The Implications of Wage Dispersion and Team Performance:
An Investigation of the National Basketball Association

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3:30-3:55 PM, Des Plaines River **(including questions)**

The purpose of this observational study was to investigate the relationship between intra-team wage dispersion and team performance for National Basketball Association (NBA) teams. Team performance can be defined in multiple ways including winning games or making a financial profit (i.e., win-maximization or profit-maximization; Kesenne, 2015). Previous scholars proposed opposing theories on the relationship of pay structure and firm performance. The first theory suggested that relative wage equality, or even dispersion, will enhance employee cooperation and therefore improve firm performance (Akerlof & Yellen, 1990). Others, who are proponents of tournament theory, have argued the contrary, postulating that wage inequality promotes higher firm productivity by encouraging employees to work harder in hopes of receiving better pay (Lazear & Rosen, 1981; Ramaswamy & Rowthorn, 1991). Utilizing these two opposing viewpoints, the current research attempted to answer the question of how the limited salary of NBA teams should be distributed to maximize team performance, both in terms of wins, as well as financially.

Player salary data, team wins, and financial variables (e.g. revenues & ticket sales) were collected for all 30 NBA teams in each season between 2004 and 2017. The player salary data was then used to calculate a Gini coefficient for each team in each year. A Gini coefficient is a measure of inequality of a wage distribution that has a value ranging between zero and one, with zero representing perfect wage equality and one representing complete wage inequality (Ceriani & Verme, 2012). A total of 420 team-year observations were then used to perform time series analysis of the relationship between Gini coefficient and multiple team performance indicators.

Initial results from the current study showed that a higher Gini coefficient (e.g., wage inequality) was related to higher team performance, which lends support and context to tournament theory (Lazear & Rosen, 1981). Possible explanation for these results comes from Frick, Prinz, and Winkelmann (2003), who suggested that the relatively small number of participants in a game of basketball allows one player to have a much larger impact on the outcome of a game than in a sport with more players. Additionally, a team that wins at a high rate is more likely to have

higher attendance and interest, which can improve the teams financial situation (Berri, Schmidt, & Brook, 2004). Therefore, in the NBA it may make sense to pay a premium for talent, while paying a lower wage for the supporting cast

The NBA salary cap has more doubled in the last decade, going from around $40 million to just over $100 million per season in 2017 (Gaines, 2017). With the ever-increasing salary budget, these findings have implications for general managers and team owners that suggest the importance of paying star players higher salaries relative to the average player in order to win more games. Furthermore, this unequal pay structure is also shown to have team-level financial implications such as increased ticket sales. The current study also contributed to the body of sport management wage dispersion literature, as it provided a new context and application.

References

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