

## Owners' Objective in Minor League Baseball

*Sungil Hong, Florida State University*

*Michael Mondello, Florida State University*

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Owners' Objective in Minor League Baseball Most managers agree that a firms' primary objective is to generate profits. However, a unique feature in the sports context generates some arguments that owners might pursue intrinsic value from their teams (Gerrard, 2005). Further, Vrooman (1997) indicated a team owners' primary motivation for owning teams may be a level of sporting performance beyond the general economic theory of the firm which is profit maximization. Collectively, most Major League Baseball (MLB) team owners still claim they are losing money. Specifically, in 2001, the MLB commissioner announced the combined operating losses of the 30 MLB teams were \$232 million (Howard & Crompton, 2003). However, many arguments about their claims have been discussed. According to Forbes magazine, the financial value of MLB teams is consistently increased. Recently, the Chicago Cubs attempt to sell the team and its selling financial values were estimated at more than \$600 million (Washingtonpost.com, 2007). Due to the difficulty to access MLB teams' financial report, academics use indirect ways or secondary data to assess MLB teams' financial status as well as attempt to demonstrate the primary motivation for owning the team based on economic theoretical equations. If owners are losing money, why do they own sports teams? This issue is important since the behavior of clubs and the performance of sporting leagues would be determined by owners' objective.

The primary goal of this study is to examine owners' objective in minor league baseball. This research will attempt to justify empirical models concerning whether owner objective in professional sports is win-maximization or profit-maximization through survey from owners of minor league baseball teams. In addition, this research will examine if there are differences in owners objective based on the levels of teams (e.g., AAA, AA, A).

Owners' objective in the literature of professional team sports has been investigated and an important issue is to justify whether owners' objective is win-maximization or profit-maximization. (Rothenberg, 1956; Sloane, 1971). For example, if club owners are profit-maximization oriented, then they would invest in team success up to the point where the expected marginal revenue from an additional win is equal to the marginal cost (Kesenne & Pauwels, 2006). There have been tests of those hypothesis based on different variables - ticket pricing, competitive balance, talent demand, players' salary, and the impact of market regulations (Fort & Quirk, 1995; Kesenne & Pauwels, 2006; Szymanski, 2002;). In addition, those hypotheses have been tested both in American professional leagues and in European soccer leagues (Fort, 2000; Kesenne, 1999; Moorhouse, 1999; Okner, 1974; Quirk & Fort, 1992; Szymanski & Smith, 1997).

Rottenberg (1956) indicated a league with win-maximization owners will have a competitive imbalance by club owners who spend more aggressively on the players' market for league success. However, Cairns et al. (1986) and Kesenne (1996) mentioned the collective selling of television or Internet rights or other revenue-sharing schemes will improve league balance under the assumption of win-maximization. In other words, collective selling will result in more money for poor teams, while it does not affect rich teams' revenue. Hence, this will yield greater equality in payroll spending across teams. In contrast, a league with profit-maximization owners will focus on maintaining a certain level of balance. Thus, the players' market in that league will be more restrained, meaning leading to greater competitive balance compared to the league with win-maximization owners. However, El Hodiri and Quirk (1971) showed this generally will not happen due to the fact that market size and revenue potential remain disparate across the teams. Further, Burger and Walters (2003) specified the traditional revenue equation with data from MLB during 1995-1999 and find that profit-maximizing teams in the large markets will value a player six times more than teams in the smallest markets, and that, within a given market, when a team is in contention, it can raise a player's value sixfold.

Past studies have made an effort to justify whether the owners' objective is profit-maximization or win-maximization using economic theoretical equations. Indeed, some of the empirical results have been consistent with the profit-maximization structure. However, there is still an argument that the results have not been conclusive (Kesenne & Pauwels, 2006). Furthermore, Fort and Quirk (2002) noted it is not possible to find a definitive test to discern whether owners in a league are profit or win maximizing. However, this research will attempt to determine whether the owners' objective is win-maximization or profit-maximization by using a survey method.

A questionnaire will be prepared to measure owners' objectives: win-maximization and profit-maximization. Under the construct of win-maximization, five questions will be generated while six questions will be generated under the construct of profit-maximization. Previous findings have provided a basis for five questions in the win-maximization construct. More specifically,

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the researcher will ask owners Kesenne and Pauwels' finding (2006) that they charge higher ticket prices to hire more talented players and Scully's finding (1989) that owners are willing to pay players above their marginal revenue. In addition, other questions will be constructed by the researcher. With respect to questions for profit-maximization, the researcher will adopt Woodiff, Watson, Newby, and McDowell's (1999) scales asking small and medium owner-operator objectives regarding financial return. Furthermore, other questions will be based on Winfree's (2005) findings that the owners of MLB who own minor league baseball teams own their minor league teams for financial managerial efficiency such as lower transaction costs and tax benefit. Also, another finding that they own minor league teams to increase market power for their other companies will be asked to owners. The rest of the questions will be constructed by the researcher.

The subjects of the research will be owners of minor league baseball teams (AAA: 30, AA: 30, A: 82). Data will be collected through a mail survey of these owners. Respondents will rate their level of agreement (1=Strongly disagree and 7=Strongly agree). For analysis, Cronbach's analyses will be used to examine the reliability of the constructs of win-maximization and profit-maximization and the subscales of those constructs. Second, a confirmatory factor analysis (CFA) will be conducted to measure how well items represent the constructs. Third, mean difference between the scores of win-maximization scales and profit-maximization scales will be calculated to determine whether owners of minor league baseball teams are win-maximization or profit-maximization oriented. Lastly, a multivariate analysis of variance (MANOVA) will be performed. The levels of minor league baseball teams will serve as the grouping variable and the subscale scores of the constructs of win-maximization and profit-maximization will be employed as the multiple dependent measures.