

Effect of Public Stadium Financing on Major League Baseball Team Performance

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Sports economists have developed an extensive body of literature related to the analysis of benefits of public funding of sport stadiums (Baade 1994; Baade & Sanderson 1997, Noll & Zimblast 1997; Rosentrab 1997; Sigfried & Zimblast 2000; Zaretsky, 2001; Crompton, Howard, and Var, 2003; Delaney and Eckstein 2007.) Studies have focused on the examination of purported direct economic benefits such as job creation, urban redevelopment and economic impact (Baade 1994 and Noll & Zimblast 1997) as well as intangible benefits such as community pride, collective conscience and community identity (Eckstein and Delaney 2002.) Scholars have generally concluded that public funding of sport stadiums does not typically produce forecasted economic benefits (Bandow 2003 and Collins, Grineski 2007). However, research efforts continue to explore issues related to the realization of intangible community benefits (Eckstein and Delaney 2002).

This paper extends that body of literature focusing on publicly funded sport facilities by examining the impact of public stadium finance on team performance in Major League Baseball. The study examines the data on the financing of the 30 Major League Baseball clubs' facilities and compares the degree of public financing against team performance. (This study measured performance as the mean of Attendance (Cebula et al. 1997; Nourayi 2006; Society of Baseball Research 2007), Team Value (Forbes 2007), and Winning Percentage (Nourayi 2006) The Cronbach's alpha was .86).

This study contributes directly to the body of sport management and sport finance research by addressing the call for additional empirical examination of the relationship between sports and other stakeholders, including taxpayers (Senge 2007; Thibault and Harvey 1997). This paper further builds on the work of O'Roark (2001), which found that public financing of baseball stadiums is inimical to producing a winning team.

The study found that public financing of the baseball stadium has a significant effect on team performance, albeit to a negative extent. In other words, higher percentages of public financing of clubs' ballparks are related to lower levels of team performance. Building upon those findings, this study sets forth a theory that stadium ownership does in fact have an effect on club performance, but not because public financing of ballpark construction is tantamount to a subsidy that enables the beneficiary club to marshal its financial assets for incremental performance enhancement.

While public financing represents a considerable cost savings to the franchise ownership, this windfall may relate positively to performance only if team ownership/management is able to exploit this economic condition on a net-gain basis. The study draws a parallel to the challenges faced by non-sport corporate executives in determining whether to reinvest realized market gains in the core business or to distribute them as shareholder dividends. This work also investigates the secondary effects of the internal strengths and weaknesses of the franchises on the relationship between public financing and performance. (Internal strengths were measured as the mean of Franchise Age (McEvoy et al. 2005) and Payroll (Frick et al. 2003). The Cronbach's alpha was .86. Franchise Age was included because previous research has shown that there is a statistically significant relationship between the age of MLB parks and spectator attendance (McEvoy et al. 2005)). Bradbury (2007) documented the importance of the size of the market to Major League Baseball clubs. Thus, this study controlled for the population within the local standard metropolitan statistical area (SMSA).

This study finds that internal strengths will negatively moderate the relationship between public financing and performance. That is, the relationship between public financing and performance will be more negative for better-endowed franchises. The study concludes that while there seems to be a theoretical advantage for teams playing in stadiums that are supported by significant public subsidies, this research leads to the conclusion that teams that play in publicly financed ballparks perform no better than teams that play in privately financed stadiums.