

Personnel Economics in Sports

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Personnel Economics is the eighth book in the “New Horizons in the Economics of Sport” series. The book, edited by Neil Longley, examines the topic of personnel economics through the lens of sport. The text is divided into three parts: recruiting and human-capital development; pay, performance, and incentives; and teamwork and the impacts of management. As Longley states, this book is the first “attempt to pull this body of knowledge together into a more unified theme” (p. xi).

In Chapter 1, “An Introduction to Personnel Economics and Its Application to Sport,” Longley provides a foundation of how personnel economics are applied in nonsport settings. The chapter begins with a short discussion of several areas in which personnel economics is applied: recruiting; training and development; incentives, compensation, and performance; and the organization of work. The literature provides information for even noneconomists to be able to understand some the important works in this field. The second portion of the introductory chapter discusses the history of how unique the employment market is in a professional-sport setting. After that historical review, Longley discusses the current employment market in professional sport and how collective-bargaining agreements influence things like roster size and makeup, entry rules, player mobility, team payrolls and player salaries, and, specifically, European soccer. In the final section of the chapter, Longley returns to his initial discussion of the functional areas of human resources by providing some examples of how each of them can be applied in a professional-sport setting. This chapter is a fantastic starting point for those who are interested in personnel economics and its application to the sport industry but do not have a background in economics.

Part I of the text, “Recruiting and Human Capital Development,” consists of two chapters that examine the topic in professional sports. Chapter 2, “The Failed Promise of the Draft in the NFL and NBA,” examines the history of why the National Football League (NFL) and the National Basketball Association (NBA) instituted a player draft in their leagues and why the promise of the draft may have not lived up to expectations. This chapter provides a great deal of historical information. Chapter 2, written by David Berri, opens with the story of the 1934 University of Minnesota Golden Gophers and their star player, Clarence “Stockyard Stan” Kostka, who became the target of a bidding war between the Philadelphia Eagles and Brooklyn Dodgers. Having lost the bidding, Eagles owner Bert Bill developed what would become the foundation of professional drafts from that point on, the reverse-order draft. While this type of draft is presented as a means to distribute the most-talented players across the leagues, it is also a great way to contain costs for the owners. Throughout the chapter, numerous

economic studies are introduced to support the assertion that while the promise of the draft is altruistic, its implementation has been unsuccessful due to the lack of economic rationality being used by the sport organizations that participate in the draft process. Chapter 3, authored by Joachim Prinz and Daniel Weimar, is “The Golden Generation: The Personnel Economics of Youth Recruitment in European Professional Soccer.” This chapter discusses how the labor market in the soccer industry compares with the nonsport labor market. While there are numerous differences between the two labor markets, “one aspect is the same: as with other (nonsport) workers, the general aim of the soccer player is to maximize marginal productivity and lifetime earnings” (Ashworth & Heyndels, 2007).

Part II of the text contains two chapters that examine “Pay, Performance, and Incentives,” in the sport setting. Chapter 4 is “Determining the Drivers of Player Valuation and Compensation in Professional Sport: Traditional Economic Approaches and Emerging Advances.” This chapter, written by Christian Deutscher, discusses traditional human-capital concepts that are still being used to explain productivity and salaries in the sport industry, while also presenting new concepts that might be more appropriate in analyzing player productivity and corresponding salary incentives in sport. Chapter 5 is “Multi-period Contracts as Risk Management in Professional Sports.” This chapter, written by Joel Maxcy, begins with a discussion of how free agency has affected player compensation. In addition to this discussion of player compensation, the author takes the opportunity to update a previously published article on the topic with updated data. The results of the original article were confirmed, with one exception. The new analysis suggests that the probability of a long-term contract increases only when the player has full market power in free agency with no arbitration attached.

Part III, “Teamwork, and the Impacts on Management,” consists of the final three chapters in the book. Chapter 6, “Impacts of Co-worker Heterogeneity on Team Performance,” is authored by Robert Simmons and discusses the importance of a team’s diversity in their performance, which comes from “productivity spillovers” that are the result of the team’s heterogeneity. Simmons provides a plethora of examples of research on coworker effects on team performance across numerous sports, and this chapter lays a great foundation for both those who want to gain a deeper understanding of this topic and those who want to extend this line of research. Chapter 7 is “Pay Dispersion and Productivity in Sports.” The author, Leo Kahane, discusses the impact of wage or salary dispersion on worker productivity. There are two main models presented: the fairness model and the tournament model. This chapter presents 23 articles that tested the two models, and the findings suggest that papers focusing on team sports (baseball, basketball, hockey, football, and soccer) support the fairness model, while papers examining individual sports (golf, foot racing, tennis and auto racing) support the tournament model. Chapter 8 is “Magicians, Scapegoats and Firefighters: The Peculiar Role of Head Coaches in Professional Soccer.” The author, Bernd Frick, discusses evaluating CEO performance and compares top-division German soccer coaches with corporate CEOs. Frick uses 20 seasons of data from the German Bundesliga, examining 131 managers who were terminated during that time frame. As we know, poor results often lead to coaches’ losing their jobs, but there are also a number of reasons that may lead to a coach’s not being dismissed despite a team’s poor showing.