Comparing the Intrinsic Values of NCAA Division I Men's Basketball Coaches to Their Nominal Compensation

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A 2012 USA Today database showed the average head coach of teams participating in the National Collegiate Athletic Association (NCAA) Division I Men's Basketball Tournament was paid more than $1.4 million annually. In most cases, these coaches are among the highest paid employees at their respective institutions, second only to the school's head football coach in many cases. For those at state institutions, the head men's basketball coach may be the highest paid public employee in the entire state.

While their salaries are extremely large, so are the revenues generated by elite men's basketball programs. According to Rishe (2011), more than 60 Division I men's basketball programs produce at least $6 million each in annual revenues, with many well over $10 million and even $20 million. These revenue sources include ticket sales, donations, conference television contracts, and corporate sponsorship (Mahony & DeSchriver, 2008). With these amounts of revenue at stake, it is no surprise that head coaches in college basketball are well-compensated. Further, the NCAA system limiting athlete compensation to the school's tuition, room & board, and related expenses undoubtedly impacts the level of pay available for coaches.

Some of the most important decisions made by athletic directors and even university presidents involve the hiring of the school's football and men's basketball coaches. As described above, the financial implications are quite significant. Further, the performance of these high profile coaches and teams may affect the tenure and careers of the administrators who hired them. Upon identifying the top candidate, the dilemma faced by administrators is that of compensation. What is the appropriate pay for the school's head men's basketball coach? It is clear that in answering this question, many institutions rely on the market rate as a key criterion (Rishe, 2011); however, what if the market is inefficient?

At present, no study could be identified in the literature examining the value or worth of college basketball coaches to their respective institutions. This study remedies the gap in the literature by providing estimates of intrinsic valuation to coaches, relating to both on-court performances as well as the economic successes of their programs. This study subsequently compared the intrinsic value of the coaches' performances to the amounts of pay they actually receive, noting differences and trends.

The field of labor economics offered insights as to a reasonable approach for the pay-setting and relative performance evaluation of Chief Executive Officers (CEOs), which we apply to college men's basketball coaches (Murphy, 1999). Specifically, employing labor economic theory, we operationalized 'on-court performance' by examining past wins and losses, appearances in the NCAA tournament, wins and losses in the NCAA tournament, conference championships, and prior ranking performance data. Part of the valuation also considered an absence of negative factors, which we defined as 'off-court performance,' including the number of and ordinal severity of NCAA infractions, as well as any criminal misconduct and associated ordinal severity. Additionally, the sport finance literature offered a relevant method for the valuation of nonmarket commercial sport programs such as college football (Brewer, Pedersen, Lim, & Clerkin, 2011). We generalized findings therein from college football valuation, and applied them to the similar economic infrastructure of college men's basketball, including the program revenues and expenses as reported to the Department of Education (2012), to assess the extent to which coaches have benefitted their schools financially. Collectively, these variables and the Brewer et al. (2011) methodology provided a lens through which to intrinsically value college basketball coaches. Finally, valuation results were compared to reported coaches' salaries to examine market trends and efficiencies. Results will provide athletic directors and university presidents more information about the value of their investments in college coaches, enabling them to be more effective in determining appropriate compensation levels for coaches.

References

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