcelona. Beside him, there are multiple other football players that are responsible for financial crises in FC Barcelona Club.

2.1 Transfer Needs and Development Needs of Club

The research of Georgievski & Zeger stated that in the labor market of football players, governing bodies made the rules and regulations, in which transfer system is the central regulation developed by the regulatory body. According to transfer system, football player held to his temporary employment contract with a club until competitor club pays a release clause. Release cause is higher than the market value or economic value of football player. Hence, releasing football club have to negotiate the high transfer fee of football player than the original employment contract [6]. Considering this research, it is analysed that transfer needs and fees of football players are in huge amount. As the result, FC Barcelona is facing financial crises.

Management of Barcelona does not only hire the football players and pay transfer fees, but also have to use funds on development needs of football players. Similar is the case of Philippe Coutinho that is responsible for heavy wage bill. By Philippe Coutinho, FC Barcelona Club owes transfer add-on fees amounted €126 million (\$153 million) to various clubs with somebody it has previous agreements in place[3].

Instead of tangible fixed asset, Philippe Coutinho became the liabilities for the FC Barcelona club. As per the research of Flynn, Philippe Coutinho should be released free that would relieve the burden of contract from Barcelona Club. However, the management of FC Barcelona does not want to end up contract due to commercial reason, as he is responsible for much of its brand value and income potential. If the club will identify the development need of Philippe Coutinho and tries to overcome the performance of player through training, then it have to bear more financial debts. The current transfer market has deflated, so for now, Barcelona is unlikely to regain large amounts by selling players,

especially given many of their steep release clauses, leaving the emphasis on negotiating salary cuts within the squad [5].

2.2 High-Paid, Low-Energy Players Appearing in the Central View

The followings are the incoming and outgoing football players from FC Barcelona club, as per the research of Chambers [3]. The incoming players are

Miralem Pjanic, Francisco Trincao, Sergino Dest, Matheus Fernandes and Pedri; while the outgoing players are Arthur, Luis Suarez, Nelson Semedo, Ivan Rakitic, Arturo Vidal, Marc Cucurella and Rafinha.

Further, Chambers provided picture in his research regarding such players that are above the age of 30 and are still the part of Koeman’s Squad instead of low energy [3].

	Age	Contract	SciSkill	Potential	Position	Roles
Lionel Messi FC Barcelona LaLiga (ESP)	33	2021-06	120.6	120.6	RW	
Sergio Busquets FC Barcelona LaLiga (ESP)	32	2023-06	113.0	113.0	DM	
Jordi Alba FC Barcelona LaLiga (ESP)	31	2024-06	103.2	103.2	LB	
Gerard Piqué FC Barcelona LaLiga (ESP)	33	2022-06	102.0	102.5	CB	
Miralem Pjanic FC Barcelona LaLiga (ESP)	30	2024-06	101.7	102.3	DM	
Neto FC Barcelona LaLiga (ESP)	31	2023-06	77.8	77.8	GK	

Figure 1 Barcelona’s squad includes multiple key players over 30

Based on the above figure, it was identified that FC Barcelona hired several senior football players; however, there are still such players that are above 30 and not replaced by management for commercial purpose. Among these low energy and high salary players, Luis Suarez and Ivan Rakitic must be replaced and young talent should be hired for ensuring the long-term success within FC Barcelona Club.

2.3 Analysis of Specific Players

The focus of this part of research project is on two questions i.e. why high paid and low energy players was introduce in a way that was too much above the market price; and why he did not meet the specific needs of the club. Prior to answering the question, it should be identified over here that FC Barcelona’s management strategy is weak, as the focus of management is on the overreliance on senior football players rather than new young talents. The research of Chambers stated the statement of Lionel Messi, which himself made it clear that FC Barcelona club should buy the next best players from around Europe. If they does not have enough fund,

then management should allow youngsters within La Masia to be uplifted [3].

Considering high paid and low energy football players, Flynn analyses the performance of Philippe Coutinho and stated that FC Barcelona Club owes transfer add-on fees amounted €126 million (\$153 million) to various clubs due to the purchase of Philippe Coutinho. Management purchase is intangible asset due to commercial reason, as he is responsible for much of its brand value and income potential. The brand value of Philippe Coutinho is higher than the other football players, as he is attracting new young talents towards FC Barcelona Club; and thus, Philippe Coutinho is used for commercial purpose in club [5].

Further, Luis Suarez and Ivan Rakitic have not yet been replaced instead of age above 30 and low performance. The major reason behind the high paid salary to them is their celebrity personality, which attracts more teenagers to join FC Barcelona Club. However, Specific areas of improvement would help the FC Barcelona to retire the old football players and to hire the young new talents.

3. DISCUSSION

The central focus of this part of paper is on the clearance of the high paid and low energy football players from FC Barcelona Club. To change the financial situation of club, FC Barcelona either have to retire old football players or have to demote them as per their abilities and market salary. As per the study conducted by Andreff, old players are the motivation for the new young talent; hence, acquisition of old players enhances the firm's image within local, national and international ones. Sometimes, management hires the new talents by retiring the old football players, which is the incorrect way to reduce the financial conditions of club [1].

Considering this research, FC Barcelona can demote the high salary and low energy players rather than kick them off from the club. This will not only motivate the new young talent but also management of FC Barcelona club can use these players for commercialization purpose [7]. Thus, this part will answer two main questions i.e. how to get them to take a pay cut; and how to control the team's future salary structure.

3.1 Ways to get Philippe Coutinho, Luis Suarez, Ivan Rakitic, Antoine Griezmann, Ousmane Dembele to take a pay cut

The research of Flynn examined that FC Barcelona club purchases the Philippe Coutinho on fees amounted €126 million (\$153 million), which costs more than the market cost of the player; and thus, the player became liability instead of intangible asset for FC Barcelona club. Either he should be released free to relieve the burden or management should demote the player to reduce the percentage of financial debt. Over here, it is important to identify the way to get him to take a pay cut without leaving the Barcelona Club, as he has been used for commercialization purpose [5].

Beside Philippe Coutinho, Luis Suarez and Ivan Rakitic are the other two players that must be replaced to reduce the burden of financial debts or salary of these players should be reduced. Hence, the following are the strategies and tactics that should be used to get them to take a pay cut to a position that suits their abilities in the market:

As per the rule and regulation of sport industry, players should be placed anywhere in the club board rather than cut them off from the industry. Barajas & Rodríguez provide the example of cricket board where players are transferred to different position in board after their retirement from cricket [9]. Similarly, Philippe Coutinho, Luis Suarez and Ivan Rakitic could be used for coaching purpose or for managing FC Barcelona Club. However, this requires meeting between players and management of Barcelona prior to making any final decision. Players might want to separate them from

Barcelona Club by themselves like Messi who freed himself from Barcelona Club by resigning from club [2]. By doing so, players will not trapped by compensation and relevant regulations.

Second, Antoine Griezmann, Philippe Coutinho and Ousmane Dembele are other three big players that signed the contract but none of them has lived up to their cost. These players should be either sell to other clubs; or their contractual amount should be reduced, as per market salary, through new contracts and agreements.

3.2 Ways to Control the Team's Future Salary Structure

Barcelona club team's future salary structure could be controlled with following measures:

First, management of FC Barcelona should revise the policies of club prior to hiring any new players through transfer fee. Transfer fee of football player should be according to market especially in the crown epidemic period. Thus, management should perform market review to control the salary structure of Barcelona.

Second, FC Barcelona should evaluate employees positioning as well as performance. Players with low performance or age more than 30 years should be used for commercialized purpose to effectively utilize the players.

Third, salary cap strategy should be used by the FC Barcelona's club management; and thus, no players should be hired above market price.

Fourth, FC Barcelona club should revamp the sporting structure, which helps in identifying the gap in the current salary and market price of football players.

Fifth, management must allocate the budget and the salary of the football team should be revised annually according to their high and low performance within the team [10]. For example, team members with better performance can acquire more salary. Those with bad performance in competitions or other games might face salary deduction, or other relevant punishments.

4. CONCLUSION

The focus of this research paper is on specific causes, especially salary structure, of the financial crisis at FC Barcelona and their countermeasures. To conclude, FC Barcelona Club owes transfer add-on fees amounted \$153 million to various clubs for purchasing the Philippe Coutinho, which became liability for the club rather than intangible assets. This research further summarized that Luis Suarez and Ivan Rakitic have not yet been replaced instead of age above 30 and low performance. The major reason behind the high paid salary to them is their celebrity personality. To change the financial situation of club, FC Barcelona either has to retire old football players

or has to demote them as per their abilities and market salaries. Further, management should hire the new talents by changing the rule and regulation of football.

At last, this study recommends the strategies to overcome the financial burden. For example, initially management of FC Barcelona should revise the policies of club prior to hiring any new players through transfer fee. Transfer fee of football players should be allocated according to the market especially in the epidemic period. Plus, FC Barcelona should evaluate employee positioning as well as performance and thus, players with low performance or the age more than 30 years should be used for commercialized purpose to effectively utilize the players. Furthermore, the FC Barcelona club should revamp the sporting structure by using salary cap strategy and thus, no players should be hired above market price.

In addition, given current research paper used secondary data to identify the causes of financial crises, primary quantitative data might give accurate outcome, as football players and management of FC Barcelona directly asked questioned requiring topic in primary method. Future research should be on primary quantitative method to identify the actual reason behind the financial crises of FC Barcelona Club.

REFERENCES

- [1] Andreff, Wladimir. French football: A financial crisis rooted in weak governance. *Journal of Sports Economics* 8, no. 6, 2007: 655.
- [2] Barajas, Ángel, and Plácido Rodríguez. Spanish football clubs' finances: Crisis and player salaries. *International Journal of Sport Finance* 5, no. 1. 2010: 52.
- [3] Chamber. FC Barcelona: Using data intelligence to rebuild the Blaugrana. 2020. Data retrieved from: <https://www.scisports.com/fc-barcelona-using-data-intelligence-to-rebuild-the-blaugrana/>
- [4] Dietl, Helmut, Egon Franck, Markus Lang, and Alexander Rathke. Salary cap regulation in professional team sports. *Contemporary economic policy* 30, no. 3. 2012: 315.
- [5] Flynn, Henry. Joan Laporta Must Tackle Barcelona's Debt Problem; Here Are Some Solutions. 2021. Data retrieved from: <https://www.forbes.com/sites/henryflynn/2021/03/10/joan-laporta-must-tackle-barcelonas-debt-problem-here-are-some-solutions/?sh=1a61f5f13f8e>
- [6] Georgievski, Bojan, and Slavica Zeger. Is English Football Facing a Financial Crisis, or are We Only Missing Better Regulation?. *Journal of Tourism, Hospitality and Sports*. 18. 2016: 25
- [7] Haugen, Kjetil K., and Harry A. Solberg. The Financial Crisis in European Football-a Game Theoretic Approach. *European Sport Management Quarterly* 10, no. 5. 2010: 560.
- [8] Roses, Sergio. Journalists' salary structure in Spain during the crisis. *Revista Latina de Comunicación Social*. 66. 2011: 189.
- [9] Szymanski, Stefan. The financial crisis and English football: The dog that will not bark. *International Journal of Sport Finance* 5, no. 1 2010: 35.
- [10] Teodor, Dima. The Influence of the Financial Crisis on European Club Football. *Ovidius University Annals, Series Economic Sciences* 14, no. 2. 2014. 10