

Professional Football Players' Mobility and Wages

Antonio Sergio Ribeiro, Technical University of Lisbon, Portugal
Francisco Lima (Advisor), Technical University of Lisbon, Portugal

Economics

Thursday, May 30, 2013

**20-minute oral presentation
(including questions)
(Room 416)**

Abstract 2013-063

3:25 PM

Sport industry is a particular example in which the organization outcome depends strongly on human capital, in particular, on the players' talent. The football labor market offers an opportunity to study incentives and human capital accumulation. In their seminal paper, Lazear and Rosen (1981) consider a setting characterized by tournaments. It is possible to argue that a club has an incentive device by having high wage dispersion within the team which sets up an internal tournament among players (Rosen 1981). In the context of football teams, considering that the player's output is a random variable whose distribution is controlled by the player himself, club managers may observe the team and player output but cannot ascertain the extent to which it is due to good fortune, to effort, or to both. Clubs hiring star players usually also have a pay scale where those players earn disproportionately more than average players (Lucifora and Simmons 2003). Employers use wide pay scales to encourage workers to improve their performance, and in the particular case of football, to win championships and international competitions. However, this pay policy can lead the club to high losses if the sport results do not generate sufficient revenues to meet the assumed responsibilities. Clubs executives should be more carefully in managing resources in order to guarantee the sustainability of their future existence.

In this context, the research work focuses on the effect that football players transfers (and stays) between Portuguese clubs and leagues have on individual wages. We inquire the relationship between pay schemes and the players' career path. Namely, we want to know if professional players are available to play in clubs with higher visibility, that take part in higher leagues, for lower pay; and how much money or status loss within the pay hierarchy of the team they are willing to accept in order to work for better teams, those that are more competitive and pursue higher sporting ambitions. The inverse case is also possible and tested.

Data on players and clubs are obtained from Quadros de Pessoal (QP), a Portuguese longitudinal matched employer-employee micro-data mandatory survey, annually collected by the Portuguese Ministry of Labor and Social Solidarity. The data cover seasons 2002-2003 to 2009-2010. During this period, we identify more than 7000 players, an average of almost 900 players each year. We consider five types of movements: when a player get transferred to a new club of a higher league we define as Up; Down is when a player get transferred to a new club of a lower league; Same to the transfer of a player to a new club in the same league; Prom and Rel when a player stays in a club that was promoted or relegated.

Results show that players who remain with the same club after promotion (Prom) or relegation (Rel) cannot expect a wage premium or penalty for being part of a winning or losing team. Concerning the pay hierarchy within the team, players who stay with the club after relegation move up in the ranking. Players who stay with the same club after promotion remain almost all in the same hierarchical pay level. Regarding players who change club, moving from an inferior league to a higher league (Up) grants an average wage increase of more than 45%. This type of movement also shows that players accept to lose positions in the team hierarchy in order to have the opportunity to play in a higher league. Alternatively, movements type Down show that wages decrease around 45% and that a large percentage of players (35%) accept to earn less money in order to have a higher pay rank, probably to have the effective opportunity to play, increasing their visibility. We observe a slightly wage increase (around 8%) and a small variation in the pay rank for players who move to clubs within the same league.

We contribute to the literature on the motivation behind football players ambitions when signing contracts regarding wages, league tier or status through internal pay rank. We shed light on optimal pay schemes to spur players' performance and thereby clubs' financial results.

Lazear, E., & Rosen, S. (1981). Rank-order tournaments as optimum labor contracts. *The Journal of Political Economy*, 89(5), 841-864.

2013 North American Society for Sport Management Conference (NASSM 2013)

Lucifora, C., & Simmons, R. (2003). Superstar Effects in Sport: Evidence From Italian Soccer. *Journal of Sports Economics*, 4(1), 35-55.

Rosen, S. (1981). The economics of superstars. *The American Economic Review*, 71(5), 845-858.