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Status, Peer Influence, and Racio-ethnic Diversity in Times of Institutional Change: An Examination from European Labour Law

Padma Rao Sahib

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Abstract This paper employs institutional theory as a theoretical lens and examines the role of status and peer influence on diversity following a change in European labour law in 1995. This change in European labour law, well-known as the Bosman ruling, significantly increased labour mobility in European soccer. The ruling lifted restrictions on the number of foreign players that soccer teams could recruit and eliminated compulsory transfer fees for players whose contracts had ended. We demonstrate that the Bosman ruling, while increasing the number of foreign players on a team, did not uniformly affect all teams. Our investigation indicates that the increase in racio-ethnic diversity in teams depended on the status of teams and on peer influence (the behaviour of similar teams). This setting, though specific to European labour law in the context of soccer, allows an examination of the complex interplay between racio-ethnic diversity, status, and peer influence in a period of institutional change.

Keywords Racio-ethnic diversity · Status · Peer influence · European labour law · Soccer teams

Introduction

Diversity has been considered a ‘double-edged sword’ (Webber and Donohue 2001) because there is no consensus on the effect of diversity on performance. Studies have ascertained positive, negative and, sometimes, even no

effect [see surveys by Joshi and Roh (2009), Harrison and Klein (2007), Jackson et al. (2003), Horwitz and Horwitz (2007), Milliken and Martins (1996), and Williams and O’Reilly (1998)]. This literature, however, has paid relatively less attention to the antecedents of diversity. How does diversity change and develop in business environments and, particularly, how is diversity affected by institutional change? Do teams naturally become more diverse over time or does the opposite occur? Questions such as these are difficult to answer because of the nature of the data available to us as business researchers. We rarely have the opportunity to observe the conception of business groups or teams and observe them over time. Yet, most organizations employ teams in structuring both long- and short-term tasks, hence, understanding team dynamics is crucial to the success of organizations.

This paper exploits a setting in which an externally imposed change in law was imposed in 1995 on all European soccer clubs. This change in law, the Bosman ruling, allows us to examine the aftermath of the opening up of the labour market for European soccer players. The ruling comprised two main elements. First, soccer clubs could no longer charge transfer fees for players whose contracts had ended. Second, previous existing rules were eliminated that limited the number of foreign players from within the European Union (henceforth, EU) that a team could field. Prior to this, teams were required to field a minimum number of ‘home-grown’ players.

This paper investigates if the increase in racio-ethnic diversity following the Bosman ruling was influenced by team status and by the behaviour of similar teams (peer influence). The empirical study in this paper examines data from the highest professional German soccer league (Bundesliga) for the years 1985–2002 which encompasses the window of time surrounding the Bosman ruling. The

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dependent variable, racio-ethnic diversity, is operationalized utilizing the Blau index (Blau 1977). As a second measure of racio-ethnic diversity, we also examine the percentage of non-German players within a team during each season. We employ a multi-dimensional measure of status which is the sum of performance over the past 10 years, taking into account performance in the league, performance in the Champions League, and UEFA Europa Leagues, footballer of the year, and top scorer of the year awards. Peer influence or the behaviour of similar status teams is measured by the number of teams in a similar status group which experienced an increase in racio-ethnic diversity during the previous two seasons.

While the context of this paper is German soccer, and the institutional change comprises the Bosman ruling, our findings can shed light on similar settings. The lessons we learn from this specific setting could be used to better understand a context where institutional change results in a substantial change in a labour market. It is particularly applicable when the change involves an influx of very different and, in some cases, racially or ethnically diverse labour. Our findings illustrate that the status and peer influence of organizations can influence where and to what extent this ‘different’ labour is absorbed and that the role of status and peer influence should be investigated in such contexts.

The remainder of the paper is organized as follows. Section “[Theory and Hypotheses](#)” describes certain theoretical considerations underlying the arguments presented and derives the hypotheses. Section “[Empirical Setting: European Labour Law and Soccer](#)” describes the empirical setting and Bosman ruling that forms the basis of the institutional change that we examine. Section “[Data and Variables](#)” describes the data and the manner in which the variables were constructed. Section “[Method and Results](#)” describes the applied econometric method and the results. Section “[Discussion and Conclusions](#)” offers certain discussions and conclusions.

Theory and Hypotheses

Institutional theory predicts that the majority of organizational actions reflect a pattern of actions that have evolved over time and became legitimated within an organization or environment (Pfeffer 1982). That is, organizational practices arise from imitative forces and traditions within a firm or an industry (Eisenhardt 1988). This may be particularly pertinent in times of environmental change which may complicate the interpretation of past performance as a guide to future behaviour. For example, changes in institutional rules or institutional instability can create uncertainty that blurs performance signals (March and Olsen 1975; Cyert and March 1963) and induces organizations to

rely on their social relationships when making decisions. When decision-making is problematic, organizations are more likely to arrive at socially derived interpretations of events that assign a practice technical value or legitimacy (Rogers 1995; DiMaggio and Powell 1983). Organizations may attempt to reduce uncertainty through shared assumptions with peers regarding market structure that allow them to decipher opportunities and threats (Porac et al. 1995). DiMaggio and Powell (1983) employ the term mimetic isomorphism to describe how firms model themselves after similar organizations; this may be particularly true during times of uncertainty. Viewing the Bosman ruling from the perspective of institutional change, we expect that inter-team mimicry may play a role in the adoption of greater racio-ethnic diversity at this time.

Drawing on Gimeno et al. (2005), a number of theoretical mechanisms are consistent with the increased diversity evident in soccer teams following the Bosman ruling. All teams experienced the same external event, the Bosman ruling, which can be indicated as a ‘common environmental influence’ (Gimeno et al. 2005). Such a setting may also allow for vicarious learning (March 1994) to occur; teams learn first by observing other teams that adopt diversity without taking the risk of being the first to adopt diversity measures themselves. Also, the increasing diversity of some teams allows for the development of new institutions in the soccer market such as scouts specializing in the identification and recruitment of foreign players as well as agents specializing in the formalities involved in bringing in foreign players. The growing prevalence of such institutions increases the likelihood that more teams adopt diversity.

In addition, organizational isomorphism is more likely when there is ambiguity in the outcomes. In this setting, past literature points to unclear and ambiguous benefits to increased racio-ethnic diversity. For example, Williams and O’Reilly (1998) conclude that there is some evidence that racial diversity has a negative effect on performance, although this tends to diminish depending on how the conflict is handled. Furthermore, ‘the evidence that supports the often-made claim that racio-ethnic diversity improves performance is limited’ (Jackson et al. 2003, p. 810). Other studies have demonstrated positive effects; member heterogeneity is demonstrated to act as a conduit for introducing creativity and innovation (e.g. Payne 1990). Given this uncertainty, inter-organizational mimicry (Gimeno et al. 2005) may be a stronger force in this setting more so than in others as teams are uncertain of the decisions they should make regarding increasing racio-ethnic diversity.

In terms of our contextual setting, the increasing number of foreign players in league championships and its comparison to the composition of teams for events such as the European or World Cup has resulted in a debate about whether the influx of foreign players depresses the fostering

of home-grown talent. For example, relating to the period we examine, the percentage of fans of the English Premier League who believed that there were ‘too many’ foreigners playing in England increased from 33 percent in 1997 to 60 percent in 2001 (Williams and Neatrou 2001). In Germany, in particular, a few German soccer fans are known to be driven by a right-wing agenda and fascist ideological underpinning (Merkel 2007). To compensate for such tendencies, the German Football Association has initiated public relations campaigns (ibid.). Outside of the field, there is evidence that soccer players often have difficulty adjusting to life in a foreign and sometimes hostile society which may subsequently impede their on-field performance or even lead to abandonment of their careers (Moran 2000).

However, diversity confers benefits for teams as documented in the sport economics literature. Teams that are accepting of hiring foreign players expand the talent and skill pool in which they search, and foreign players can bring innovative techniques to a team. For example, Brazilian soccer is well-known to be characterized by an offensive (rather than defensive) style of play. Foreign players often become very popular and can contribute to increased attendance—Marcelinho (Brazil) and Sergej Barbarez (Bosnia) are ‘sometimes elevated to the status of local heroes’ (Merkel 2007). Wilson and Ying (2003), in a study of the five largest soccer leagues in the world, find that foreign players can improve club performance and lead to an increase in fan attendance.

We argue that the conflicting findings on the benefits of increased diversity and the flux surrounding institutional change are collectively likely to increase the pressure for organizational mimicry. While the similarity of others can include characteristics such as power, status, common origin, education, and gender (Suls and Wheeler 2000), we adopt the distinction in peers based on similar status organizations. An organization’s status is exploited by other organizations to infer the quality of the focal organization’s products or skills (Podolny 1993; Podolny and Phillips 1996). For instance, Burns and Wholey (1993) demonstrate that hospitals use the prestige of other hospitals to estimate the benefits of a matrix structure. By the same token, in a study of investment banking relationships from 1981 to 1987, Podolny (1994) ascertained that the greater the market uncertainty, the more organizations engage in transactions with those of similar status. In a similar vein, Soule (1997) demonstrated that shantytown protests diffused between campuses of similar status rather than spreading through geographical proximity.

This leads to our first hypothesis:

Hypothesis 1 Peer influence is positively related to diversity; teams will exhibit greater racio-ethnic diversity when their peers do.

Status confers qualities on actors such as immunity to external pressures. Research has demonstrated that higher status actors are more optimistic which also affects their attraction to risk. Greve and Mitsuhashi (2007) indicate that status and power are associated with greater risk preferences. In their research on upper echelons, powerful CEOs have been found to be more likely to initiate strategic change in their firms than less powerful CEOs (Greve and Mitsuhashi 2007). High status firms, therefore, may also act as change agents, initiating change and being the first to react to external institutional change. Battilana et al. (2009) discuss the notion of ‘institutional entrepreneurs’ and describe them as actors who initiate changes that contribute to transforming or creating new institutions. Given the Bosman Ruling and the risk associated with increased racio-ethnic diversity, certain teams may assume the role of change agents and, in this capacity, increase team diversity (DiMaggio and Powell 1983). Such teams subsequently act as forerunners in terms of adopting change. In our context, this implies that higher status teams are more inclined to adopt racio-ethnic diversity even though hiring team members who deviate from the majority may be considered a risky move.

While these arguments suggest that high status actors are more likely to adopt diversity, institutional theory also offers arguments which imply the opposite. Evidence has shown that diversity decreases with hierarchy within organizations (Williams and O’Reilly 1998). Institutional theory yields insights on the mechanisms behind why high status actors may be less inclined to adopt diversity. The social position of actors mediates their relationship with the environment in which they are embedded (Battilana et al. 2009). Their social position endows them with immunity to the institutional changes occurring around them and, therefore, they may be less inclined to adopt diversity. High status firms, because of their greater prominence, attract greater stakeholder attention; this may also increase the pressure to maintain status quo in term of diversity. Higher ranked teams have prominent figures from the business and political world in their upper echelons (Bayern Munich, one of the prominent teams in the German Bundesliga, for example, has the former president of Bavaria and the current chairman of the Audi car company on its supervisory board). While many of the findings regarding diversity relate to gender diversity and the ‘glass ceiling’ (Arfken et al. 2004; Mateos de Cabo et al. 2012), research has shown that upper echelons tend to be more homogeneous in respect to ethnicity and race as well (Baron et al. 1986; Maume 1999).

Therefore, in accordance with the upper echelons theory, the homogeneous structure of the upper echelons of high status firms is likely to be reflected in the hiring preferences of lower level actors, in this case, soccer

players. Given the ambiguity in the theoretical underpinnings of the relationship between status and racio-ethnic diversity, we propose two competing hypotheses:

Hypothesis 2a Status is positively related to diversity; higher status teams will exhibit higher racio-ethnic diversity than lower status teams.

Hypothesis 2b Status is negatively related to diversity; higher status teams will exhibit lower racio-ethnic diversity than lower status teams.

Building on our earlier arguments that higher status actors may act as ‘institutional entrepreneurs’ and be more independent in their decision making, we argue that high status organizations are less likely to imitate peers. Recent literature in institutional theory has explored non-conformity and institutional change and has documented that these seem just as common as stability and conformity. Lepoutre and Valente (2012) point out that certain actors can be immune to conformist pressures. The uncertain environment imposed on institutional change may compel outside stakeholders to become active and increase pressure on managers to adopt certain strategies that have become the norm (Abrahamson and Rosenkopf 1993). Lower status organizations may benefit from imitation which increases external perceptions of credibility and competence when uncertainty is high (Haunschild and Miner 1997). Uncertain environments increase the complexity of decision making, hence, imitation eases this process. Such pressures are likely to be greater on lower status teams (than on those with a higher status), as lower status teams are in greater need to establish and maintain credibility and competence. This leads to our third hypothesis:

Hypothesis 3 The effect of status moderates the effect of peer influence on diversity; the relationship between peer influence and racio-ethnic diversity is weaker for higher status teams than for lower status teams.

Our theoretical arguments, the relevant constructs, and the hypotheses are captured in Fig. 1.

Fig. 1 Conceptual framework

Empirical Setting: European Labour Law and Soccer

The objective of the empirical section of this paper is to test our theoretical model on data and examine the interplay of status and peer influence on racio-ethnic diversity. The nature of our theoretical development requires the measurement of concepts such as status and peer influence in an organizational setting. European, in particular German, soccer is considered a suitable setting as it has experienced a significant change in labour law in the form of the Bosman Ruling in 1995. This clear-cut discontinuity in institutional rules yields an almost ideal ‘natural experiment’ in which to test our hypotheses. The Bosman ruling changed the rules governing the contracts of players, which is the most important input of a soccer team, and dramatically altered the European soccer landscape (Feess and Muehlheusser 2003).

Prior to 1995, most leagues operated transfer markets on the principles that ‘(i) a transfer fee would be payable even if a player had reached the end of his contract and wanted to change clubs, [and, (ii)] soccer leagues operated strict, protectionist controls on the number of foreign-born players who could appear in a team in a particular match’ (Simmons 1997, p. 13). In 1995, there was a change in the transfer-fee laws with the ruling of the European Court of Justice in the case of the Belgian soccer player Jean-Marc Bosman. The court ruling implied that clubs would no longer have the right to insist on transfer payments for players whose contracts had expired. In addition, it also made quotas illegal regarding the number of EU foreign players in a team. The governing bodies in various European nations responded by immediately eliminating quotas on foreign players from EU countries for club matches played within their domestic leagues. This ruling increased the mobility of players across teams and relaxed the rules on the number of foreign players fielded in any game (Frick 2009).

A number of studies have documented the increase in the number of foreign players in European soccer teams following the Bosman ruling. Niemann and Brand (2008) document both an increase in the share of non-German players and diversity in the years following the Bosman ruling. They show that, while the share of German born players was 80 % in the 93/94 season, it decreased each year in the 5 years following the Bosman ruling, reaching a level of 52.9 % in the 2001/02 season. Binder and Findlay (2012) point out that, during the 1994/95 season, the number of foreign born players was 28.9 % in the English league, and this rose to 45.8 % in 1998/99. Flores, Forrest and Tena (2010) find that the Bosman Ruling increased the number of expatriate players in several European leagues. They compare the proportion of foreigners in a number of European leagues in the 1995–1996 seasons (when the

Bosman ruling occurred) to the 1998–1999 season. The most significant changes in addition to Germany were in the Italian league (17–33 %) and in Spain (29–40 %). Flores et al. (2010) point out that this effect was not restricted to only large leagues but also occurred in smaller leagues such as Belgium which had more than 50 % of players from abroad after the Bosman ruling.

While there is extensive research in law and sport economics literature regarding the implications of the Bosman ruling, the focus of this literature has been on issues such as competitive balance (Haan et al. 2007; Frick 2009), the levels and distribution of player salaries (Ericson 2000), the length and nature of contracts (Frick 2009), and issues such as team performance and the ability of teams to invest in young, talented players (Binder and Findlay 2012). Therefore, the empirical exercise in this paper also contributes to the sports economics and sports management literature on the topic of peer behaviour, status, and diversity following this change in European labour law.

Data and variables

While all European leagues were affected by the Bosman ruling, the German league is a suitable league to study as it is a long running competition, and statistics on German soccer are freely available on the internet. We use data from the German premier soccer league (*Bundesliga*) for the years 1985–2002. Data on players, teams, matches, and competition rankings were collected from the leading website for statistics on German soccer (www.fussballdaten.de) and supplemented with data on stadium capacity from a second website (www.stadiumguide.com) and from various issues of the German soccer magazine *Kicker*.

Although the German soccer league was established in 1963, the premier league was established in 1974, and a second lower league, *Bundesliga 2*, was also formed at this time. Given that the Bosman Ruling was enacted in 1995, our data encompasses 10 years prior to this ruling and 8 years after. Also, as our concern is with a period in which an institutional change occurred, we did not want to extend our sample to longer than the 8-year period following the Bosman ruling, a point at which it was believed that the teams may have adjusted to the new situation, or there may be new institutional change. For example, in 2002, a case involving a Hungarian player (the so called ‘Bosmanovic’ case) was settled out of court and has had wide ranging implications on the mobility of non-EU players (Blanpain 2006).

Our data set was created by aggregating player information and combining it with team-level information. A team-year consisted of a season which ran from August until May of the following year. Data on players who were part of the team at any time during the season were

included as team members. There were 18 teams that participated each year in the Bundesliga during the years encompassing our sample (1985–2002) with the exception of the year 1992 in which 20 teams participated. This should yield 326 observations. However, as some of the variables we used involved a two period lagged value, this reduced the number of observations in the estimation sample to 290. In addition, as our data was collected via internet sources, we were unable to locate data on the number of foreign players, particularly in earlier years, for some teams. This implied that our dependent variable had missing values for these variables resulting in the omission of 14 observations. This resulted in a final sample of 276 team-year observations.

From our data, we ascertained that the average number of foreign players per team in the period 1985–1995 was approximately 15 % while the average number of foreign players from 1996 to 2002 was 41 %, corroborating findings of earlier studies of German data (Niemann and Brand 2008). Similarly, diversity as measured by the Blau index increased from an average of 0.06 to 0.22 across the same 1985–1995 and 1996–2002 periods. Changes in the diversity measures over time are illustrated in Fig. 2 which indicated that although both diversity measures were trending up over time, they experienced a steep increase after 1995, the year of the Bosman ruling.

From our summary statistics presented in Tables 3 and 4 in the Appendix, we find that the average player in the Bundesliga is approximately 25 years old and that the average stadium capacity is 46,100 persons (this variable is scaled by 10,000 in the tables). The average team size is about 26 players. There is a high variance among the peer group variables as can be seen from the size of the standard deviations associated with these variables, suggesting that teams vary significantly in the amount of diversity they adopt. Table 5 provides summary statistics by year for key

Fig. 2 Changes in racio-ethnic diversity in German Bundesliga (1985–2002)

variables. Here as well, we observe a steady increase in both racio-ethnic diversity and the percentage of foreign players in the German premier league. Team size also increased over time, reflecting the increased number of substitute players teams have had on their roster in recent years. Age and stadium capacity do not indicate any specific trends over this period of time. In Table 6, we present the members of the teams in the peer groups listing them as constituent members in the peer group in which they appear most frequently. These are numbered to be consistent with the quartiles so peer group 1 corresponds to quartile 1 and so on. Peer groups change over time, but they are relatively more stable for higher ranking teams. For example, Bayern Munich and Borussia Dortmund have always been in the highest quartile. Among lower ranking teams, peer groups tend to be more fluid because of promotions and relegations to the lower league. For example, Dynamo Dresden played for 4 years in the Bundesliga during this period but was relegated after this. Certain teams experienced more than one relegation event over this time period. For example, Arminia Bielefeld was relegated in 1997, 1999, and 2002 but was present in other seasons.

Dependent Variables: Measures of Diversity

Racio-ethnic Diversity and Percentage of Foreign Players

Racio-ethnic Diversity was measured at the team-level by employing the Blau index (Blau 1977) for each season. To measure racio-ethnic diversity, we categorized the race of a player into four main groups—African-origin, Asian-origin, Southern-European (including Latin American), and Northern European origin. The Blau index ranges from 0 to 1 with higher values indicating greater diversity. The Blau index for a team in a particular season is calculated as $1 - \sum p_i^2$, where p_i is the proportion of group members in racio-ethnic category i , and the summation $\sum$ is over the racio-ethnic categories in a team. According to Harrison and Klein (2007), the Blau index is the most frequently utilized approach for measuring diversity in work group heterogeneity studies and is appropriate for measuring the diversity of a group where the variable of interest is categorical, as in our case. The second measure we use is *Percentage of Foreign Players* which is the percentage of non-German players in a team in each season.

Independent Variables

Status

Allowing for the more enduring nature of status and its multi-dimensional nature, status is a sum of a 10 year moving average of rank in the regular competition, performance in

the Champions League and/or UEFA Europa Cup, and information about the player of the year and top scorer of the year awards (in some cases, these needed to be reverse coded in order to be consistent with rank). We incorporated information on the performance of these teams in the Champions League and UEFA Europa League in the 10 years prior to the focal year and taking into consideration not only if they qualified for these tournaments but also at which stage they were eliminated (or won). The Champions League is an annual football competition organized by the Union of European Football Associations (UEFA) in which the best football clubs in Europe participate. It is one of the most prestigious tournaments in the world and, in recent years, the final tournament of the Champions League has been the most watched annual sporting event worldwide in that year, even surpassing the Super Bowl (Holt 2007; Deloitte 2011). The UEFA Europa League is the second most prestigious European club football contest after the UEFA Champions League and follows the same structure of competition. Teams, if they qualify, play in either the UEFA Champions League or in the UEFA Europa League. Both of these tournaments are separate from the national league and therefore, provide an additional dimension to status rather than only being based on performance during the regular season within just the Bundesliga. Also, by incorporating information on how many ‘Footballer of the Year’ and ‘Top Scorer of the Year’ awards a team has accumulated in the 10 year period prior to the focal year, we take into account external affirmations of status. The ‘Footballer of the Year’ award is determined by a poll of German football journalists from the Association of German Sports Journalists, while the ‘Top Scorer of the Year’ award is sponsored by the popular football magazine, Kicker. These awards confer prestige and publicity not only to the players to which they are awarded but also to their teams.

Peer Group Behaviour

We determine the peers of a team based on our multi-dimensional measure of status as we conjecture that teams would consider others to be peers if they are of similar status to themselves. Similar to Wezel and Saka-Helmhout (2006) who explores related issues in the setting of the US baseball industry, we believe that peers are defined in terms of similar status which, in turn, is closely related to long-term performance for soccer clubs. To account for the importance of mimetic processes in stimulating decisions among teams, we labelled the variable indicating the number of teams of similar status (based on the same quartile j of status) that made a hiring decision resulting in greater diversity as *Peer Group Diversity Behaviour (Quartile j)* where $j = 1, 2, 3$, and 4. Since data are usually arranged in quartiles from smallest to largest, we also

defined our quartiles to be consistent with this definition. We defined the quartiles in an ascending order of status so teams in quartile 1 are in the lowest status group while teams in quartile 4 are in the top status group. For example, for a team that is a member of the top quartile ($j = 4$) in terms of status, *Peer Group Diversity Behaviour (Quartile 4)*, in the case of racio-ethnic diversity, would be the number of teams in the top quartile that experienced an increase in racio-ethnic diversity from season $t-2$ to $t-1$. Similarly, for a team in the third quartile ($j = 3$), this variable would be the number of teams in the third quartile that experienced an increase in racio-ethnic diversity from season $t-2$ to $t-1$. The variable *Peer Group Foreign Player Behaviour (Quartile j)* is similarly defined, however, instead of using the Blau index to measure racio-ethnic diversity, the increase in foreign players is taken into account and j is 1, 2, 3, and 4. The definition of status remains the same for this second diversity variable.

We chose quartiles as a compromise between the coarser measure of allocating teams to similar status groups based on median status (which would result in two groups) and an even finer approach based on deciles which is not feasible as there are only 18 teams (with the exception of the 1992/1993 season when there were 20, after which East and West German leagues were combined following the German reunification). One option would have been to include teams from Bundesliga 2 as a comparison group, but there were too many missing observations on key variables in the Bundesliga 2 data which led us to restrict our attention to the premier league. Also, teams in Bundesliga 2 have their own competition structure and are not scheduled to play in the same tournaments.

Institutional Change

To measure institutional change, we use a simple indicator variable which is 1 for seasons after 1995 and 0 for seasons before and including 1995 to indicate the time frame of the Bosman Ruling.

Control Variables

Performance Discrepancy

Teams are likely to seek changes in team composition which could result in greater diversity when their performance deviates from past performance. While we do not claim that past performance should be a team's aspiration, it serves as a reference point to which the team, stakeholders, and the popular press can refer to. Our measure of performance discrepancy is based upon the win percentage (i.e. the number of games won divided by the total number of games played). Following Iyer and Miller (2008), we

measure performance discrepancy as the difference between the win percentage from the previous season and the win percentage from two seasons ago.

We included three additional control variables in our analyses to account for other team characteristics that could affect diversity. While there is an abundance of data available on sporting results, financial data on European professional soccer leagues are relatively meagre (with the exception of some clubs in the UK which are listed on the stock exchange and must make their annual reports public). Soccer teams in Germany are not required to publicize their balance sheets even though several of them are now joint-stock companies (Kern and Sussmuth 2005). In the absence of the financial data for soccer teams, we included *Stadium Capacity* (appropriately scaled) to measure the overall resources of a particular team (e.g. Dobson et al. 2000). As an additional measure of team resources, we included *Team Size*. Although a team can only field 11 players simultaneously, teams with greater resources can afford to have a greater number of reserve players. Therefore, *Team Size* is defined as the total number of players that the team fields in addition to reserve players. Both of these variables could affect diversity as larger teams are more likely to be embedded in their institutional environment.

In addition, we included *Mean Age*, the average age of the players in a team, as a control variable. Younger teams (teams in which the average age of the players is lower) are likely to be less diverse as foreign players are, on average, older (as they have had to demonstrate their worth elsewhere before being recruited into the Bundesliga) (Frick 2009). Also, teams in the Bundesliga are required to invest in youth academies; hence, younger teams are more likely to have German players from youth academies than players from abroad.

Method and Results

Our hypotheses were tested by estimating regression models with both measures of diversity as the dependent variable. Since teams appear multiple times over the course of the time period, and our data are structured as team-season observations, panel data techniques are appropriate in this case. Treating the data as a pooled cross-section would ignore the within-team correlation in the error term and treat our team-season observations as independent. We conducted a Hausman test (a standard test often used to choose between a fixed and random effects specification) which indicated that we could not reject the null hypothesis of no correlation between the right-hand side variables and the error term (Verbeek 2008). This implied that a random effects panel data estimation technique was acceptable in this case.

Since the dependent variables are fractional (i.e. they lie in the unit interval), estimating a linear regression model with these dependent variables could result in predicted values outside the unit interval and also impose constraints on the error term. To address this issue, we followed the suggestion in Papke and Wooldridge (1996) and estimated a fractional logit model for these two measures of diversity with robust standard errors. All estimations were performed employing STATA 11.

Our results are depicted in Tables 1 and 2 for each of the two dependent variables. Table 1 presents our findings when the dependent variable is racio-ethnic diversity as measured by the Blau index while Table 2 presents our findings when the dependent variable is racio-ethnic diversity as measured by the percentage of foreign players. While the control variables are identical, the peer group diversity measures differ depending on whether the dependent variable is the Blau index or the percentage of foreign players as defined previously. The information in the tables is presented using a sequential logic. We present the model with only controls (column 1), the effect of the institutional change (column 2), the effect of status (column 3), and last, the effect of peer group diversity behaviour (column 4).

Effect of Independent Variables

Institutional Change

We can ascertain from Tables 1 and 2 that, in the case of both dependent variables and across all specifications, diversity increased following the Bosman ruling. The coefficient of *Institutional Change* (*Bosman Ruling*) is positive and significant ($p < 0.01$).

Status

From column 3 in Table 1, we see that status has a negative and significant effect on racio-ethnic diversity as measured by the Blau index ($p < 0.05$) which supports Hypothesis 2b. That is, in accordance with the literature indicating that status in organizations is often associated with greater homogeneity, we determine that higher status teams are, in fact, less diverse than lower status teams. From column 3 in Table 2, we find that the effect of status on the percentage of foreign players is weaker; although negative, it is insignificant.

Table 1 Results of regression analysis predicting racio-ethnic diversity (dependent variable: Blau index)

	(1) Controls only	(2) Institutional change	(3) Status	(4) Peer group diversity behaviour
Stadium capacity	0.040 (0.045)	0.045 (0.033)	0.008 (0.031)	0.035 (0.028)
Team size	0.114*** (0.018)	0.015 (0.017)	0.019 (0.015)	0.015 (0.015)
Mean age	0.225*** (0.062)	−0.082 (0.059)	−0.025 (0.063)	−0.031 (0.059)
Performance discrepancy (win percentage)	−0.176 (0.597)	−0.509 (0.506)	−0.495 (0.449)	−0.462 (0.456)
Institutional change (Bosman ruling)		1.659*** (0.189)	1.614*** (0.195)	1.466*** (0.193)
Peer group diversity behaviour (Quartile 1)				0.278*** (0.049)
Peer group diversity behaviour (Quartile 2)				0.065* (0.035)
Peer group diversity behaviour (Quartile 3)				0.014 (0.050)
Peer group diversity behaviour (Quartile 4)				0.036 (0.027)
Status			−0.052*** (0.012)	
Intercept	−10.908*** (1.530)	−1.377 (1.549)	−1.389 (1.584)	−2.734* (1.546)
Cases in the analysis	276	276	276	276

Robust standard errors in parentheses, *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

Table 2 Results of regression analysis predicting racio-ethnic diversity (dependent variable: percentage of foreign players)

	(1) Controls only	(2) Institutional change	(3) Status	(4) Peer group foreign player behaviour
Stadium capacity	0.052** (0.025)	0.045** (0.020)	0.038* (0.021)	0.039** (0.020)
Team size	0.134*** (0.015)	0.049*** (0.013)	0.050*** (0.013)	0.044*** (0.013)
Mean age	0.252*** (0.035)	0.056* (0.031)	0.060** (0.030)	0.060** (0.030)
Performance discrepancy (win percentage)	0.537* (0.322)	0.157 (0.210)	0.159 (0.207)	0.143 (0.215)
Institutional change (Bosman ruling)		1.093*** (0.091)	1.086*** (0.090)	1.083*** (0.090)
Peer group foreign player behaviour (Quartile 1)				0.018 (0.034)
Peer group foreign player behaviour (Quartile 2)				0.055* (0.030)
Peer group foreign player behaviour (Quartile 3)				−0.015 (0.029)
Peer group foreign player behaviour (Quartile 4)				−0.014 (0.016)
Status			−0.007 (0.007)	
Intercept	−11.255*** (0.896)	−4.502*** (0.918)	−4.386*** (0.942)	−4.457*** (0.897)
Cases in the analysis	276	276	276	276

Robust standard errors in parentheses, *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

Peer Group Behaviour

From column 4 in both Tables 1 and 2, we find that the coefficients for the four *Peer Group Behaviour* variables yield mixed support for Hypothesis 1 and full support for Hypothesis 3. Hypothesis 1 proposed that teams would be more inclined to be diverse when their peers were. We find that, while this holds for lower ranked teams, higher ranked teams are, in fact, unaffected by the diversity measures taken by their peers. According to Hypothesis 3, status moderates the effect of peer influence on diversity. That is, the relationship between peer influence and racio-ethnic diversity is weaker for higher status teams than for lower status teams. Support for Hypothesis 3 can be inferred from the insignificant coefficients on the variables for *Peer Group Diversity Behaviour* and *Peer Group Foreign Player Behaviour* for quartiles 3 and 4. These variables capture the effect of diversity measures undertaken by peers for higher ranked teams. We infer that lower ranked teams are more susceptible to peer influence based on the positive and significant coefficients of *Peer Group Diversity Behaviour* for quartiles 1 and 2 ($p < .01$ and $p < 0.1$) and from the significant coefficient of *Peer Group Foreign Player Behaviour* ($p < 0.1$) for quartile 2. This implies that lower ranked teams are more likely to experience an increase in diversity when their peers do.

Effect of Control Variables

When examining all specifications in Table 2, we determine broad support for the finding that resource-rich teams reflected by team size and by size of stadiums tend to be more diverse. This effect holds primarily for the *Percentage of Foreign Players* dependent variable. Larger teams which have more slots to fill may explore a wider labour market and thus make hiring decisions that result in a more heterogeneous team. We also find that teams whose players are older than average are also more likely to be more diverse. We conjecture that this is because, when a player comes from abroad to play in the Bundesliga, he is already somewhat older as he has already had to demonstrate his ability elsewhere. Our arguments follow Frick (2009), who documents that successful German players are often lured by higher paying leagues abroad such as the Spanish league or the Italian league after having played in the German league for a few seasons. The performance discrepancy variable is insignificant except in the controls only specification in which it is positive and significant suggesting that, in this model, greater performance discrepancies lead to greater diversity.

Standard Diagnostics

In terms of standard diagnostics, we conducted a standard correlation analysis, and this evidenced no multicollinearity. This is documented in Tables 3 and 4 in the Appendix along with the summary statistics. We also examined variance inflation factors which were all well below the standard cut-off of 10. The variable-to-case ratio was also not an issue of concern in our model as we have a relatively parsimonious model (with 11 variables and a sample size of 276). Since we found evidence of autocorrelation for both models, we estimated our models with robust standard errors. Standard tests for non-normality and heteroscedasticity of the dependent variable are not applicable because of the fractional logit specification.

Discussion and Conclusions

This paper examines the role of status and peer influence on racio-ethnic diversity in a period of institutional change in the setting of European soccer. A change in European labour law, which occurred in 1995 and is well-known as the Bosman ruling, provides us with an ideal quasi-experimental setting in order to investigate these issues. The ruling lifted restrictions on the number of foreign players that soccer teams could hire and removed compulsory transfer fees for players whose contracts had expired. We show that institutional change in the form of the Bosman ruling, while increasing the number of foreign players on a team, did not uniformly affect all teams. We find that the increase in racio-ethnic diversity in teams was related to the status of teams and peer influence (the behaviour of similar teams). Our inferences, however, are specific to European labour law in the context of soccer. Despite this limitation, this setting allows an examination of the complex interplay between racio-ethnic diversity, status, and peer influence in a period of institutional change.

In accordance with institutional theory, we show that, in this setting under conditions of uncertainty created by change in institutional logics, racio-ethnic diversity is driven by the similar behaviour of peers. Peers serve to legitimize practices. Organizations monitor the behaviour of reference groups to become more like these groups or to gain legitimacy (DiMaggio and Powell 1983). Furthermore, consistent with prior research, the impact of social factors is enhanced under conditions of uncertainty (Haunschild 1994; Podolny 1994). This is particularly the case for lower ranked teams which experienced an increase in racio-ethnic diversity. In this context, we find evidence for an institutional effect in increasing racio-ethnic diversity.

Our empirical study shows that the influence of status is intertwined with the behaviour of peers. Higher status teams seem less affected by peer behaviour. We infer, in this case, that higher status teams may be engaging in strategic hiring practices and that they may be competing for the same pool of high-

performance ‘home-grown’ players as lower ranked teams. Therefore, in the aftermath of the Bosman ruling with the removal of transfer fees and the unfolding of the labour market for soccer players, higher status teams may have been able to ‘indulge’ in their preferences for home-grown talent while lower ranked teams may have searched to fill their ranks with players from abroad. Such findings point to dynamics surrounding diversity which we rarely observe in a business setting.

Our empirical setting is distinct because labour (in terms of player participation) is, by far, the most significant ‘input’ in the ‘production process’ of soccer. Furthermore, soccer is a high-task interdependence game, i.e. a game requiring substantial coordination between team members (Timmerman 2000). Yet, the tasks and expectations of players are very clear-cut, and the rules of the game of soccer are the same everywhere. This should imply that diversity should not matter. Despite this feature, which is unique to soccer and other sports, and even after controlling for factors such as size and performance discrepancy, we find that diversity spreads unevenly across ranks and that status and peer influence are important. This specific setting, notwithstanding, suggests that those in human resources whose intent may be to foster or maintain diversity should note that racio-ethnic diversity may not grow of its own accord or at the same rate across teams of different status in times of institutional change. If fostering diversity is a firm’s mandate, then times of institutional change may also be times for greater attention and possible intervention.

The findings of this context suggest that programs that aim to foster gender and racio-ethnic diversity, though well-intended, may have consequences that were initially not anticipated. Suppose that a new program provides incentives for firms to hire women and minorities. Some firms may prefer to hire women over minorities. If this preference of firms happens to be linked with status, we would find a subtle ‘sorting’ of women to higher status firms and minorities to lower status firms. There is already evidence that such mechanisms may occur based on a recent study by Aslund and Skans (2012) which analyses the results of the introduction of the AAP (Anonymous Application Procedure). The AAP is an initiative in Europe in which a job applicant’s name, gender, and country of origin are hidden from recruiters in the initial stages of the hiring process. Aslund and Skans (2012), in a comparison of AAP and conventional hiring schemes, find that while the AAP increased the chances of women receiving job offers, the chances of receiving job offers for ethnic minorities did not improve. This program, in fact, did not increase racio-ethnic diversity though it did increase the number of women recruited.

Also, evidence suggests that managers discriminate in the process of hiring and that there are differences within racio-ethnic groups. Using US data, Giuliano et al. (2009) find that even Hispanic and Asian managers hire more Caucasians and fewer African Americans than those hired by African American managers. In most soccer leagues such as the German

Bundesliga, the upper echelons of a club are predominantly German and male. Therefore, if managers choose players who are more 'like themselves', this increases the potential for a preference for home-grown talent. Such outcomes, of course, must be analyzed *ceteris paribus* as there are a host of differences among individuals that need to be controlled for which may mask the detection of such patterns in the data. In addition, an analysis such as this applied in another industry context would imply the categorization of firms along a status hierarchy.

Our study has implications for settings in which an externally imposed institutional change results in a sudden increased labour inflow to a specific labour market. For example, there was a sudden increase in labour migration as a result of the expansion of the EU in 2004 when ten Central and Eastern European countries joined the union. As a result of the newly expanded EU, the UK, Ireland and Sweden were the first to grant full free movement of workers to nationals from the 10 new member countries (Lemos and Portes 2008). According to worker registration records, the migration influx from these new member countries to the UK between 2004 and 2006 was approximately 2 % of the total employment. This was one of the largest labour flow shocks in UK history (Lemos and Portes 2008). While this context has been investigated from an aggregate labour market perspective, and the issues of interest have been wage or employment effects, our study can shed insights into the implications of this influx of new labour to work teams of differing status. The implications of our study serve to point out that immigrants may be 'absorbed' differently into teams in the workplace and that peer behaviour and status among teams may play a role in this process.

A related example in which the conceptual framework of our study could be applied is when changes to immigration rules are applied to specific segments of the labour market. For example, the popular press documents changes to US immigration law which, each year, either increases or decreases the number of H-1B visas issued. Such visas are issued to high-skilled immigrants to the USA who are then linked to a specific employer and are allowed to live and work in the USA for a maximum of 6 years (Luthra 2009). There is substantial policy debate on highly skilled immigration as the concern is always whether such immigrants supplement or supplant native workers. Such changes in immigration law are of concern particularly to IT firms that employ such workers and to unions that are concerned about competition for native workers. Luthra (2009) documents that such workers are attractive as they have the most recent skills, provide flexible labour, and have lower expectations in terms of job quality, particularly in the short-term. This setting is in fact very similar to hiring a foreign soccer player who is also linked to a particular employer, in this case, a specific soccer club. In addition, the mandatory standardization of software and increased quality control in the IT workplace has standardized tasks in the IT industry. This makes the IT workers who are often the recipients of H-1B visas more

interchangeable (Luthra 2009), and makes the analogy with soccer players even more appropriate.

An empirical examination, such as that which we have conducted, could uncover any sorting mechanisms occurring in this setting. For instance, as some H-1B holders tend to transfer to becoming permanent residents (Luthra 2009), they could then form an intermediate 'class' of worker compared to natives. This has implications for an examination of a gradation of foreignness and preferences of work teams in different status levels for different workers. In both of the examples we have described, an examination such as ours requires a fine grained data collection exercise at the meso and micro levels.

One of the limitations of our study is that, as our analysis is at the team level, we do not conduct a fine-grained analysis at the player level which would allow for controlling for more player level heterogeneity (such as player position, field time, injuries, etc.). Such factors would yield more precise estimates on the effect of player diversity on player performance. Frick (2009) reviews some of the literature in sports economics that address such issues and points out that discrimination can be quite subtle and may not directly impact performance. For example, Szymanski (2000) points out that the number of replica shirts sold is significantly influenced by the players' origins. Shirts with the names of players from Eastern Europe do not sell well compared to those, for example, from South America. While certain researchers have argued that managers may only be responding to fan discrimination, Szymanski (2000) tests this proposition for the English league exploiting data on both attendance and revenues and discovers that the discrimination stems more from club owners than from fans. While we might imagine that, in the long run, organizations that discriminate and do not hire equally productive workers would be competed out of the market, we also note that the football industry does not have a well-developed market for corporate control. Clubs are often 'rescued' by local governments or, more recently, by wealthy businessmen if they do poorly (Deloitte 2011). All of these issues point to complex causal links between performance, diversity, and discrimination. This suggests that managerial indulgence in the 'taste for discrimination' is more likely in industries that are protected and where the link between firm performance and firm exit is tenuous. Exploring such links between productivity, firm/industry structure and discrimination could yield additional insights on these issues.

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Appendix

See Appendix Tables 3, 4, 5, and 6.

Table 3 Summary statistics and correlations relating to variables in Table 1 (ratio-ethnic diversity)

	Mean	S.D.	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
(1) Ratio-ethnic diversity	0.12	0.12										
(2) Performance discrepancy (Win percentage)	-0.01	0.12	-0.05									
(3) Status	27.72	5.13	0.05**	-0.01								
(4) Peer group diversity behaviour (Quartile 1)	0.18	0.65	0.48***	0.00	-0.36***							
(5) Peer group diversity behaviour (Quartile 2)	0.30	1.02	0.26***	-0.02	0.06	-0.09***						
(6) Peer group diversity behaviour (Quartile 3)	0.18	0.69	0.15	-0.04	0.19***	-0.07	-0.08***					
(7) Peer group diversity behaviour (Quartile 4)	0.22	0.95	0.15	-0.03	0.15***	-0.05	-0.06**	-0.04**				
(8) Stadium capacity	4.61	1.68	0.03	0.07	-0.31***	0.08	0.00	-0.07	-0.04			
(9) Team size	26.05	3.36	0.47***	-0.16***	0.05	0.22	0.23	-0.11	0.21	-0.01		
(10) Mean age	25.32	1.11	0.32***	-0.03	0.04	0.12	0.16	-0.13*	0.12	0.00	0.17***	
(11) Institutional change (Bosman ruling)	0.38	0.49	0.68***	0.01	0.00	0.38	0.39***	-0.31	0.22*	0.01	0.57***	0.48***

* $p < .10$, ** $p < .05$, and *** $p < .01$ **Table 4** Summary statistics and correlations relating to variables in Table 2 (percentage foreign)

	Mean	S.D.	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
(1) Percentage foreign	0.25	0.15										
(2) Performance discrepancy (win percentage)	-0.01	0.12	-0.01									
(3) Status	27.72	5.13	-0.06	0.00								
(4) Peer group foreign player behaviour (Quartile 1)	0.29	0.77	0.00	0.00	-0.64							
(5) Peer group foreign player behaviour (Quartile 2)	0.30	0.91	0.25***	-0.02	0.06	-0.22***						
(6) Peer group foreign player behaviour (Quartile 3)	0.35	0.90	-0.04***	-0.09	0.31	-0.25***	-0.22**					
(7) Peer group foreign player behaviour (Quartile 4)	2.58	3.64	-0.13*	0.06	0.48	-0.19**	-0.16**	-0.19**				
(8) Stadium capacity	4.61	1.68	0.09	0.07	-0.31	0.15**	-0.05	0.00	-0.09			
(9) Team size	26.05	3.36	0.61***	-0.16***	0.05	-0.04	0.24**	-0.09	0.05	-0.01		
(10) Mean age	25.32	1.11	0.44	-0.03	0.05	0.01	0.05	-0.05	0.01	0.00	0.17***	
(11) Institutional change (Bosman ruling)	0.38	0.49	0.83***	0.01	0.00	-0.03	0.02***	-0.09	0.06*	0.01	0.57***	0.48***

* $p < .10$, ** $p < .05$; and *** $p < .01$

Table 5 Summary statistics of key variables by year

Year	Racio-ethnic diversity (Blau index)	Percentage foreign	Team size	Age	Stadium capacity
1985	0.03	0.10	23.22	24.60	48,111.50
1986	0.03	0.03	23.16	23.63	44,820.67
1987	0.02	0.11	23.78	24.61	45,878.94
1988	0.02	0.11	23.11	24.52	42,385.06
1989	0.04	0.14	24.94	24.47	42,878.11
1990	0.06	0.14	24.55	24.82	46,089.50
1991	0.07	0.14	24.75	25.14	43,342.55
1992	0.06	0.18	24.72	24.97	44,625.00
1993	0.08	0.21	25.89	25.21	45,974.94
1994	0.12	0.24	25.56	25.36	45,116.00
1995	0.12	0.24	26.11	25.93	45,080.00
1996	0.12	0.28	27.45	25.85	42,321.56
1997	0.16	0.37	27.45	25.97	44,042.00
1998	0.19	0.39	26.61	26.22	45,135.22
1999	0.25	0.41	24.94	26.51	43,672.72
2000	0.25	0.44	31.50	25.96	44,521.17
2001	0.28	0.47	30.72	25.67	43,990.56
2002	0.31	0.52	30.61	25.74	45,251.94

Table 6 Peer groups and constituent teams

Peer group	Teams
1.	Wuppertaler SV Borussia, Saarbrücken, Dynamo Dresden, VfB Leipzig, Fortuna Köln, Borussia Berlin, FC Homburg, Blau-Weiß Berlin.
2.	Arminia Bielefeld, Energie Cottbus, FC St. Pauli, SSV Ulm, Eintracht Hannover, Hansa Rostock, SV Mannheim.
3.	VfL Bochum, 1860 München, Eintracht Frankfurt, MSV Duisburg, KFC Uerdingen, FC Nürnberg, Hannover 96, Fortuna Düsseldorf.
4.	Bayer Leverkusen, Borussia M'gladbach, Borussia Dortmund, Hertha BSC, FC Bayern München, Kaiserlautern, Werder Bremen, Hamburger SV, VfB Stuttgart, FC Köln.

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