Incentive Compensation in Coaching Contracts: A Case Study of College Football Coaches

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Friday, June 3, 2011
9:20 AM
20-minute oral presentation (Room 240)

Sport contexts have been shown to offer a unique setting for conducting managerial compensation research because of the availability of precise measures for individual and organizational performance and detailed compensation data (Bloom, 1999; Frick & Simmons, 2008; Kahn, 2000). Given this, a handful of studies have attempted to identify the determinants of elite coaches’ compensation (e.g., Frick & Simmons, 2008; Inoue, Kent, Plehn-Dujovich, & Swanson, 2009; Kahn, 2006). For example, Frick and Simmons (2008) found that managerial ability measured by the coach’s experience had a significant effect on the compensation of head coaches in the German premier soccer league. Kahn (2006) showed that managerial ability and performance collectively explained over 70 percent of the variance in the annual salary of National Basketball Association (NBA) head coaches. Most recently, Inoue et al. (2009) examined the compensation of head football coaches at National Collegiate Athletic Association (NCAA) Football Bowl Subdivision (FBS), and found that the level of total compensation can be greatly explained by both institutional characteristics (e.g., organizational size) and coaches’ characteristics (e.g., experience). These studies, however, are limited in the following two ways. First, the studies merely conducted a quantitative analysis of the relationships between possible determinants and total compensation, but did not describe mechanisms of how these determinants are aligned to compensation. Second, they did not disaggregate compensation into fixed (i.e., base salary) and variable (i.e., incentive) components, and thereby failed to identify the determinants of each type of compensation. In particular, the detailed analysis of incentive compensation is significant because of its close alignment with performance measures (Core, Guay, & Larcker, 2003).

Given this gap in the literature, the purposes of the current study were (a) to identify incentive mechanisms used for coaches and (b) to further investigate what factors determine the use of incentive compensation in the context of U.S. college football. Regarding the first purpose, Putler and Wolfe (1999) identified four major criteria of program success in U.S. intercollegiate athletics: (a) on-field performance, (b) financial performance, (c) academic performance of student athletes, and (d) athletic program ethics. Building upon this finding, the current research attempted to examine the extent to which contracts of college football coaches reflect these success criteria. With respect to the second purpose, this study aimed to examine if determinants of coach compensation identified in the past literature could also explain the level of incentive compensation used.

Data collection was executed by examining incentive compensation data for head football coaches at NCAA FBS institutions in 2006. The incentive data were collected from the actual contracts of FBS head football coaches provided by the USA Today online database. In addition, other coaches’ and organizational characteristics were gathered from various sources, such as official websites of athletic programs. Of the 119 FBS institutions for 2006, there were 17 private schools which are not required to provide their compensation details. These contracts were removed from the sample along with 18 other contracts that did not include detailed incentives information. The remaining 84 contracts constituted the final sample. The average age of the sample coaches was 51.7, and they had served as head coach of their current programs for approximately 5.5 years and for any FBS football programs for 7.4 years.

Through the content analysis of coaching contracts, four incentive categories emerged, which were consistent with the four success criteria identified by Putler and Wolfe (1999): termed academic performance, on-field performance, behaviors of student athletes, and revenue performance. The first category, academic performance, refers to criteria that are conditioned upon the academic success of student athletes in the football program. Several measures are used to assess the attainment of these criteria, including general academic achievement, academic progress rate (APR), grade point average (GPA), graduation rate and graduation rate of minority students. The second category, on-field performance, includes criteria related to the on-field success of the football program, measured by the number of wins placed in the conference, ranking, the result of post-season games (i.e., bowl games, championships), and the individual achievement of coaches (e.g., coach awards). The third category, behaviors of student athletes, is concerned with university-specific term relating to the acceptability of student-athlete behavior, and corresponds to the ethics criteria found by Putler and Wolfe. The final category, revenue performance, consists of financial measures, such as season ticket sales, revenues from televised games, and game guarantee revenues.

Descriptive analyses revealed that 78 of the 84 contracts (92.9%) contained some type of incentives with the average total incentive of $343,747. With respect to the extent of each category used, on-field performance was the most frequently used category, appearing in 78 contracts (92.9%), followed by academic performance with 45 contracts (53.6%), revenue performance...
with 23 (27.4%), and student athlete behavior with 3 (3.6%). The mean incentive value of each category was: $313,187 for on-field performance, $22,673 for academic performance, $18,500 for revenue performance, and $2,417 for behaviors. These results show that athletic programs most likely incentivize coaches on the basis of on-field performance, thereby suggesting that this success factor has the highest priority among Putler and Wolfe’s (1999) four criteria.

To further identify the determinants of incentive compensation, multiple regression analyses were performed with the amount of total incentive compensation and compensation of each incentive category serving as the dependent variables and both organizational (e.g., athletic revenue, academic quality of the university, membership in BCS conferences) and coach (e.g., experience, age, alma mater status) characteristics serving as the independent variables. Although the analyses showed that two organizational characteristics, BCS membership and athletic revenues, had a significant positive effect on both on-field performance incentives and total incentives, the models failed to identify the overall significance for academic performance, student behavior, and revenue performance. The results thus indicate that determinants of FBS coaches’ total compensation previously identified by Inoue et al. (2009) may not account for a substantial amount of the variation in incentive compensation.

In sum, the current study contributes to the literature in the following three ways. First, this study provided detailed descriptions of incentive items used for college football coaches and systematically grouped these items into the four categories. Second, the study found evidence that athletic programs incorporate Putler and Wolfe’s (1999) four success factors into coaching contracts, but assign different priorities to each factor, with the highest importance given to on-field performance. Finally, the results showed that the extent of incentives used may be determined by factors other than the determinants of total compensation found in past research.