



Bridgewater State University

Virtual Commons - Bridgewater State University

Honors Program Theses and Projects

Undergraduate Honors Program

5-14-2019

The LeBron Effect: Is a Superstar Worth the Money?

Colin Josselyn

Bridgewater State University

Follow this and additional works at: https://vc.bridgew.edu/honors_proj



Part of the [Business Administration, Management, and Operations Commons](#)

Recommended Citation

Josselyn, Colin. (2019). The LeBron Effect: Is a Superstar Worth the Money?. In *BSU Honors Program Theses and Projects*. Item 379. Available at: https://vc.bridgew.edu/honors_proj/379

Copyright © 2019 Colin Josselyn

This item is available as part of Virtual Commons, the open-access institutional repository of Bridgewater State University, Bridgewater, Massachusetts.

The LeBron Effect: Is a Superstar Worth the Money?

Colin Josselyn

Submitted in Partial Completion of
the Requirements for Commonwealth Honors in Management

Bridgewater State University

May 14, 2019

Dr. Todd Harris, Thesis Advisor
Dr. Kathleen Ferris-Costa, Committee Member
Dr. Jakari Griffith, Committee Member

Table of Contents

Abstract	3
Introduction	4
Methods	10
Results	14
Discussion	18
Works Cited	26

Abstract

Every industry has superstars. Whether it's the entertainment industry, the music industry, or the sports industry, superstars are everywhere. Sports are perhaps where we most commonly see and pay superstar athletes the most. Some athletes drive fans to come and flood the area near the arena. These "superstar" athletes cause a buzz and can bring in more and more fans to spend money both inside and outside the arena. In this paper using a combination of qualitative and quantitative methodologies we research NBA superstar LeBron James and his possible impact on the franchises he plays for in the cities he has played in throughout his career. Through analysis of three factors we will be able to bring together multiple statistics to see whether bringing in a superstar to a franchise is actually worth all the money they cost. These three factors include the performance of the team, impact on attendance, and franchise valuation. The amount of research on the area of a superstar's effect on both private organizations (the sports franchise) and municipalities (should the cities help finance moves for superstars) is very small and understudied. Through this research, a new viewpoint of a superstar's impact will be formed. Over LeBron's 11-year career and his journey to three different cities there is plenty of data available to determine if having a superstar player in your franchise is really worth it.

Introduction

Stars, everywhere we look in our world we see stars. Most often we see the stars shine best at night when the sun goes down, that is the time for the stars. Almost all people on this planet have at least one if not a few stars they constantly look up to. Looking up to these stars fills people up with all sorts of positive emotions. We constantly wonder how those stars got there and how they continue to shine for such long periods of time. The funny thing is, it is not just the stars in the sky that are being described. This also describes the stars we see on television, in music and more importantly where this study will be concentrating, in sports. These stars are people we follow religiously whether it's by watching their movies, ~~or~~ listening to their music, or following them during every one of their games. People of all ages tune into follow their stars. Something many people don't consider is the amount of financial costs these stars come with and before we go deeper into that it is important to first define some characteristics of what a star/superstar is.

What is a Superstar?

There are superstars in every profession, whether it is a doctor, actor, musician, or athlete. In every profession there are stars who stand out among the rest. As noted by Sherwin Rosen in his revolutionary paper *The Economics of Superstars*, superstars are “relatively small numbers of people (who) earn enormous amounts of money and dominate the activities in which they engage” (year). Even though there may be a small number of these so called “superstars” in each profession they take in a lion's share of the profits. It is important, however, to ~~also~~ note that defining a superstar is subjective because there are so many metrics to analyze and opinions to consider on what truly makes a superstar. There are many stars that are very good in their line of work, but whether they are superstars is constantly up for debate. If we look in the field of

professional sports where the majority of this paper will be focused, we find that some people define stars as athletes who receive the majority of all-star votes to all-star games. These stars stand out to fans and organizations because they can increase attendance, television ratings, merchandise sales, and other sources of revenue beyond individual contributions like an increase in road attendance. A lot of athletes can have one good and above average season, but does this constitute them to be able to be given the title of a superstar? Perhaps a fuller definition of a superstar in the NBA is “a player needed to be highly touted upon entering the league, be widely considered one of the leagues premiere talents, exhibit extended excellence on the court throughout his career and not regress to a point that they are no longer a centerpiece of their team” (Humphreys, year). This is a pretty full definition of a superstar as it pertains to the area of the NBA and that of LeBron James, the focus of this research who fulfills all parts of that definition. As previously stated, athletes are not the only people who can be defined as superstars.

Superstars Come in All Shapes and Sizes

The entertainment industry is chalk full of superstars. There are a handful of people in the entertainment industry who collect major paychecks. More specifically, actors can be characterized as stars for many reasons. Actors who have critically acclaimed acting skills possess personality traits that appeal to moving audiences, attract a lot of publicity and have the ability to secure investment are generally defined as “stars” in the entertainment industry. Attracting publicity is vital to a person being defined as a superstar in any profession. Whether it is word of mouth from people telling each other about how great that person is or the more likely method of seeing the past success of their careers. Stars usually become prominent due to their exceptional skill that leads to successes. These successes are what the majority of people base

their perception of a star on. We call someone a successful athlete if they have championships and most valuable player awards. Star salespeople may have accolades like fastest sale closing or biggest sale made. A musician may have Grammys or platinum records, an actor an Oscar or a Golden Globe. All these successes lead to increase in fandom and people wanting to follow this successful person's career. This is often how we see star athletes receive eye opening contracts worth millions.

Athletics is only one profession where this type of previous success-based profits and investments are made. In the acting profession this leads to an increase in the ability to secure investment from outside investors to fund new productions and all the costs associated with that. This is due to the fact that these investors see that this actor or actress has been successful in the past so they will probably be successful again. These high ranked stars make their teams more visible to others and this makes it easier to secure resources. In the entertainment industry a high-ranking star joining the cast of an upcoming movie can trigger a so called "green light" for investors, producers, distributors, and exhibitors. These stars actors soon go on to make major profits for their investors. However, past success doesn't always determine future success. In *The Power of Stars: Do Star Actors Drive the Success of Movies?* "research typically does not account for the notion that studios may employ bigger stars for movies that are expected to generate higher revenues or that the most powerful stars may be able to choose the most promising movie projects" (Elberse). It is an interesting observation, but either way it further proves that superstars can have an immense amount of power and attractiveness to bring in profits and success. Another question arises and that is if one star adds that much value to a film production or a team what about adding another superstar. Elberse's research states that two stars on the same production can drive a project to bigger success because they could continue to play

up to each other's talents and performances. However, if additional stars were to be added to the production or team, a diminishing return of value begins to take place. This means that each additional star's presence will begin to affect the success of the production less and less to the point that if there are too many stars, the production could potentially begin to see a negative return and that can hurt the success of the project.

Economic Impacts of Superstars

As we can see there has been a substantial amount of research to define a superstar and a fair amount of research done in professions other than sports done on the impact of star actors in the success of movie production, but what does all this have to do with business and how does it all pertain to this study? This study will be focusing on the impact of superstars on local businesses and economies and whether or not the large amount of money being given to these superstars is truly worth it. To answer these questions LeBron James and his NBA career will be studied, researched and analyzed in depth. What we know is that thousands of people travel to and from stadiums and arenas to watch their team play. This means there are a few benefits of sports franchises in cities. First, there are direct and indirect economic impacts of having sports franchises. Fans traveling to the games spend money on activities associated with attending the games. This could mean paying for public transit, Ubers, drinks, food, gas, and even parking. People who may not reside relatively close to these arenas could stay in hotels after games, which leads to an increase in hotel business as well as spending on local food and other local attractions. It is estimated that five percent of all visitors stay in a hotel for one night. Even if no person stayed in a local hotel there is the fact that the visiting teams' players, coaches, trainers, and media all have to stay somewhere and spend money on the local economy for food and lodging. The referees of all these games also have to stay in hotels and eat as well. So just how

much money are all these visitors spending? *The Economic Impact of the Pirates* found it is usually somewhere between \$800,000 and \$1,000,000. This number could be even higher now due to inflation and increase in the amount of media since the study was published in 1995. No matter the figure, all this leads to income for local workers and vendors who then in turn spend that money generating additional activity. These sports franchises are also advertising the region they are located in which could attract tourists to stay there and contribute to the economy. These franchise could also make the area more attractive to businesses so there is the possibility that companies would want to locate themselves near the arenas. There are also psychological benefits that occur when a city has a sports team due to the fact that the residents of the region can have a sense of community spirit and civil city pride. All these benefits are happening in 34 cities that have a major sports team across the country.

Before we delve further into the paper I think it is important to touch on the role of superstar athletes throughout history. Every era of sports has been full of superstars, but have the roles of superstars changed? I personally do not think roles have vastly changed over the course of history. Take Babe Ruth for example. He was a superstar on a very talented New York Yankees team in the early 1920s. His role for the club was to produce on the field in the form of home runs and wins, but more importantly he was brought in to put people in the seats. If we move onto other eras there are similar roles for superstars everywhere. We can look at the soccer legend Pele who was paid lots of money to put fans in seats. Every era of every sport there are stars who are getting paid for two things that economists Robert Frank and Phillip Cook define as “performance and concentration of rewards”. These two economists are famous for their book titled *The Winner Take All Society*. In this book they elaborate on the fact that superstars are responsible for the lion’s share of the market’s money. Meaning the best get paid way more than

the next best. This is a relatively new concept in terms of sports because it hasn't been until recently that players have been paid these massive amounts of money. This is perhaps the only change we can see between superstars past and present. There is belief that the role of the superstar as being a very successful player, as well as having exceptional people skills, has not changed drastically over the years. These athletes are there to drive fan attraction and put them in the seats. The main thing that has changed over the years is the amount of money these superstar athletes earn.

Bringing It All Together

Basketball players out of all of the major four sports on average get paid more guaranteed money per year. This means that NBA franchises dish out the most money relative to the NFL, MLB, NHL, or even MLS. This increased investment comes with an increase in the sense that the huge investments in these players is worth it. All of the NBA franchises are privately owned, but their success often goes hand in hand with the local economy and since that is true the whole premise of this paper is to see if one player, a superstar player (LeBron James) has the ability to positively affect both a franchise and the local economy. This research is important because we are seeing an increase in the prevalence of superstars. The increase in the numbers of superstars has impacted not only individuals or communities in which these superstars are located, but society as a whole. It is through the research conducted on the following pages involving the team performance (win-loss), team attendance home and away, and the franchise's valuation we will be able to come to a conclusion that answers the following questions. Is the high price paid to bring in superstar athletes worth it? What effect if any do superstar players have on the local economy?

Methods

In this section the discussion will be mainly about how the research was conducted. In this section there will be three main sections. The first section is the definition of a superstar as it pertains to this paper and research. Secondly, the variables that will be researched and used to answer the questions that concluded the introduction. Finally, the sources and studies of these variables will be discussed.

Defining a Superstar

There is no universal definition of a superstar. Depending on the industry, occupation or the time the article was written differences in definition of a superstar are most likely present. Even within in the same subject area there are different definitions, such as the two definitions described in the Introduction of this paper. For the purpose of this paper, the definition that Humphreys defines is that will be used which states that a superstar is “ a player needed to be highly touted upon entering the league, be widely considered one of the leagues premiere talents, exhibit extended excellence on the court throughout his career and not regress to a point that they are no longer a centerpiece of their team” (Humphreys). LeBron meets all of the parts of that definition. LeBron was very highly touted out of high school. In fact he was drafted straight out of high school in 2003. There was a huge buzz around him entering the league and his impact was almost instant. In his rookie year he won Rookie of the Year and within 5 years of entering the league he won his first most valuable player of the year award. Currently in his sixteenth season LeBron, has four MVPs and three NBA championships as well as multiple trips to the finals. In Humphreys’ paper in Table 3: Superstar Credentials (seen below) we can see all of the various metrics used to compare big names and superstars over the history of the NBA.

	Seasons Played	Draft Pos.	All-star games	All star votes per season	Champ. Won	MVP awards	Avg. VORP per season	Average win shares per season
Larry Bird	13	6	12	500,354	3	3	6.12	11.22
Magic Johnson	13	1	11	577,633	5	3	5.95	11.98
Michael Jordan	15	3	14	995,460	6	5	6.97	14.26
LeBron James*	16	1	15	Around 1.5 million	3	4	8	14.03
Tim Duncan	17	1	14	1,099,762	53	2	4.87	11.26

*I have updated the statistics to the most up to date numbers so these number for LeBron James will differ from the ones in Humphreys original table

By looking at the table above it is clear to see that LeBron has stats very similar if not better than some of the best players in the history of basketball. His case for being a superstar is undeniable. LeBron is still a major centerpiece on his current team the Los Angeles Lakers and there has been no regression in that aspect.

LeBron vs. NBA Average

	Win/Loss	Attendance	Valuation	Salary
Cleveland 1				
(02-03 vs 03-04)				
Miami				
(09-10 vs 10-11)				
Cleveland 2				
(13-14 vs 14-15)				
Los Angeles				
(17-18 vs 18-19)				

The table above, which will be referred to the LeBron vs. table, is a simplified way to examine multiple data points to compare LeBron's impact on his team upon his four "arrivals" to that of the same franchise for the year before. The table contains the three factors that will be used to determine LeBron's impact. These three factors will include team performance or win/loss record, average attendance, and then franchise valuation. The next portion of this methods section will go into greater depth for each factor.

Team Performance Metrics

Three main variables will be used to conduct research and used to answer the questions "Is a superstar really worth the money and what impact do these superstars have on their team and franchise"? The first variable that will be looked at is team performance or essentially the win-loss record for the team that year. The team that LeBron is on that year will be compared to 5 teams who had similar records to the teams LeBron joined/ average win- loss record. What this means is that the season before LeBron joins a team the record of that team lets say its Miami. Miami in the 2009-2010 went 47-35 so the next step is to find five teams with similar records and the compare those teams average change to the percent change in LeBron's teams. We will be defining these win-loss records within the regular season and the teams that do not make the postseason do not get forgotten and the teams that do make the postseason do not have a skewed calculation. Every team in the league plays at least 82 games. The win-loss records being used in this paper will begin in the 2002 season or the season before LeBron entered the league. So these team performance metrics will be looked at from the 2002-2003 NBA season to the current NBA season. Using the basketball reference website and the historical league standings section the historical records can be accessed and used for research. This website contains the win-loss

records for every team dating back to before the 2002-2003 season up to the current win-loss record of every team.

Attendance Metric

The next variable that will be used is the average attendance or the average number of people traveling to the arena to watch LeBron play. In this variable there are multiple types of variables that fall under this “attendance” header. First there is the average home attendance or the average attendance of the games where the NBA team LeBron is playing on resided. This will either be Cleveland, Miami or Los Angeles. There also will be the average away attendance or the average attendance of the games where LeBron’s team traveled to play another team. This number is a lot more important than the average home attendance, but that will be discussed in later sections. The last attendance variable will see if a team is consistently selling out the arena. Since the seating capacity of every NBA arena is different this could mean that even if a team is selling arenas they could possibly have a lower game attendance solely because the arena they play at is smaller than another arena who could seat more people. All of these numbers will be found in ESPN’s attendance report. This report has the total home and away attendance per team, as well as the average home and away attendance per team. These reports also include the percentage of capacity for each arena, to determine whether or not one stadium is perhaps bigger than another. In the LeBron vs. table this metric will be presented as a percent change whether increase or decrease from the previous year. LeBron’s arrivals and percentage change from that will be compared to the average league attendance change.

Franchise Value

The last variable that will be used to answer the overarching question is the franchise valuations. These valuations give dollar amounts of how valuable a franchise or sports team is.

This statistic includes multiple statistics, but essentially it can be used to see if there is an impact of LeBron James joining a team or not. The team that LeBron plays for will be compared to the league average franchise valuation. In the LeBron vs. table this information will be presented as percent increase or decrease from the year before LeBron arrived and then his first year with the team. Forbes magazine comes out every year with a NBA franchise valuation so that valuation is what will be used. Franchise valuations have continually increased since LeBron’s entrance into the league and they have tripled over the last five years due to the international growth of the NBA. Forbes calculates these valuations by using revenue multiples (equity plus net debt), these multiples are based off of teams arena deals, media deals, and sponsorship deals and added to revenues and operating incomes. These franchise valuations will then be used to compare to the league average as well as if LeBron had recently changed teams the affect that his departure and arrival had will be looked at. (2018 NBA valuations can be found using here <https://www.forbes.com/sites/kurtbadenhausen/2018/02/07/nba-team-values-2018-every-club-now-worth-at-least-1-billion/#5b852bea7155>)

Results

	Win/Loss		Attendance				Valuation	
	LeBron	5 teams	Home	Away	L. Home	L. Away	LeBron	League
Cleveland 1 (02-03 vs 03-04)	105.9%	6.0%	59.1%	16.6%	2.1%	1.2%	16.2%	6.4%
Miami (09-10 vs 10-11)	23.4%	0.1%	11.6%	7.8%	1.2%	1.2%	16.8%	0.5%
Cleveland 2 (13-14 vs 14-15)	60.6%	10.2%	18.7%	8.8%	2.6%	2.4%	77.7%	74.5%
Los Angeles (17-18 vs 18-19)	5.7%	18.0%	0.3%	1.4%	-1.2%	-1%	34%	13.1%

Green coloring represents a positive increase in the metric and, red represents a decrease in the metric.

Win/Loss

Win/loss record is the fourth and final factor is being used to determine whether or not a superstar is truly worth the money. We will compare LeBron's percentage win change to the average of the five teams who finished with a similar record to LeBron's team the year before his arrival. Upon LeBron's first arrival in Cleveland, the Cavaliers saw an 105.88% increase in the number of wins from the previous. That's almost a 100% increase compared to the five teams nearest the Cavaliers the year before. This 105.88% increase in wins signifies the biggest change in wins out of all four of LeBron's arrivals. LeBron's next arrival in Miami had the Heat see an increase of 23.40% in wins. This is a sustainable change especially considering the fact that the five teams closet to the Heat in the 2009-2010 season saw an average of .08% less wins than the year previous. Upon arriving back in Cleveland, LeBron and the Cavaliers saw a 60% (60.60%) increase in the number of wins compared to the year prior. This is more than 50 percentage points higher than the five teams with similar records. LeBron's most recent change of scenery didn't prove to impactful to his team as the past when it came to the win column. The Lakers only saw a 5.71% increase in the number of wins compared to the previous season. That's two more wins than last season and represents the first time LeBron hasn't made playoffs since very early in his career. The five teams similar to the 2017-2018 Lakers saw an average increase of 18.04% in the number of wins. This is the only time in LeBron's four arrivals that his team saw less of a win increase than the five-team average.

Overall Impression: LeBron James has had a significant and positive impact on the number of wins for his franchise. All but the most recent arrival has been well above the average of the five nearest teams.

Attendance

The attendance metric is broken into two sections, home and away. Upon LeBron's first arrival in Cleveland the average home attendance for the Cavaliers increased about 60% (59.07%) compared to the previous year. The Cleveland franchise had their home attendance increase about 57 percentage point more than the league average of 2.08%. In the same time frame Cleveland's away attendance increase about 17% (16.59%). Compared to the league average of a 1.15% increase there is another big difference. LeBron's departure from Cleveland after the 2009-2010 season led to his arrival in Miami. Home attendance for the following season saw an 11.55% increase whereas the league average home attendance only saw an increase of 1.18%. For away game attendance Miami saw an increase of 7.8% and the league saw an increase of 1.18%. After his stint in Miami LeBron returned to Cleveland and with his return he brought increases in both home and away attendance. For home attendance the increase was 18.66% and for away attendance there was an increase of 8.78%. The league averages between the 13-14 season and the 14-15 season were the biggest increases we saw over the four arrivals. However, the average home attendance for the league only increased 2.59% which is very minimal compared to the 18.66% that Cleveland saw. The league saw an average away attendance increase of 2.36%, but again this was smaller than the 8.78% increase of Cleveland's away attendance. LeBron's latest arrival in Los Angeles represented the smallest percent change that occurred upon his four arrivals. The Lakers home attendance only increased .33% and their away

attendance only increased 1.40%. these are very small compared to the percentage changes from previous arrivals, but an interesting thing to note is that while his Lakers saw increases in both attendance, whereas the league saw a decrease in both home (1.18%) and away (.96%) attendance. This section can be analyzed in many different ways, most of which will be done in the discussion, but the difference in percentages between LeBron's arrivals and the league average is very helpful to be able to tell if the price of a superstar is worth it.

Overall Impression: LeBron's impact on attendance is very substantial and again it is all positive increases in people going to the games for the franchise that LeBron plays for.

Franchise Valuation

Franchise valuations for each of LeBron arrivals were compared to the average league percentage increase. LeBron's first arrival in Cleveland brought a 16.22% increase to the franchise valuation. The league had a fairly big increase of 6.42% during the same time frame, but it was still about 10% less than Cleveland's change. After the 2009-2010 season LeBron took his talents to South Beach and the Miami heat. His arrival in Miami saw the Heat's franchise valuation increase 16.76%. The league averages that year was less than 1% with the actual percentage being 0.54%. That's more than a sixteen-percentage point difference between the Heats change and the league average. Following his departure from Miami, LeBron arrived back in Cleveland for his second stint with the Cavaliers. This was an interesting arrival because with his arrival back in Cleveland the Cavs valuation increased over 77% (77.67%). However, the league average valuation increased over 74% (74.45%). This second arrival although it signified the greatest percentage increase in any of the four LeBron arrivals also was the smallest difference between the league average increase and LeBron's team increase. LeBron's latest arrival was his arrival to the Los Angeles Lakers. The Lakers franchise saw an increase of

33.98% between the 2017-2018 season and the 2018-2019 season. Over the same time frame the league average increased 13.11%. This most recent LeBron arrival is the biggest difference in percentage increase between LeBron's franchise and the league average.

Overall Impression: This metric shows an increase in every arrival for both LeBron and the league, however LeBron's franchise saw their value go up more than double the percentage points than the league's in all but one arrival.

Discussion

Are superstars worth the massive amounts of money they are Using LeBron James as a case study some of those answers are becoming more and more apparent. This study used four factors (team performance, franchise valuation, attendance, and salary) to gain insight into the nature and impact of a superstar.

Team Performance

Team performance or also referred to as the win/loss factor, is the first factor that will be discussed. Every one of the four LeBron arrivals resulted in his teams win amount increasing. All but his most recent arrival in Los Angeles showed the win percentage increase for the organization was greater than that of the 5-team average. LeBron also missed a good portion of the season only playing in 55 of the 82 games in the 2018-2019 season. For all of the arrivals, obviously all of the win increases aren't due directly to LeBron himself. Basketball is a team sport, but it is very interesting to see the contrast between his arrival at a team and the league average. It can be presumed that LeBron had a substantial impact in creating the difference between his team and the five-team average. Almost every year LeBron is in the top 3 for Most Valuable Player voting, so there is no doubt that he is consistently one of the best players if not

the best player in the league. What does an increase in team wins have to do with determining if a superstar is worth it or not? Firstly, fans love supporting successful teams. So, if a superstar player can come in and increase the number of wins for an organization and bring the franchise to the playoffs or even to a championship, the more supporters they will likely have. More fans and more people coming to watch the superstar means more money to the organization from ticket sales, concessions, jersey sales, etc. The postseason will also receive extra money from TV stations and ad sponsors to broadcast their games and sell television ads. All this additional money to an organization is a major reason why franchises would consider signing a superstar on such massive contracts.

Attendance

Attendance is perhaps the most important indicator of the effect a superstar has on a franchise as well as the city the franchise is located in. From the data collected in the results section we can see that LeBron has had a positive impact on attendance for all of the organizations that he has played for. This can be due to many factors. Some of these factors include his celebrity like status from his social media platforms, his performances in movies and shows, and the luxury lifestyle he lives. However, he would not have made it there if it were not for his athleticism. We may not know the actual reason people go to watch LeBron play, but what we do know is that a lot of people go to watch him play. His home attendance increased in each of his arrivals. Simply put, more people who live in or around the city that LeBron and his franchise play are going to the arena and watching the game. This increase in people traveling to watch LeBron play in person can have many positive benefits for not only the organization, but also the local economy. From the organizational perspective more, people translates to more money. This can happen multiple ways. The more people going to games means more

concessions (food and drinks) being sold during the game, as well as more gear like jerseys, t-shirts, souvenirs, and other apparel being sold. This money goes back into the organization. More people coming to watch home games means franchises could even start thinking about raising ticket prices due to the high demand of watching LeBron play in person. Home game attendance change can create revenue gains for a franchise. Now from a local economy perspective, an attendance increase can create jobs and profits. More people traveling to games means more people taking public transit and paying for trains, Ubers, taxis, Lyfts, etc. People who choose to drive into the games have to pay for parking and gas, more instant impact on the local economy. Increase in home attendance could also see hotels be busier on average due to people staying there after the games. Restaurants and bars would likely see an increase in business due to people wanting to stop in and grab something to eat or grab a few drinks before and after games. An increase in home attendance can create a lot of benefits and positive impact on not only the franchise, but also the local economy.

Now what about away attendance? Away attendance is also very important because it can show evaluate a player's popularity LeBron's away attendance is always higher than the league average. Wherever LeBron is playing that night people want to see him play. Away attendance can create revenue for LeBron's franchise in a few ways. One way is through television spots. LeBron and his prowess are more likely to see his games national televised, so his franchise can be paid to have their games nationally televised. Another way that it can create revenue is through apparel sales. Games on national television or even just playing in another city spread awareness of an organization and its players. This awareness can lead to generating a bigger fan base in cities all across the country leading those fans in a different city to purchase gear to support LeBron and his franchise. More people traveling to both home and away games can lead

to increases in revenue for a franchise, as well as have a substantial impact on the local economy due to the increased traffic in the area. This seems to point to another reason as to why superstars could be worth these massive contracts.

Franchise Valuation

Franchise valuation is a very interesting metric to look at because it encompasses seemingly all parts of an organization. Forbes (the website from which the data was used) calculates their valuations based off of revenues the franchise collects and debt the franchise has to pay.

Revenues for an organization include ticket sales, concession sales, pro shop sales, TV deals, and arena deals (i.e. advertising). Debts or revenue lost for a franchise include staff salaries, player salaries (which is by far the largest source of spent money), travel costs, and business operating expenses. With all this considered, we can see in all four of LeBron's arrivals there were big increases in franchise valuation percentage. The league average went up in all four arrivals, but LeBron's franchise increased double the league percentages in all but one arrival. This means that LeBron's arrival significantly increased the value of his organization. This increase could be due to many reasons like attendance, jersey sales, and advertisements. Franchises saw lots of growth in revenue when LeBron arrived. These franchises did however have to pay big chunks of change in order to bring LeBron in. Most recently LeBron's four-year contract with the Los Angeles Lakers is' worth \$154 million. That contract represents about a third of the entire team's salary. That is a lot of money to be paying one person, yet superstars everywhere are getting paid like that.

From the findings there is a lot of data that leans towards there being a "LeBron effect". It's not possible to say the direct reason that attendance, team wins, and franchise valuation all went up

strictly because of LeBron's arrival. However, there is a strong correlation to LeBron joining a franchise and those metrics increasing. So, based off this strong correlation one can assume there is a "LeBron effect" or a superstar effect.

So, what does all of this mean and what's its implication? These findings can have multiples implications. As discussed in the attendance section earlier, there is a good possibility that if a superstar player attracts more fans to the game the local economy near the arena could see a boost. Having the local economy take a boost could create a positive feedback loop. More people coming to the arena and the arena area means more money being spent in that area. More money being spent means people are making money, which then in turn could lead to those people spending money on tickets, apparel, and other things that go into team revenues and profits. An NBA owner should be very interested in bringing in a superstar for this reason. The possibility and actual likelihood of a superstar helping a franchise in more ways than one is a reason NBA owner should be interested. The big hesitation that NBA owners will have is the contract difference between a superstar and a non-superstar player. A superstar player will cost an NBA owner over \$20 million dollars to his franchise. However, a non-superstar player would be paid far less than that. This salary difference is a huge hesitation for NBA owners. Superstars are essentially an investment because the owner is banking on the superstar to come in and create impacts similar to what we saw in LeBron's metrics.

How do all these results compare to similar studies? Well if we look at the attendance metric from this study it is clear attendance was positively impacted when LeBron arrived to his new team. This is exactly what Brad Humphreys found in his paper *The Effect of Superstar Players on Game Attendance: Evidence from the NBA*. Humphreys found that Michael Jordan had a positive impact on both home and away attendance. His findings are parallel to the ones in

this study with LeBron as the case study. Also related to attendance is LeBron's impact on his opposing teams' franchises. By having a higher average away attendance LeBron brings money into his opposing franchise by increasing ticket sales, concessions sales, and other revenue forms just by being in town and playing in a different city. Jerry Hausman and Gary Leonard came to a very similar conclusion by observing Michael Jordan in their paper titled *Superstars in the National Basketball Association: Economic Value and Policy*. They found Michael Jordan brought a value of \$53 million to other NBA teams. Obviously, LeBron's value to other NBA teams is not calculated in this study, but it is a fair assumption to say his value is very similar if not more than that of Jordan's.

This study focuses on one player (LeBron James) and one sport (NBA) so the next question is whether or not this study is generalizable to other professions and sports. Sports is the easiest to compare. Looking at superstars in other sports like football, soccer, or baseball we can see some similarities. The hardest sport out of those three to compare is definitely baseball. Mike Trout the without a doubt best player in baseball just signed a contract worth over \$400 million. His on the field benefits are known. The MLB actually has a statistic, WAR or Wins Above Replacement. This stat compares a player to the average of all the other players at that position and determines how many more wins that player is responsible for. Trout is on pace for the highest WAR ever. Trout's celebrity like appeal isn't very big. Bryce Harper is perhaps the bigger celebrity in the baseball realm. His appeal is more likely to put people in seats. Soccer is the most comparable to this study and most notably the player is Cristiano Ronaldo. The forward for Italian club Juventus, Ronaldo boasts over 100 million followers on Instagram and is arguably the most famous soccer player in the world. His contract is around \$35 million per year. Within

the first year of his most recent arrival at Juventus the club saw a massive spike in club valuation. His impact is very similar to that of LeBron's and it might even be greater.

Generalizing to professions other than sports is a little bit harder. External validity as researchers define it is "the ability of a particular set of research results to be applied in another setting" (Campbell). As discussed in the introduction top actors and actresses are getting paid lots of money. These top actors and actresses or the so-called superstars of the entertainment industry fetch large sums of money for each contract they sign and each picture they make. Most of these superstars are paid such large sums because it is assumed that by having them on the cast of a movie or show there will be more people who will watch it. For the most part this is true. Actors like Dwayne Johnson or Will Smith create a buzz whenever they join the cast and this buzz creates interest and likely ticket sales which is what movies thrive on. Now for the most part in the entertainment industry having a superstar actor is worth it. There have been some instances where a movie or show has flopped even with the help of a superstar on the cast. The entertainment industry isn't the only industry where superstars are present and could be similar to the LeBron effect. If we look at engines for example, Honda manufacturers amazing engines for cars and lawn mowers they are superstar engine makers. Sometime their product may be more expensive, but they pay off a few years down the line could be worth it. Goldman Sachs is a superstar in the banking industry. There are superstars everywhere in every profession. Professional speakers can fetch tens of thousands of dollars for speaking at an event. How could that be worth it? A speaker can inspire a team or group to elevate their work and production which can lead to bigger revenues for the company. Generalizations between this study and other professions can be made with the right context taken into consideration.

As with almost research there are certain limitations. This paper solely focuses on one person (LeBron James) and one sport (the NBA). This lack of multiple people and sports can create limitations in being able to compare to other industries, but by doing it this way it allows us to gain very specific information. The nature of this study also only allows us to make assumptions based on the correlation between LeBron's arrivals and the changes in wins, attendance and valuation.

Further research in this area could lead to very beneficial information for general managers and owners of not only sports teams, but businesses everywhere. Research could definitely be expanded to include other sports and other industries. and more comparisons and conclusions could be made about the superstar effect. Another way to expand this research is by honing in specifically on one metric. For instance, if there was a more in depth look into attendance more information could be drawn as to the benefit of a superstar. By studying how traffic increases around game times, how many patrons are in restaurants before and after games, and comparisons between revenues for parking near arenas can be focused on and could truly prove the true effect a superstar could have on local economy and the true amount of people increase or decrease heading to the arena. There are many ways to expand this research, but these are a few that could lead to more valuable insight.

Works Cited

- 2018-2019 NBA Player Contracts*. (n.d.). Retrieved from Basketball Reference: www.basketball-reference.com/contracts/players
- Campbell, D. &. (1963). Experimental and Quasi-experimental designs for research.
- Elberse, A. (2007). The Power of Stars: Do Star Actors Drive the Success of Movies? *Journal of Marketing*, 71(4), 102-120.
- ESPN.com. (n.d.). *NBA Attendance Report*. Retrieved from ESPN: http://www.espn.com/nba/attendance/_/year/2006/sort/awayAvg
- Forbes Releases 21st Annual NBA Team Valuations*. (2019). Retrieved from Forbes.com: www.forbes.com/sites/2019/02/06/forbes-releases-21st-annual-nba-team-valuations/#2263d5bf11a7
- Frank, R. a. (1996). *The Winner Take-All Society*. Penguin Random House.
- Haulk, D. J. (1995). *The Economic Impact of the Pirates*. Allegheny Institute for Public Policy.
- Historical League Standings*. (n.d.). Retrieved from Basketball Reference: www.basketball-reference.com/friv/standings.fcgi?month=5&day=28&year=2004&lg_id=NBA
- How Superstars' Pay Stifles Everyone Else*. (2010, Dec 25). Retrieved from New York Times: www.nytimes.com/2010/12/26/business/26excerpt
- Johnson, B. R. (2017). *The Effect of Superstar Players on Game Attendance: Evidence From the NBA*. working paper, West Virginia University , Department of Economics.
- LeBron James Has Earned \$234 Million During His Career and is About to Make a Lot More*. (2018, Jul 2). Retrieved from Fortune: www.fortune.com/2018/07/02/lebron-james-career-salary
- Leonard, J. A. (Sept. 1994). *Superstars in the NBA: Economic Value and Policy*. MIT and Cambridge Economics. Cambridge, MA: MIT.
- NBA average franchise value 2001-2019*. (n.d.). Retrieved from Statista.com: www.statista.com/statistics/193442/average-franchise-value-in-the-nba-since-2000/
- Rosen, S. (1981). The Economics of Superstars. *The American Economic Review*, 71(5), 845-858.
- Rossi, D. G. (2008). *The Economic Effects of 'Muscle Drain' in Sports*. University of London. Birbeck Sport Business Centre .
- These Are the 2003/04 Salaries of All NBA teams*. (n.d.). Retrieved from HoopsHype: www.hoopshype.com/salaries/2003-2004
- Veuger, D. S. (May 5, 2017). *Taking My Talents to South Beach (and Back)*. Faculty Research Working Paper Series, Harvard , Kennedy School, Cambridge, MA.