

## Legal Determinants of World Cup Success

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The “law matters” theory advanced in a series of empirical works by Rafael La Porta, Florencio Lopez-de-Silanes, Andrei Shleifer, and Robert Vishny (“LLSV”), has become a centerpiece of recent corporate law debate. Stated simply, the LLSV model predicts that the quality and origin of legal protections is an important determinant of corporate governance patterns around the world.<sup>1</sup> Strong legal protections, they assert, which vary by legal origin (English, French, German, or Scandinavian) lead to more dispersed share ownership and larger capital markets.

Until now, the LLSV model has been employed exclusively in the corporate context. But if factors such as “rule of law” and legal origin matter, they might also matter in other areas of human endeavor. I attempt to examine one possible heretofore unexamined relation.

In their regressions, LLSV use such factors as ownership concentration and stock market capitalization as dependent variables. In my regressions, I focus on soccer, using as the dependent variable the number of points each country has in the FIFA/Coca-Cola World Ranking as of May 2002.<sup>2</sup> FIFA points take into consideration wins, draws, and losses, number of goals, home/away records, importance of match, and regional strength over an eight-year time

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<sup>1</sup> See, e.g., Rafael La Porta et al., *Legal Determinants of External Finance*, 52 *J. Fin.* 1131 (1997)(hereinafter *External*); Rafael La Porta et al., *Law and Finance*, 106 *J. Pol. Econ.* 1113 (1998)(hereinafter *Finance*); Rafael La Porta et al., *Corporate Ownership Around the World*, 54 *J. Fin.* 474 (1999)(hereinafter *Ownership*).

<sup>2</sup> <http://www.supportersites.com/Ranking/>

frame at World Cup finals and preliminary matches, Continental championship finals and preliminary matches, FIFA Confederations Cup matches, and friendly matches.<sup>3</sup>

My primary independent variables are identical to the ones used by LLSV in their 1997 regressions: Origin, Antidirector Rights, and Rule of Law. With respect to each of these independent variables, I have adopted the LLSV variables and 1997 data values for analytical compatibility.

LLSV controlled for GDP growth and the logarithm of real GNP. In this model, I control for a potentially more relevant development-related factor in this context: the number of professional soccer players per capita. All variables are described in Table 1.

LLSV based their study on data from 49 countries. In this model, in the first specification, I conduct the analysis using all 49 countries. In the second specification, I use only the 32 World Cup 2002 finalists. Of these 32 elite teams, only 21 also have complete data in the LLSV data set. Table 1 examines the determinants of World Cup success using all 49 countries, and then these elite 21 countries. In each specification, the first case examines only the relation of the Rule of Law and Origin variables; the second includes the corporate-law-centric Antidirector rights variable and the control for the number of professional soccer players per capita.

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<sup>3</sup> For further details on this subject of central importance, see [http://us.ent4.yimg.com/fifaworldcup.yahoo.com/releases/IP-415-E-WR\\_Long.pdf](http://us.ent4.yimg.com/fifaworldcup.yahoo.com/releases/IP-415-E-WR_Long.pdf).

**Table 1: DETERMINANTS OF WORLD CUP SUCCESS**

Ordinary least squares regressions. *Professionals* is the number of professional soccer players per capita as determined by the “Big Count” Official FIFA Survey 2002. *Origin* identifies the legal origin (English, French, German, or Scandinavian) of the Company Law or Commercial Code of each country. *Rule of law* is an assessment of the law and order tradition in the country. Average of the months of April and October of the monthly index between 1982 and 1995. Scale from 0 to 10, with lower scores for less tradition for law and order. *Antidirector rights* is an index aggregating the following 5 shareholder rights, formed by adding 1 for each variable. The index ranges from 0 to 5. Proxy by mail equals one if the Company Law or Commercial Code allows shareholders to mail their proxy vote, and 0 otherwise. Shares blocked before meeting equals one if the Company Law or Commercial Code allows firms to require that shareholders deposit their shares prior to a General Shareholders Meeting, thus preventing them from selling those shares for a number of days, and 0 otherwise. Cumulative voting equals one if the Company Law or Commercial Code allows shareholders to cast all of their votes for one candidate standing for election to the board of directors, and 0 otherwise. Oppressed minorities mechanism equals one if the Company Law or Commercial Code grants minority shareholders either a judicial venue to challenge the management decisions or the right to step out of the company by requiring the company to purchase their shares when they object to certain fundamental changes, such as mergers, assets dispositions and changes in ten articles of incorporation. The variable equals 0 otherwise. Percentage of Share Capital to Call an Extraordinary Shareholders’ Meeting is the Minimum percentage of ownership of share capital that entitles a shareholder to call for an Extraordinary Shareholders’ Meeting. Equals one if the percentage is less than or equal to 10% (the sample medium), and 0 otherwise. Standard errors are shown in parentheses.

<i>Independent Variables</i>	<i>Dependent Variable: FIFA World Ranking Score</i>			
	<i>All 49 LLSV Countries</i>		<i>21 LLSV Countries in 2002 Finals</i>	
Professionals		161381 (175616)		-132318** (58033.990)
Rule of law	20.834** (9.709)	20.534** (9.825)	7.795 (5.732)	7.028 (4.866)
French origin	155.021*** (47.961)	123.004** (62.617)	44.156 (27.147)	96.845*** (31.109)
German origin	3.043 (72.275)	-9.024 (80.381)	-29.959 (37.278)	-4.108 (35.405)
Scandinavian origin	84.458 (87.752)	56.925 (92.837)	-29.692 (46.086)	11.265 (41.510)
Antidirector rights		-11.697 (23.331)		16.364* (9.082)
Intercept	345.451*** (73.848)		612.742*** (44.515)	561.429*** (52.131)
Adjusted R <sup>2</sup>	.183	.166	.171	.409
Observations	49	49	21	21

\*, \*\*, and \*\*\* indicate significance at the 90 percent, 95 percent, and 99 percent levels, respectively.

SOURCES: Independent variable and *Professionals* from [http://www.fifa.com/Service/MR\\_M/23523\\_E.html](http://www.fifa.com/Service/MR_M/23523_E.html). All other dependent variables from Rafael La Porta et al., Law and Finance, NBER Working Paper 5661 (1996), subsequently published as 106 J. Pol. Econ. 113 (1998); Rafael La Porta et al., Legal Determinants of External Finance, 52 J. Fin. 1131 (1997).

In the 49-country specification, Rule of Law and French origin are significant; the correlation suggests that good law, and especially French law, leads to good soccer.

In the 21-country specification, no variables are significant in the first case, but in the second case, the Professionals measure was negative and significant; in other words, the more pro soccer players per capita in a country, the *lower* that country’s FIFA points. This finding has a number of potential explanations, perhaps the most likely of which is that countries with a

small professional cadre are better able to devote resources to supporting that group of elite athletes. The antidirector measure was also marginally significant.

Perhaps more importantly, in the 21-country specification (with a whopping .409 adjusted r-squared) as in the 49-country specification, French origin was significant. Perhaps teams from countries with systems based on the French model (such as 1998 champion France and 2002 champion Brazil) perform well due to the remaining vestiges of the Napoleonic Code that somehow remove discretion from coaches and managers in the same manner that that civil law system curtails judicial activism. Or maybe – just maybe – some other forces are at work.