

Symposium: Economic and Financial Aspects of Professional Team Sports

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**Session 13: Economics
Workshop (75-minute)**

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8:00 AM - 9:15 AM

This symposium focuses on research on the economic and financial aspects of professional team sports in North American sports leagues. The papers represent a comprehensive look at the cutting edge of economic and financial research on professional sports teams. Topics covered in the symposium include operational aspects of teams and managers, operational aspects of leagues, the impact of customers' preferences on team finances, and financial aspects of teams. All of the papers approach the topic from the perspective of economic analysis. The theoretical motivation of all four papers is neoclassical economic theories of rational utility maximizing households and profit maximizing firms. The papers all contain empirical analysis of the economic and financial performance of professional sports teams. The papers all shed new light on the operation of professional sports teams and leagues from an economic perspective. The papers will be of interest to academics in sport management and practitioners working in the professional sports industry and financial markets related to professional sports, as well as students.

(1) Revenue Sharing in MLB: The Effect on Player Transfers:

The 1997 collective bargaining agreement between the Major League Baseball owners and players' union considerably altered the system of revenue redistribution. The 1997 scheme, a convoluted cross-subsidization system, was designed to progressively redistribute income from the highest revenue generating teams toward the lowest revenue-producing clubs. The 2003 agreement extended the basic method of revenue redistribution, but increased the tax rate to 34%, and modified the particular nature of the redistribution. The purpose of the revenue sharing system was to alleviate a growing disparity in revenue generation, which MLB claims is continuing to cause increased levels of competitive imbalance. The new scheme is examined theoretically within the principal-agent framework, which shows that the incentive to divest in talent is increased for low revenue clubs. Empirical results are supportive. Payroll disparity and competitive imbalance increased modestly from the period immediately preceding implementation. Most striking however is a significant increase in the rate that productive players have transferred away from low revenue teams. This suggests that these teams are acting on the increased incentives to divest in talent.

(2) An Evaluation of the Managerial Quality of Major League Baseball Franchises:

Well-managed organizations excel at allocating resources within their firms to maximize profits. In professional sports, managers primarily make decisions on acquiring and liquidating on-field talent to produce wins, which generates increasing revenues. Good organizations will generate winning teams efficiently. This paper analyzes management of Major League Baseball franchises from 2003-2005 using the marginal revenue products of on-field talent and player wages. The paper ranks the franchises according to their efficiency and total product and finds the Florida Marlins and the Cleveland Indians are the best-managed organizations in their respective leagues.

(3) Customer Preferences and Ethnicity in Major League Baseball:

Experts have no choice but to recognize the international presence in American professional sports and even the need for sports to orient themselves toward a global fan base (Liefer, 1995). Still, while there has been a wealth of research on fan discrimination across various professional sports (Anderson and LaCroix 1991, Bodvarsson and Brastrow 1999, Burdekin and Idson 1991, Nero 2001, Szymanski 2000), the influence of country-of-origin and ethnicity have yet to be studied to the degree of race or gender in spite of the fact that foreign participation in Major League Baseball (MLB) is chronologically deep and geographically wide (Osborne, 2006). This study tests whether population composition matching with team composition is a significant predictor of attendance in MLB with respect to country-of-origin and ethnicity. This study also tests whether teams try to create a team composition that is similar to the composition of the surrounding area

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Using the database of all players who have competed in MLB since 1871 available on baseball1.com, we used structured query language (SQL) to extract all the entries for players born in countries other than the US. Also using SQL, we then counted the number of entries for each team in a given season from (1985-2005). The countries counted were Mexico, The Dominican Republic, Puerto Rico, Canada, Japan, Korea, and China. An additional count was added for all players born in Asian countries and one more for Hispanic countries.

Demographic information was collected utilizing American Factfinder and the US Census Bureau homepage. The relevant metropolitan statistical area (MSA) was identified for all teams, then information from the 1980, 1990, and 2000 censuses was gathered to match the countries and ethnicities listed above. Regression analysis is then used to determine whether country-of-origin and ethnicity are significant in identifying demand. More specifically, yearly attendance is estimated for each team while controlling for other factors such as total area population, new stadiums, winning, and substitutes. Regression analysis is also used to determine whether teams are composed similarly to the surrounding population. For example, does the demographic information of the surrounding area help determine the composition of the team.

References

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(4) Fundamental Determinants of Franchise Values in North American Professional Sports Leagues:

Professional sports teams in North America are privately held corporations. They are not required to make audited financial statements available to the public. Unlike other privately held firms, sports teams often receive large public subsidies from various levels of government for the construction and operation of their physical plant. These subsidies are frequently justified on the basis of claims of operating losses from team owners and league officials.

Although audited financial information is not available, the sale price of a sports team is typically made public when teams are sold, and *Forbes* magazine publishes an annual estimate of the value of all franchises in the four major professional team sports in North America. In this paper, we examine the fundamental determinants of franchise sale prices and published franchise values. Relatively little literature has addressed this issue to date. Fort (2006) found relatively high variation in the appreciation of franchise values over time, but did not examine the relationship between fundamentals and sale prices. Alexander and Kern (2004) found that market size, on-field performance and new facilities were associated with higher franchise values over the period 1991-1997.

The approach here is to gather data on market fundamentals - market population and other characteristics, on-field success, facility ownership, age of facility and franchise - and the estimated franchise value and team sale price for each professional sports team in North America over the period 1991-2005. The market and team specific data will be used as explanatory variables in a multiple regression model to determine the relationship between these factors and the estimated franchise values and team sales prices.

References

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