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Commentary

Title:

*"Competing Tournament
Organizers: the case of LIV Golf
and the PGA TOUR"*

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Rank order tournaments are a fairly common compensation scheme which have been analyzed extensively by economists. Under such payment structures, workers are paid (at least in part) based on their performance relative to their peers. This is often done when worker effort is hard to observe, but there is some easily observable or measurable outcome that is thought to be highly correlated with worker effort.

Think of a firm that has a team of salespeople. While any particular sales call doesn't necessarily lead to a deal, all else equal, we'd expect that the typical salesperson would have more sales over the course of a month when exerting more effort. If the firm simply paid all salespeople a fixed salary, they would each have a reduced incentive to exert effort, since they could each plausibly chalk-up their low volume of sales to "bad luck" (recall, effort cannot be directly observed). If instead the company offers a \$5,000 bonus to the top salesperson each month, the workers now have an incentive to exert more effort in order to increase their sales (recall, even though actual sales are not a direct result of effort, they are highly correlated with effort) and be more likely to win the prize.¹

Ordinal competition of this nature is also common in the world of sports. Viewing sports competitions as entertainment, the contest or tournament organizer can have several different objectives. The organizer may want to: induce competitors to exert as much effort as possible; identify the best competitor in the field; have an outcome that is as uncertain as possible; attract contestants of higher quality to the competition. The world of professional golf – especially during the past year when LIV Golf (a startup professional circuit with financial backing from Saudi Arabia's Public Investment Fund) emerged as a competitor to the PGA TOUR – provides many interesting examples of economic issues related to such tournaments.²

LIV Golf was officially founded in 2021 with renowned professional golfer Greg Norman (two time British Open Champion; 88 career professional wins; ranked as the #1 player in the world according to the Official World Golf Ranking for a total of 331 weeks, second only to Tiger Woods) as its CEO. There would be a fixed field of 48 golfers who would participate in every event on the LIV Golf calendar (14 events for the 2023 season), competing both as individuals and as members of a 4-player team. In contrast, not all PGA TOUR players compete in every PGA TOUR event; the PGA TOUR does not have a team component to its competitions.

From the start, LIV golf made an attempt to compete with the PGA TOUR by offering very lucrative signing bonuses to players who either were very highly ranked or had big name recognition. Cameron Smith, winner of the 2022 British Open, was ranked as the #2 player in the world when he signed with LIV Golf for a signing bonus of \$100 million. Phil Mickelson, 6-time Major Champion and arguably the second most well-known golfer of the last four decades (second only to Tiger Woods), received a \$200 million signing bonus for joining LIV Golf.

Before these deals were inked, the PGA TOUR took a hard stance, stating that any player who joined LIV Golf would not be able to compete in any future PGA TOUR events. While the PGA TOUR has had such a "non-compete" clause for players as stated policy for decades, it would typically grant exemptions that would allow its players to participate in events on other tours even when paid fixed, up-front appearance fees (something which the PGA TOUR has never offered

¹ The seminal work in the academic literature includes: Nalebuff and Stiglitz (1982), "[Prizes and Incentives: Towards a General Theory of Compensation and Competition](#)," *The Bell Journal of Economics*; O'Keefe, Viscusi, and Zeckhauser (1984), "[Economic Contests: Comparative Reward Schemes](#)," *Journal of Labor Economics*.

² We theoretically examine the competition between tournament organizers in our recent academic paper: Mathews, Namoro, and Boudreau (2023), "[The Impact of Organizer Market Structure on Participant Entry Behavior in a Multi-Tournament Environment](#)," *Games*.

any of its players). Thus, this extreme position by the PGA TOUR, taken to dissuade players from defecting, was a departure from how its formal policy was implemented in the recent past.

When LIV Golf played its first event in London, England in early June 2022, the PGA TOUR immediately suspended its members who participated in the event. Shortly thereafter, dueling lawsuits were filed. LIV golfers filed a lawsuit against the PGA TOUR, claiming that the organization was a monopoly engaging in unlawful restraint of trade. The PGA TOUR countered with a lawsuit alleging that LIV Golf unlawfully interfered with the labor contracts it had with its players.

Since LIV Golf was first launched and increasingly so since it began play, the public discourse between players, commentators, and fans about the new circuit and its relation to the PGA TOUR (and to a lesser degree the DP World Tour – aka, the PGA European Tour) has been quite heated and filled with vitriol. Because of this, it came as a shock when it was announced on June 6, 2023 that LIV Golf, the PGA TOUR, and the DP World Tour would be merging and forming a partnership, with all litigation between the entities dropped. LIV Golf CEO Greg Norman only learned of the merger when he received a phone call from Yasir Al-Rumayyan (head of Saudi Arabia’s Public Investment Fund) minutes before a public announcement was made.

As of now, the future landscape of professional golf is still uncertain. It is not clear if LIV Golf will continue as a series long-term. Will LIV golfers will be allowed to re-join the PGA TOUR? And if so, will they need to pay penalties to re-join, perhaps with some of the money going to “loyal” PGA TOUR players who didn’t defect and take the cash grab offered by LIV)? If joining LIV golf no longer triggers a ban from the PGA TOUR, we’d likely expect additional current PGA TOUR players to want to participate in the LIV circuit, especially if appearance fees in the form of large signing bonuses are still offered. While much remains up in the air, we can use some insights from the economic theory of tournaments to make some general insights on the interrelations between the competing golf tours, their players, and fans of professional golf.

Let’s focus on the fans. Fans of professional golf clearly enjoy watching (either in-person or on TV) the best players in the world compete. They would also presumably want competitions in which the players are exerting a lot of effort (performing to the best of their ability) and very likely with an outcome that is as compelling or uncertain as long as possible (that is, up to the end of the tournament). However, it is not obvious if fans would prefer to have the best players in the world competing against each other in the same events or spread out over multiple events.

For example, consider a simple environment in which there are only two tournaments and two premier players. For the sake of the example we can imagine all other players in the league are of lower quality and can be thought of as filler participants. If each premier play wants to compete in only one event, we could end up with either a “pooling” of high quality players (when they both play in the same event, against each other) or a “separating” of high quality players (when they play in different events, each against lower quality players).

If what fans primarily care about is the level of effort exerted by players or uncertainty of outcome, then from the economic literature on tournaments we know that it is probably ideal to have the best players “pooled” in the same event. This is because, in general, more effort will be exerted by tournament participants when their rivals are of relatively the same ability as themselves. It is also these “pooled” tournaments in which the outcome is less certain before the competition takes place. In an extreme example of “separating,” on the other hand, if 2023 PGA Championship winner Brooks Koepka played a round of golf against one of us, he would be nearly certain to win the match while exerting nearly zero effort.

However, fans also clearly care about the identities of the competitors (if they didn't, LIV Golf would not have bothered offering a \$200 million signing bonus to Phil Mickelson who, while still an above average professional golf talent, is past his prime). In any one tournament, fans always like having an additional high quality player in the field. But, returning to our two-tournament example with just two premier players, if the players each only enter one event, setting prizes or offering appearance fees that induce them to choose to play in the same event is not necessarily what all fans want.

Offering compensation that induces the high-quality players to “pool” increases the strength of the field in what ends up being considered the high-profile tournament (with both high quality players), but decreases the strength of field in what ends up being considered the low-profile tournament (with no high quality players). Whether this is good or bad in terms of generating value for fans from the series as a whole depends on the preferences of fans. If the marginal benefit to fans from having an additional high profile player compete in a single event is increasing (i.e., the value of having two high profile players in the same event is more than twice the value of having a single high profile player in an event), then the pooling of high-profile players in the same event would be what fans want. In the context of a professional sport like golf, it seems likely this would very well be the case, since we can only ever identify the “best of the best” if they are competing against each other.

However, it is not immediately obvious that fans would necessarily want to pool all the best players in the same event. After all, when players compete in only a limited number of events, pooling them in the same events draws them away from lesser events. Perhaps as a fan, you would prefer to have a medium quality product (with some but not many high profile players) every week as opposed to a high quality product (with all the top players) in some weeks and a low quality product (with no top players) in other weeks. Related to this, having some (but not all) of the top players in every event might be superior in terms of generating fan interest and attendance in-person in different cities.

So, is having two competing professional golf leagues (as was the case over the last year when LIV Golf and the PGA TOUR were operating and staging events as separate entities) good or bad for fans? Even narrowly focusing on the impact on value to fans from the distribution of players over different events, it's not clear. Having two separate circuits resulted in a separating of top talent across different events as opposed to a pooling of top talent in the same events.³ From the discussion we see that this may or may not be a good thing for fans. Fans got to see the best players all compete in the same event less frequently, giving them fewer opportunities to identify the “best of the best.” But LIV golf allowed fans in Australia to attend a tournament in-person with a field of participants that included four players that had been ranked as the best player in the world at some point in time plus ten other past major championship winners. This field at the LIV Golf event in Adelaide, Australia in April 2023 was arguably the strongest field of golfers to ever tee it up in a single competition on the continent. It's no wonder that more than 77,000 fans showed up to watch, the largest attendance to date at a LIV Golf event.

³ There was still some pooling in that the four “Major” tournaments (i.e., the Masters, PGA Championship, U.S. Open, and British Open) are not organized by either LIV Golf or the PGA TOUR, and thus far these majors have NOT excluded LIV golfers from competing. However, a good number of invitations are based upon current Official World Golf Ranking status (and OWGR points are NOT awarded to players in LIV events) or performance in PGA TOUR events (e.g., winners on the PGA TOUR within the last year). Consequently, the path for getting to compete in a major is now more difficult for a LIV player than it would have been if he had remained on the PGA TOUR.