Assessing the Incentive Effects of the Wild Card Playoff Format in Major League Baseball

Steven M. Howell, Purdue University
Jason I. Abrevaya, University of Texas at Austin
David B. Klenosky, Purdue University

Examining the impact of policy changes, and the resulting incentive effects, is a key issue in sports economics, and holds important implications for sport management researchers and practitioners. The present study explores the impact of a specific change in sport policy: the implementation of the wild card playoff system format in Major League Baseball (MLB).

Tournament theory (henceforth referred to as TT) provides the conceptual framework for understanding how changes in sport policy provide incentives for subsequent behavior and performance. Pioneered by Lazear and Rosen (1981), TT was developed to understand the impact of compensating individuals based on their relative performance (i.e., a 'rank order' pay structure), as opposed to their absolute level of performance (i.e., a 'per output' pay structure). In addition to evaluating relative performance, tournaments provide a valuable framework for evaluating the incentive effects that result from the non-linear pay structures (i.e., in which individuals who finish closer to the top are compensated exponentially greater than those who finished toward the bottom) that are fundamental to tournament formats.

While TT was originally developed to describe behavior in workplace settings, the study of tournament structures and their resulting incentive effects in sports have become increasingly popular. As noted by several scholars (Abrevaya, 2004; Carrillo, 2007), sports provide an ideal setting for studying incentive effects because: (1) sport historians are meticulous in maintaining records and, as a result, rich datasets are generally readily available for analysis; (2) rules are well-defined, uniform, straightforward, and typically fully observable to both the researcher and the common fan; (3) players and organizational incentives are generally uncontroversial; (4) rule designers and policy makers have concise objectives selected from a subset of interrelated alternatives (i.e., beauty of the game, revenues generated, suspense created, etc.); and (5) executives and administrators have the flexibility to modify, at least to some extent, the rules and policies involved to more efficiently achieve these objectives.

In 1994, Major League Baseball (MLB) implemented the Wild Card (WC) playoff format after expanding to 28 teams and realigning their divisions from two to three in both the American (AL) and National (NL) Leagues. Prior to the 1994 season, the AL and NL were divided into two divisions, thus leading to only two teams from each league making the playoffs. In simpler terms, the WC playoff spot is given to the team in each league with the best record among second-place teams. Further, since three teams were automatically given a playoff spot (i.e., for finishing in first place in the new league realignment system), a fourth playoff team was needed to create an even number of teams in the league and divisional series. This policy change was undertaken to: (1) increase a team's chances of making the playoffs; (2) create more excitement throughout the season (specifically at the season's culmination); and (3) increase team revenue.

To address the effects of this change, we develop a model that relates the percentage change in opening day team payroll in the current year to the number of games behind the first place team in the previous year. Consistent with TT, we predict that teams finishing closer to the division leader have a greater incentive to increase their payroll the following season. Further, we predict that the increased opportunity to qualify for the post season (afforded by the WC system) creates an additional incentive for teams to increase their payroll.

We test these predictions using ordinary least squares (OLS) regression analysis on a dataset consisting of both pre-WC (1988-1993) and post-WC (1995-2003) season records (n=420). More specifically, we investigate how many games behind 'non-divisional winners' finished with respect to the first place team. We then look at how many games behind 'non-WC winners' finished with respect to the WC winner.

The study findings show that teams tend to spend more money when finishing closer to a playoff position in the previous season (p < 0.01). Moreover, teams that finished toward the bottom of their division generally spent less in...
the off-season relative to those that finished toward the top. Furthermore, these incentive effects (i.e., the propensity to spend more in the off-season) increased \( (p < 0.01) \) with the addition of the two extra playoff positions (i.e., pre-WC years vs. post-WC years).

Consistent with tournament theory, the study findings demonstrate that incentive effects do exist in Major League Baseball and that these incentives increased with the implementation of the WC playoff format and league realignments. These findings suggest that the change in league structure and implementation of the wildcard system appear to have been an effective policy change for MLB. In addition to making a valuable contribution to the sports economics literature, this investigation suggests a number of issues to be addressed in future research (such as examining the impact of the WC on team revenue, fan loyalty/interest, etc.).