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TEAM PLAY AND THE COMPENSATION SYSTEM IN PROFESSIONAL BASKETBALL

JAY R. MANDLE

Twenty years ago Christopher Lasch warned that sports were suffering from a decreased emphasis on human cooperation and interdependence.¹ In his 1979 book, *The Culture of Narcissism: American Life in an Age of Diminishing Expectations*, Lasch reported a tendency for players “to advance their interests not merely against rival organizations but against their own teammates.”² He complained, “[t]he team player, like the organization man, has become an anachronism.”³ David Halberstam, traveling with the Portland Trailblazers basketball team, soon thereafter observed the same tendency. He wrote, “[i]t was now an article of faith among thoughtful former players that the new breed were by far more talented, but that they lacked desperately one key element - a feeling for each other, a sense of community”⁴ Those closest to the situation, the team’s coaches, Halberstam reports, were convinced that an excessive concern with “[m]oney now clouded not only the relationships between management and player, but between player and player.”⁵

Today, concern in this regard has, if anything, intensified. A *New York Times* front page story during the 1998 National Basketball Association (NBA) All Star Game weekend reported that many coaches, players, and team officials were talking among themselves about the decline in “the nuts and bolts skills of the players as well as the ability to create the sublime choreography of teamwork”⁶ This same article reported that over the ten year period since the 1988/89 season, assists per game, passes which lead to a score and therefore are an important indicator of team play, fell from 51.2 to 43.6 per game.⁷ The article also quotes Larry Brown, the coach of the Philadelphia 76ers, rhetorically

1. CHRISTOPHER LASCH, *THE CULTURE OF NARCISSISM: AMERICAN LIFE IN AN AGE OF DIMINISHED EXPECTATIONS* (1979).

2. *Id.* at 116.

3. *Id.*

4. DAVID HALBERSTAM, *THE BREAKS OF THE GAME* 9 (1981).

5. *Id.* at 6.

6. Mike Wise, *As the NBA Stars Soar, the Quality of Play Falls Off*, N.Y. TIMES, Feb. 8, 1998, at 1.

7. *See id.*

asking: "[w]hy play a team sport and not help your teammates?"⁸ Even Michael Jordan acknowledged the problem by indicating that he himself might have been partially responsible for it.⁹ Jordan is cited as saying, "I guess some of this crept in because of myself and Charles Barkley. With our ability to take over a game and sell ourselves as individuals, we have infected the game as much as we've helped it."¹⁰

The widespread agreement that exists within the world of sports concerning the decline of team play, particularly in the NBA, suggests that it may well be true that contemporary athletes are more individualistic than such athletes in the past. Lasch may have overstated the case when he asserted that "the athlete as a professional entertainer seeks above all to further his own interests and willingly sells his services to the highest bidder."¹¹ Nevertheless, there does seem to be sufficient evidence of increased individualism to warrant not only an exploration into the sources of this problem but also a discussion of what can be done to correct it. In team sports, where the work of the ensemble determines the excellence of performance, rampant individualism is dangerously subversive. Such individualism, and the resulting loss of team cooperation, may corrode the quality of play and thereby threaten current popular sports such as professional basketball.

The consensus view among commentators, and the one considered in this paper, is that the compensation system employed in professional sports is a source of this damaging individualism. Adam Bryant writes, [m]ost everyone agrees that the current system for paying pro athletes is out of line. It's not so much what athletes are paid It's how. Players often get millions in long-term contracts that are guaranteed regardless of whether they win or lose or put out real effort. Outsized pay for superstars can . . . make teamwork difficult to foster.¹²

In economic theory, the demand for workers by an employer is determined by the amount of additional revenue that the hiring of an employee will bring to the firm, the worker's marginal revenue product. While employers will not pay a wage which exceeds the worker's marginal revenue product, workers will not agree to a wage lower than they can obtain elsewhere. Employers will endeavor to induce laborers to work at a wage lower than the marginal revenue product in order to earn

8. *Id.*

9. *See id.*

10. *Id.*

11. LASCH, *supra* note 1, at 118.

12. Adam Bryant, *Forget the Money, Show Us You Care*, N.Y. TIMES, Feb. 1, 1998, at 2.

additional profits, and workers will seek to earn incomes as high as possible and certainly in excess of their opportunity costs. Thus, actual wages typically will fall between the marginal revenue product at the high end and the wage offered in alternative work at the low end. Where in that range the wage actually paid to the workers falls, depends upon the relative bargaining strength of each side in negotiations.

Through much of the history of professional sports, the market for players was heavily weighted on the side of management. That is, wages were substantially below the marginal revenue product.¹³ This was because the standard labor contract negotiated between the team and its players contained a "reserve clause."¹⁴ This provision barred athletes from playing on any team except the team which owned his contracts. In this way, individual teams became monopsonists, the sole potential buyer of an individual player's services.¹⁵ Because it denied employees the option of seeking alternative employment within the sports industry, it biased the terms of the negotiations towards management.

In basketball, the monopsonistic power associated with the reserve clause was first undermined by the emergence of a league in competition with the long-established NBA.¹⁶ The new league, the American Basketball Association (ABA), played its first games in 1967.¹⁷ Its appearance created a competitive market in which teams from each league attempted to attract players. The competition for players resulted in the bidding up of wages in the direction of the revenue product and away from the level which athletes would earn at a job outside of the sport.¹⁸ As James Quirk and Rodney D. Fort write, "[b]asketball players were thus the first of the pro team sports athletes to see salary levels skyrocketing."¹⁹

When the two leagues initiated merger talks in the early 1970s, the player's union, the NBA Players Association (NBAPA), filed a suit asking that the two leagues be barred from merging based on antitrust grounds.²⁰ Ultimately, this case was resolved in February 1976 in an out-of-court settlement which eliminated the NBA's version of the reserve

13. See GERALD W. SCULLY, *THE MARKET STRUCTURE OF SPORTS* 43 (1995).

14. *See id.*

15. *See id.* at 31.

16. See JAMES QUIRK & RODNEY D. FORT, *PAY DIRT: THE BUSINESS OF PROFESSIONAL TEAM SPORT* 202 (1997).

17. *See id.*

18. *See id.*

19. *Id.*

20. *See id.*

clause.²¹ In the aftermath of that settlement, a merger of the two leagues occurred.²² The players' interests were further advanced in 1980 with the ending of the system that entitled a club to compensation when a player exercised his "free agency" to join another team.²³ The market for players, however, was not totally free. Each team's payroll was subject to a limit or a salary cap which could be exceeded "only under restrictive conditions."²⁴

The elimination of the reserve clause system and the creation of a partially free labor market occurred at precisely the moment when it would do the most good for the players, during a period of growing popularity for professional basketball. The players were able to bargain their wages up in the direction of the marginal revenue product which, in turn, was increasing because of both growing attendance²⁵ and increasing revenue from television.²⁶ Attendance at NBA games during both the 1972/73 and 1973/74 seasons stood at about 5.9 million.²⁷ Soon thereafter, however, attendance sky-rocketed reaching about ten million during the 1981/82 season and about seventeen million during the 1990/91 season.²⁸ Even more dramatic was the increase in the revenue received by the league from radio and television. As late as 1981/82, the NBA was earning \$18.5 million from its network contract with CBS.²⁹ In 1989/90, however, it signed a contract with NBC for \$150 million.³⁰ When combined with its local and cable contracts, revenue from television and radio came to over \$300 million.³¹

In this environment of modified free agency and growing popularity, player salaries grew dramatically. In constant 1991 dollars, average salaries exceeded one hundred thousand dollars for the first time in 1970, and went to about three hundred thousand in 1972.³² Throughout the remainder of the 1970s, however, NBA salaries tended to plateau.³³ But with the salary cap accord and the increased popularity of the sport,

21. See QUIRK & FORT, *supra* note 16, at 204.

22. See *id.*

23. See *id.*

24. *Id.* at 205.

25. See *id.* at 500.

26. See QUIRK & FORT, *supra* note 16, at 511.

27. See *id.* at 500.

28. See *id.*

29. See *id.* at 511.

30. See *id.*

31. See QUIRK & FORT, *supra* note 16, at 511.

32. See *id.* at 212.

33. See *id.*

player compensation experienced a dramatic growth, a trend which has not yet reversed itself. By the early 1990s, the mean salary for an NBA player exceeded \$1 million.³⁴ For the 1997/98 season, the mean salary in the league, uncorrected for inflation, stood at \$2.23 million.³⁵

Economic theory, thus, provides a useful framework within which to explain the growth in player compensation. Nevertheless, there are aspects of its use which raise troubling questions. It is obvious, for example, that no one is able to directly measure a player's marginal revenue product. To do that it would be necessary, in the words of George Steinbrenner, the owner of the New York Yankees, to know "how many fanies he puts in the seats,"³⁶ and no one can do that. Thus, in both salary determination in the market and in economic analysis, a proxy must be used to approximate the marginal revenue product. In this case, the choice of the proxy follows from the fact that team revenues and victories are highly correlated.³⁷ A player who plays well and in that way contributes to his team's success in winning, is assumed to have a higher marginal revenue product than a player who does not perform well.

On the assumption, therefore, that compensation is positively associated with the marginal revenue product, which in turn is positively associated with performance indicators, Gerald W. Scully hypothesizes that, in basketball, salaries should be related to an individual's points scored, rebounds and assists.³⁸ In fact, however, Scully's analysis reveals that a statistically significant relationship exists only between compensation and points scored, not the other two indicators of basketball prowess.³⁹

The fact that points scored is the sole predictor of salary, however, raises serious problems. Indeed, it calls into question the validity of using compensation as a proxy for the marginal revenue product. This is because the relationship between points scored by an individual player and that player's contribution to victory is not without ambiguity. At the most fundamental level, if a player scores many points, but is a defensive liability, he may, on balance, have contributed to his team's failure, not success. The same would be true if that same high scoring player fails to pass or rebound well. In these cases, the use of points scored as a measure of the player's marginal revenue product would result in an overestimate. Similarly, a player, who by the example of his effort sets a

34. *See id.*

35. *See id.*; *see also* NATIONAL BASKETBALL PLAYERS ASSOCIATION, REOPENER 9 (1998).

36. QUIRK & FORT, *supra* note 16, at 216.

37. *See* SCULLY, *supra* note 13, at 50.

38. *See id.* at 51.

39. *See id.* at 54-55.

standard for his teammates, may in fact have made an important contribution to the team's success. However, because the player's contributions may not show up as points scored, the estimate of his marginal revenue product would tend to be too low.

Scully, in fact, recognizes these possibilities when he writes that productivity, contributing to victory in sports, is easily measured "unless there are important complementarities of inputs, as in football"⁴⁰ Scully, however, does not believe that such complementarities are of importance in estimating the marginal revenue product of players in basketball.⁴¹ In this, he believes that basketball is more like baseball than football.⁴² Scully thinks that, like baseball, "the production function [in basketball] is additively separable . . . and the player contribution to club performance is readily measured."⁴³

In baseball, it seems clear that the team's success is fundamentally the result of the summation of the appropriately weighted individual player accomplishments. Team play in baseball is of relatively minor importance. In football, however, just the opposite is the case. The performance of any one individual is essentially inseparable from the performance of all of the others. This is especially true of the highest paid players on the team, the quarterbacks, running backs and pass receivers. Passing and running require successful blocking and receiving necessitates both blocking and a quarterback who can throw accurately. Team performance is the outcome, not simply of the individual efforts, but is affected by the interaction of the inputs. As a result, the high salaries paid to the marquee players in football probably represent an over-estimate of their individual contributions.

To gain insight into the extent of complementarity in basketball, we examine the relationship between the compensation paid to the five highest paid players on each NBA team and the success of the team as measured by the victories it achieved during the 1996-97 season.

40. *Id.* at 60.

41. *See id.* at 50.

42. *See SCULLY, supra* note 13, at 50.

43. *Id.*

TABLE 1⁴⁴
 COMPENSATION AND VICTORIES OF HIGH PAYING
 NBA TEAMS

Successful High Paying Teams			Unsuccessful High Paying Teams		
Team	Top Five Compensation \$millions	Wins	Team	Top Five Compensation \$millions	Wins
Chicago	49.7	69	Orlando	33.1	45
LA Lakers	23.8	56	Indiana	30.0	39
Houston	23.0	57	Washington	28.1	44
Atlanta	22.7	56	Phoenix	25.8	40
Seattle	22.6	57	San Anton.	22.9	20
Detroit	20.0	54	Golden St	19.4	30
New York	18.2	57	Portland	17.4	49
Miami	18.1	61	Phila.	17.0	22
Utah	17.9	64			
Average	24.0	59	Average	24.2	36.1
Average Omitting Chicago	20.8	57.8			

TABLE 2⁴⁵
 COMPENSATION AND VICTORIES OF LOW PAYING
 NBA TEAMS

Successful Low Paying Teams			Unsuccessful Low Paying Teams		
Team	Top Five Compensation \$millions	Wins	Team	Top Five Compensation \$millions	Wins
Charlotte	14.9	54	Boston	16.7	15
			Sacramento	16.8	34
			Milwaukee	16.6	33
			Dallas	16.5	24
			New Jersey	16.2	26
			Denver	14.6	21
			Minn.	14.4	40
			LA Clippers	14.1	36
			Cleveland	13.2	42
			Toronto	10.0	30
			Vancouver	10.0	14
Average	14.9	54	Average	14.5	28.6

If basketball is like baseball, we should find that the teams with the highest payrolls were the most successful clubs, and that teams with low payrolls were less successful. The absence of such a pattern would suggest the importance of non-compensated complementarities in achieving success in the sport. The decision to confine the analysis to the top five

44. See 1996-97 NBA Player Salaries, SALT LAKE TRIB., Nov. 15, 1996, at D6; 1997-98 GOLDEN STATE WARRIORS MEDIA GUIDE 240 (1997).

45. See *id.*

players on each team was made because these are the individuals who, by virtue of their high salaries, are presumed to make the greatest contribution to team victories (and therefore revenues). Further, in light of the likelihood that the NBA salary cap most seriously compresses the compensation of the least well-paid players, the market probably is more acute in discriminating among the performance accomplishments of the highly paid players compared to the rest of the league players.

What our data reveals is that a high level of compensation is no guarantee of success for a team in the NBA, but that parsimony, in that regard, all but ensures failure.⁴⁶ Seventeen teams had payrolls of at least \$17 million for their five highest paid players; nine of them with an average payroll of about \$24 million had successful seasons with a mean total victory count of fifty-nine and eight with a payroll slightly in excess of \$24 million had unsuccessful seasons averaging thirty-six wins among them.⁴⁷ Indeed, skepticism with regard to the efficacy of compensation is enhanced if the anomalous case of the Chicago Bulls is omitted. (Michael Jordan plays on that team and was paid \$30.1 million, by far the highest of any player in the history of the game).⁴⁸ With the Bulls excluded, the successful teams' mean payroll was reduced to a level lower than that of the unsuccessful highly paid teams.⁴⁹ But with the exclusion of the Bulls, the mean victory count for the successful teams fell by only one game, leaving them with almost twenty-two more victories on average than the unsuccessful teams.⁵⁰ At the same time, however, it is also clear that compensation is not irrelevant to success. Only one team of the twelve with a top player payroll under \$17 million had a successful season.⁵¹ This pattern is still strong if the exceptional cases of Toronto and Vancouver are excluded - they were first season expansion teams in 1996-97.

These patterns suggest that Scully may have been in error in thinking that "the production function" in basketball was more similar to that in baseball than football.⁵² The fact that team success cannot be predicted from the summation of individual compensations suggests the presence

46. See *supra* Tables 1 and 2.

47. See 1996-97 NBA Player Salaries, *supra* note 44, at D6.

48. See *id.*

49. See *supra* Tables 1 and 2.

50. See *supra* Tables 1 and 2; 1997-98 GOLDEN STATE WARRIORS MEDIA GUIDE, *supra* note 44, at 240.

51. See *supra* Tables 1 and 2; 1997-98 GOLDEN STATE WARRIORS MEDIA GUIDE, *supra* note 44, at 240.

52. See SCULLY, *supra* note 13, at 50.

of important complementarities. It is because those complementarities are not systematically taken into account in a market in which points scored is the most important determinant of player salaries, that the summation of player compensation is not a good predictor of team performance.

Nevertheless, player compensation is not irrelevant to team accomplishment in basketball. There was only one team, Orlando, which achieved fifty or more victories with a payroll of under \$17.9 million.⁵³ Aside from this exception, only one of these teams won as many as half of its games, with the average number of wins for low-paid, poorly-performing teams at only about twenty-nine.⁵⁴ Thus, what is present in basketball is a situation in which individual achievement, as measured by player compensation, may be a necessary condition for team success, but it is not sufficient to ensure that success.

But what all of this indicates is that an important element in team success is left unmotivated by the compensation system. For compensation not only reflects productivity, the promise of rewards motivates behavior as well. If points scored per game is the single best predictor of compensation, then it is likely that players will attempt to become higher scorers as a means of maximizing their income. It similarly follows that if team play - the complementarity of inputs - is left unrewarded, most players will find no compelling reason to emphasize this aspect of their repertoire. Thus, the compensation system reflects not merely one aspect of player productivity, but in its turn it helps to shape the way the game is played.

Therefore, there is reason to believe that the wide-spread observation that the drift towards individualistic rather than team play in basketball may be rooted in the sport's compensation system. Especially because the sport's popularity and the existence of at least a degree of free agency has dramatically raised the stakes involved, a plausible case can be made that what the players are doing is simply responding to the reward system with which they are faced. It similarly follows that a change in the pattern of play will require a shift in the incentives which are offered to the players. A more collective approach to the play of the game will require a more collective compensation system.

53. See *1996-97 NBA Player Salaries*, *supra* note 44, at D6; 1997-98 GOLDEN STATE WARRIORS MEDIA GUIDE, *supra* note 44, at 240.

54. See *1996-97 NBA Player Salaries*, *supra* note 44, at D6; 1997-98 GOLDEN STATE WARRIORS MEDIA GUIDE, *supra* note 44, at 240.

Such a compensation system, one whose impact is to encourage cooperative and team play, already exists, albeit only in a miniaturized form. That system is the NBA Playoff Pool. With it, money is awarded to teams for specifically defined collective achievements. Those achievements and their awards are listed in Table 3. They include allocations to encourage success in the regular season as well as achievements during the playoffs themselves. How the awards are distributed to team members is determined by the players themselves. Typically, equal player shares of the award are allocated to full-season team members, with individuals who were on the roster for only a part of the season receiving proportionately reduced shares. The Playoff Pool, thus, acts to encourage collective accomplishment and to the extent that it does so, provides a counter-weight to the tendency to individualism latent in the player contract system. It is obvious, however, that the size of the pool is entirely too small to offset individualism in the NBA. It is possible to obtain a sense of the relative power of each by examining the collective awards earned by a representative successful team during the 1996/97 season, the Houston Rockets. The Rockets finished the season in second place in the Midwest Division of the Western Conference. They won the first round playoff series against Minnesota and were also victorious in their Conference semi-finals against favored Seattle. It was only when the Rockets advanced to the Conference finals that they were defeated. In moving to that level, the Rockets ranked among the top four teams in the NBA, a collective success by any standard.

TABLE 3⁵⁵
1997 NBA PLAYOFF POOL

Best Record in NBA	224,000
Best Record in Conference: \$196,000 each	392,000
Second Best Record in Conference: \$157,500 each	315,000
Third Best Record in Conference: \$117,500	235,000
Fourth Best Record in Conference: \$92,500	185,000
Fifth Best Record in Conference: \$77,000	154,000
Sixth Best Record in Conference: \$52,500	105,000
Teams Participating in First Round: \$101,500	1,624,000
Teams Participating in Conference Semifinals: \$120,750	966,000
Teams Participating in Conference Finals: \$199,500	798,000
Winning Team, NBA Finals:	1,204,000
Losing Team NBA Finals:	798,000
Total Playoff Pool	7,000,000

55. National Basketball Association Public Relations, 1997 *NBA Playoff Pool*.

TABLE 4⁵⁶
 PLAYOFF POOL EARNED BY HOUSTON ROCKETS, 1996-97

Achievement	Total Award	Per Player Award
Second Best Record in Conference	\$157,000	\$13,125
Participating in First Round	\$101,500	\$ 8,458
Participating in Conference Semifinals	\$120,750	\$10,063
Participating in Conference Finals	\$199,500	\$16,625
Total	\$579,250	\$48,271

To keep the analysis straightforward, it is assumed that each award was shared equally by twelve roster players. In fact, there were additional smaller awards which meant that each of the full shares in fact were slightly smaller than those presented in the table. Using this assumption, each of the team members of the Houston Rockets earned about fifty thousand dollars from the team's collective accomplishment. Obviously, this is not a trivial amount of money by the standard of the typical wage earner in the United States. However, the extent to which it acts as an incentive to team play as opposed to individualistic play in the NBA is suggested when it is put alongside the compensation paid to the athletes on the team. Doing so makes it clear that collective rewards pale in significance when compared to the rewards for individual accomplishment. In a year in which Houston's Hakeem Olajuwon earned \$9.65 million, Clyde Drexler \$5.5 million, Charles Barkley \$4.695 million, Brent Price \$1.6 million and Kevin Willis \$1.5 million, it is doubtful that the amount available for each player in the playoff pool acted very powerfully to motivate team play.⁵⁷ The same is true for the team which earned the highest rewards from the playoff pool, the Chicago Bulls. Per player, the Bulls earned \$170,474.00 from that pool. But placed in comparison to the \$30.14 million earned by Michael Jordan, the \$9 million earned by Dennis Rodman, the \$3.96 million earned by Toni Kukoc, the \$3.84 earned by Ron Harper, and the \$2.79 million earned by Luc Longley, all of whom played for Chicago, it is very unlikely that the prospects of playoff pool earnings figured urgently in the considerations of these players.⁵⁸ In a league in which sixteen players earned an annual income in 1996-97 equal to the entire playoff pool to be distributed to all of the clubs combined (\$7 million) and the summation of the annual salaries paid to the top five players on each team was \$583.8 million, it seems quite likely that players fantasize more about how much they can earn

56. Computed from data in Table 3.

57. See *1996-97 NBA Player Salaries*, *supra* note 44, at D6.

58. See *id.*

by scoring points than they do about the rewards available for team success.⁵⁹

Given the magnitudes involved, it is clear that it would take a fundamental change in the structure of earnings to move the incentives for team accomplishment anywhere near to parity with those of individualistic achievement. To be successful in motivating team play, the playoff pool would have to grow massively relative to individual compensation. Doing so would elevate the importance of collective compared to individual achievement and thereby create conditions conducive to a resurgence of team and cooperative play. The fact, however, that neither the NBA nor the players' union have raised the subject for discussion in collective bargaining, suggests that such a reallocation is not going to occur any time soon. It remains to be seen what the owners will attempt to accomplish having recently opened the collective bargaining agreement for renegotiation. But there are no reports that they have in mind anything so dramatic as changing the structure of incentives under which the players presently perform. Similarly, though the players' union has expressed concern about the increasing inequality of income which has recently evidenced itself, there is no sign that the NBAPA is moving in the direction of a more collective compensation system than presently exists.

The fact remains that all is not well with professional basketball. The league's commissioner, David Stern, has suggested that almost half of the teams are failing to earn a profit.⁶⁰ Furthermore, neither overall fan attendance as a percentage of capacity nor television ratings have increased during this season. Rather, the fact is that it looks very much as if the growth curve is decelerating. If this continues, it may be that at some time in the future, in order to correct the tendency towards stagnation, the league and its players may turn to the quality of play as an issue to be examined. In doing so they will find, that indeed, the anecdotal evidence is correct, that the sport is characterized by too much individualism and not enough team play, and that this pattern is at least in part a response to the structure of incentives present in the current system of compensation. Despite the fact that a reconsideration of the structure of incentives in compensation is not on the current agenda, a reform of how players in the NBA are paid may yet receive serious attention. If so, basketball may return to its aesthetically most satisfying roots of cooperation and team play.

59. *See id.*

60. *See David Stern and Russ Granik Press Conference Mar. 23, 1998, (visited Oct. 26, 1998) <<http://www.nba.com>>, at 2.*