

# An Economic Analysis of Sports Agents for the NBA

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## Abstract

An agent is basically a broker or middleman who aids the player in his search to sell his or her services for the greatest amount of money. Some sports writers have asserted that there is a significant difference between salaries negotiated depending on whether the representative of the athlete is a lawyer or a dedicated sports agent. If this is true, then the number of clients represented would tend to be towards the one which negotiated the highest salaries, *ceteris paribus*.

We have compiled data off of the internet and used it to run regressions to answer this question. Our results indicate that there is no statistically significant difference.

## Introduction

A sports agent is basically a middleman or broker for the services of an athlete who wishes to work for a salary. Bob Woolf pioneered this service as a sports lawyer (Woolf, 1976).

Many athletes observed that he could get them a higher salary than they could bargain for with a minimum of difficulty. In Donald Dell's book he reported that as a sports lawyer he could get his clients higher salaries with hardly ever a contract conflict. He said that this was in part due to the fact that he had been a top tier athlete himself (Dell, 1989). In Woolf's second well received book he recounts his success as a sports agent. He states that his firm negotiations resulted in higher salaries for his clients without bankrupting the team's owner (Woolf, 1990).

The authors have modeled the negotiation process as they set out in one of their earlier papers (Leonard, & Prinzinger, 1991). There Leonard and Prinzinger found the use of a random element led to the spectrum of salaries which are observed even when the collective bargaining places certain limits or ranges on these salaries. In a book by Kenneth Shropshire and Timothy Davis the history, law and analysis is presented (Shropshire, & Davis, 2002). They report that there is a view in sports that sports lawyers are ethical and sports agents are not. In Mel Stein's 2008 book he gives the reader an analysis of the nuts and bolts of the sports agent's work (Stein, 2008). Although Stein concentrates on UK soccer and rugby, his presentation of the law and application of the agent services preformed are of great value in understanding of the sports agent work regardless of what country it takes place in. In the most current book, *Never Make the First Offer*, Donald Dell and John Boswell, shows their interesting negotiating strategy (Dell, & Boswell, 2009). It is difficult from the athlete's side to gain the strength of the deal when the owner has a long time horizon and the athlete's professional career is fleeting. The owner has the advantage also of years of experience in negotiations and usually has the press on his side.

The internet has opened up a source of data for the study of sports economics. We will continue the paper by presenting a theory of the sports agent, testing this theory using regression analysis and finally reporting the conclusion of the paper.

## Theory

An agent is basically a broker or middleman who aids the player in search to sell his services for the greatest amount of compensation. The question of whether to use such a representative is one which professional athletes face and now is mostly answered in the affirmative. Some writers make a big distinction between the sports agent and the sports lawyer, but both come between the athlete and the general manager or owner and ideally for the athlete to succeed in negotiating a contract that is amenable to both parties. Professional athletes being rational will tend to gravitate to the best performing broker or middleman and thus one obvious measure of the strength of a sports agent or sports lawyer is the number of clients which he represents. This can be refined by examining the nature of the professional athlete in his sport.

Is he an all-star? Does the agent obtain for his client the maximum salary which collective bargaining agreements allow? Is the characteristic of lawyer or agent important to those he seeks to help? Let us cast this into an equation in which we can explain the number of players committed to a particular agent.

$$\text{Number} = f(\text{All-Stars}, \text{Max}, \text{Law}, \text{total salary}) \quad (1)$$

Where:

- (N) = Number of NBA players represented by a particular agent
- A = Number of players designated as All Stars
- M = Number of players that receive Maximum Salary allowed by union contract
- L = Dummy variable; one if the sports agent is a lawyer
- TS = Total Salaries of all the players that are represented by the agent

## Empirical Results

We linearize this function to make equation two which can be estimated via regressions. Note that we left off agents who have no clients so as not to generate a singular data matrix. The regression results are as follows.

$$N = 0.87 + 4.83A - 2.75M + 1.33\text{NAT} + .03\text{TS}$$

(0.36) (5.23)\*\*\* (-2.11) (0.53) (4.25)\*\*\*

Where:

\*\*\* = the .99 significance level  
 \*\* = the .95 significance level  
 \* = the .90 significance level

The data set for this regression was derived from the HoopsHype website (Agent, 2010). It has 87 observations. The regression has an R<sup>2</sup> of .92 and an F statistic of 21.58\*\*\*. Note here that the only two variables that are statistically significant in attracting basketball players to a particular agent at the numbers of all stars that the agent has signed up as clients and the total amount of salaries that the agent has negotiated for his clients.

To see if sports agents that are lawyers attract more NBA players we use a dummy variable law. However, this reduced our data set to only 16 observations since few of the agents listed in the data set could be identified as either a lawyer or not a lawyer. The new regression is as follows.

$$N = 1.22 \quad -.60A \quad -3.23M \quad +1.20NAT \quad +.25TS \quad -2.28L \\ (.38) \quad (-.57) \quad (-3.24)*** \quad (.35) \quad (10.72)*** \quad (-1.52)$$

The R<sup>2</sup> for the regression is .92 with an F of 49.53\*\*\*. The larger data set has less of the variance explained, but both all all-star and the total salary variables are positive and statistically significant. Including the dummy variable for law may give some descriptive statistics, but fewer variables are statistically significant with the expected signs. The intercept term although having the correct sign is statistically insignificant. With a total salary coefficient of .25, the agent would have to have another 4 million in contract dollars to attract another client. In the larger estimation, representing an all-star causes five more clients to join that agent or lawyer. However, getting two players a maximum contract would fully reverse that effect. The negative sign for the variable max greatly puzzles the authors but note that the variable is statistically insignificant. That a (presumably) ethical lawyer would lose 5 clients just because he is a lawyer does not bode well for the honesty and integrity of the athlete and the whole process. Although Nationality does have a positive sign, it is not statistically significant. This may be because most of the agents are from the US and few are from abroad.

## Conclusions

A sports lawyer or agent who gets his clients higher remuneration will represent more of them. Likewise agents who negotiate for all-stars attract more clients through word of mouth. However, the negative sign and the size of the t-statistic for the number of maximum contracts negotiated is a puzzle. The dummy variable for nationality is not promising, although the one for law has a sizable t value. The sign on the law variable is negative which is backward from the common belief that lawyers should attract more athletes.

As usual the authors would like more data. The presence of multiple years for the total salary suggests that a panel study could be done and that the results would give us a better analysis of the sports lawyer. Another model could be chosen, but the idea of a supply and demand study seems implausible when many negotiation rates are standardized.

As is often the case, there are several direct extensions of this research that suggest themselves. The lawyer or agent may also represent athletes in baseball, football, hockey and perhaps even soccer. If any data worth mentioning becomes available, an economist may turn to women's sports such as in the WBNA or women's professional soccer. Individual sports can be studied, but there the individual makes or breaks his or her career with solo performance. Sports is part of the field of entertainment and this too is amenable to economic analysis.

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