The Effects of Intra-Team Pay Inequality on Organizational Goals

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(including questions)  (Frontenac)

Numerous studies have been conducted examining the effects of intra-team pay inequalities on organizational goals (Gerhart & Fang, 2014; Jenkins, Mitra, Gupta, & Shaw, 1998). Though researchers have studied the effects of intra-team pay inequalities on organizational outcomes in a wide variety of industries such as manufacturing and education (Jenkins et al., 1998), professional team sports has received substantial attention in the pay dispersion literature (Borghesi, 2008; Frick, Prinz, & Winkelmann, 2003; Mondello & Maxcy, 2009; Simmons & Berri, 2011). In the sport industry, organizational outcomes rely heavily on the human capital of the players (Ribeiro & Lima, 2013). When teams sign star players to their rosters, they typically pay their stars a disproportionately higher wage than the average players (Lucifora & Simmons, 2003). This action by teams has spurred previous research looking at the effect that payroll dispersion has on team performance (e.g., Bloom, 1999; Deutsch, 1985; Levine, 1991). This idea has been examined in different sport leagues around the world with varying results (Frick et al., 2003).

Mondello and Maxcy (2009) posited the National Football League (NFL) “provides an ideal laboratory to analyze decisions about equality of pay distributions and incentive pay” (p. 112). The NFL provides a wealth of accurate and available data which mitigates bias and measurement error often associated with survey data. Furthermore, the structure of the NFL, where franchises are constrained by hard payroll caps and floors, provides a context where efficient allocation of resources is paramount since decision makers cannot increase performance by spending more money on inputs than competitors. To examine the effects of pay inequalities, researchers often use specific performance measures as dependent variables (Garhart & Fang, 2014; Jenkins et al., 1998). In the NFL, the performance measure is often a measure of on-field performance such as regular season wins or winning percentage (Borghesi, 2008; Mondello & Maxcy, 2009). However, the goals of NFL franchise owners may vary and winning may not always reflect the goals of franchise owners who have the ultimate control over team pay inequalities (Mondello & Maxcy, 2009; Richards & Guell, 1998; Winfree & Rosentraub, 2011). Some owners may be more motivated by financial outcomes than on-field performance (Fort, 2000). If owners are more motivated by financial performance than on-field performance, they may be more inclined to sign a superstar to their team roster whom may increase team brand recognition, merchandise sales, or ticket sales. With this rationale, team performance may not be affected, thus causing the aforementioned varying results in the extant literature.

Thus, the purpose of the proposed research examines the effect of pay inequalities on NFL team operating income from the 2000-2001 season through the 2009-2010 season. This sample period yields 318 team-season observations. Operating income is useful in assessing financial performance in an NFL season because it considers revenues before other factors are considered such as taxes which vary between NFL franchise locations. Operating income is calculated as earnings before taxes, interest, amortization, and depreciation and is retrieved from Forbes annual NFL franchise valuation media articles. The main independent variable is the Gini coefficient of all the individual player wages for a team in an observed season. Individual wages are obtained from the USA Today salary database. Gini coefficients have been used in previous studies where Gini coefficients have been reported as statistically insignificant factors in effecting on-field organizational performance (Borghesi, 2008; Frick et al., 2003). Similar to previous research by Borghesi (2008), the proposed research will include separate Gini coefficients for base salaries and bonuses. Control variables in the proposed study will include strength of schedule, market size, team age, team ownership type and tenure, and competitive balance of the league.

To estimate the effects of pay inequalities on operating income, an ordinary least squares (OLS) regression will be estimated. Specific estimation issues such as random versus fixed effects, multicollinearity, heteroscedasticity, and endogeneity will be tested for and corrected if applicable. The results obtained from the OLS regression with the operating income dependent variable will be compared to results of a dependent variable used in previous studies of
on-field performance in an attempt to determine if there are competing strategies of NFL franchises when deciding on a pay structure. Additionally, the results and comparison of the competing strategies may assist in identifying the motivations of NFL franchises by examining their pay distributions.

The proposed research has many potential implications for scholars and practitioners. The effects of pay inequalities on team performance continue to receive attention from academics who have often found evidence in support of intra-team pay inequalities decreasing team performance (Gerhart & Fang, 2014). However, empirical findings in sport, especially in the highly interdependent team sport of American football, have not found statistically significant results to support the aforementioned claim which may be due to owner/executive motives. The proposed research intends to further this area of research for scholars and subsequently assist the owners and executives as well. Owners and executives may benefit from this research by obtaining information necessary to design an optimal pay structure to better motivate employees to meet the individualized goals of the organization, whether the goal is increasing on-field performance or financial performance (Harder, 1992). Furthermore, using the context of the NFL to examine pay inequalities could provide insight into methodological approaches to studying other sport and non-sport organizations as well as further understanding of managerial decision making (Mondello & Maxcy, 2009).