Competitive Balance in Major League Soccer: Application of Bias-Corrected Estimator

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Professional sports leagues in North America put great effort in fostering balance amongst their member teams to prevent any single team falling too far behind the others. It is often argued that domination by a single champion would result in a loss of fan interest, or an unequal distribution of competitiveness across teams may eventually hurt aggregate profits for the league (Neale, 1964; Rottenberg, 1956). Leagues therefore claim to promote competitive balance as a fundamental characteristic of the economic success of professional sports leagues, and thus used as a central defense for favorable antitrust treatment (Zimbalist, 2003).

In particular, Major League Soccer (MLS) adopted a single-entity structure upon its founding, purportedly to ensure greater financial stability and a more even distribution of team competitiveness (Francis & Zheng, 2010; Twomey & Monks, 2011). This structure is unique in that the entire league is treated as a single firm with many characteristics usually seen only within business syndicates. MLS centrally controls all player contracts to distribute playing talent according to the needs of each team’s competitiveness, and operational autonomy of team owners are limited compared to other professional leagues. However, it is possible that this type of league could reduce incentives for teams to invest in talent, suppress player salaries, and field low quality teams (Késenne, 2015). Therefore, it is critical to understand whether MLS has generated a superior level of competitive balance through its organizational structure, and to evaluate league performance outcomes to guide management in ensuring overall long-term welfare.

We therefore investigate competitive balance of MLS from its inception, in 1996 to 2017 regular season. During this period, MLS has undergone various structural changes including conference realignment, changes in playoff system, exit of existing teams, and expansion to new market as well as important policy changes including game schedule and introduction of Designated Player rule. It is however unclear how these have affected overall league competitive balance. We adopt multiple measures of competitive balance including the recently developed bias-corrected estimator (Lee, Kim, & Kim, 2018) to account for dynamic modifications within MLS and track its competitive balance comparatively across time. The measurement will shed light on the general trend of competitive balance changes over the years, including a comparison of changes before and after expansion or new league policies. In general, Rottenberg’s Invariance Principle would suggest that competitive balance should not change due to many of the policy alterations. This may be even more likely the case in MLS, as talent distribution is to some extent centrally controlled based on the needs of each team. We provide empirical and practical contributions through investigating whether MLS has created a balanced league relative to traditional cartel leagues, which can offer further guidance for antitrust treatment and necessity for syndication of professional sports leagues.