The Effect of the NBA Draft Policies on the Perception of Teams Tanking: An Examination of NBA Point Spreads

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Bookmakers and gambling services are critical stakeholders of professional sports leagues. Gambling on sports enhances consumer interest and the subsequent demand for sports (Frey & Eitzen, 1991), and has played an important role in the development of today’s sports. For example, rules in sports leagues, such as the NFL injury report, have been implemented to minimize the behavior of gamblers trying to access and exploit inside information (Boeck & Wood, 2007; Forrest & Simmons, 2003). Interest in gambling enhances consumer interest of games; however it is dependent upon fair and trustworthy attempts by teams to win matches.

The creation of point spreads and money lines, the two different forms of sports betting, relies on all relevant information relating to the outcome of the contest. This forms the basis of the efficient market hypothesis proposed by researchers for years in examining both the financial and sports betting markets (Osborne, 2001). The efficient market hypothesis has been confirmed in many studies examining sports betting markets (Sauer, 1998). Gambling depends upon uncertainty of game outcomes, the degree of unpredictability of a match, in order to generate interest in gambling on the match (Forrest & Simmons, 2002). The uncertainty of game outcome is the core part of professional sport’s overall entertainment product (Mason, 1999). If that uncertainty is in doubt, it creates concerns by gamblers that matches are not legitimate and threatens the efficiency of match spreads. Ultimately, the ability of bookmakers, or governments in some cases, to generate profits is compromised.

At the same time, gambling presents a unique challenge to professional sport leagues. The challenge is to balance the increased interest and revenue that consumer participation in gambling on sports events generates with the incentive that consumers or other stakeholders have to tamper with the core product, the outcome of the match (Forrest & Simmons, 2003). The latter occurs through direct match fixing or point shaving. In addition to those attempts by consumers, individual professional teams can also threaten the core product by tanking. Tanking is defined as a team intentionally losing game(s). The issue of tanking has arisen in some professional leagues that employ a reverse order amateur draft, where teams can intentionally lose late in the regular season in order to receive a higher draft pick (Preston & Szymanski, 2003). As a result, the National Basketball Association (NBA) and National Hockey League (NHL) have adjusted their draft formats in an effort to deter teams from tanking and/or decrease the public perception that teams are tanking. Governments who offer sports betting also express concern regarding tanking. In October 2009, the Minister of Gaming in Victoria, Australia, launched an investigation into the belief that Australian Football League teams were tanking and what effect tanking has on the gambling revenue generated from AFL games (Dowling, 2009). These examples illustrate the importance of maintaining the uncertainty of game outcome and the perception that a match is being played with the highest integrity.

The purpose of this paper is to examine how changes to the draft policy affect the betting public perception that NBA teams are tanking. Due to the efficient market hypothesis, perceptions of teams tanking should be detectable in examining the point spreads of NBA regular season games. The NBA was the first professional league to adjust its draft policy due to the perceptions of teams tanking for the purpose of receiving a better draft pick (Soebbing & Mason, 2009). Taylor and Trogdon (2002) and Price and colleagues (2010) empirically examined the behavior of NBA teams in relation to changes in the draft policy and found that NBA teams were tanking under certain draft formats because of the incentive created by the league through its policies. My proposed research explores the effect of tanking (real or perceived) on point spreads of NBA regular season games from the 1981-1982 season through the 2009-2010 season. During this time period, there has been significant media dialogue regarding the behavior of some teams late in the season and the NBA has altered its draft format four times to strategically manage this belief of tanking (Soebbing & Mason, 2009). The media dialogue regarding the belief of tanking in the NBA under certain draft formats provides the context to undertake a study such as the one proposed. Given the efficient market hypothesis, the point spreads from each game are used to examine this perception. Specifically relating to sports betting, in the 2006-2007 season an article in the Las Vegas Review-Journal quoted a prominent handicapper who said, “it was very apparent to the betting public that those teams [ones that had been eliminated from postseason contention] were tanking games” (Youmans, 2007, n.p.).

To examine this question, the research uses a seemingly unrelated regression model similar to the one used by Brown and Sauer (1993) to analyze the relationship between game outcomes and point spreads in the NBA. In the Brown and Sauer (1993) model, the determination of point spreads for individual games is a function of the strengths of both teams in the match and other fundamental factors that affect point spreads. Our proposed research considers when a team has been eliminated from playoff...
contention as another fundamental factor that could affect point spreads as previous research shows that is when the incentive to potentially tank arises (Price et al., 2010; Taylor & Trogdon, 2002). By using a seemingly unrelated regression technique, the research will also examine if tanking is actually occurring by examining the actual outcomes (difference in points scored by the home and away teams) of NBA regular season games. The model examines this by regressing the actual difference in points scored by the two teams in a game with those same fundamental factors mentioned above. If the elimination variable in the game outcome equation is insignificant, it means that tanking is not occurring in games for that season. The results of this research will further explain how real or perceived tanking by some teams within a league can have a detrimental effect on the league and its overall product.

Besides examining the real or perceived tanking in the NBA throughout the different NBA draft formats, this research will provide information to gambling bodies such as bookmakers and government regulatory agencies regarding the efficiency of the betting markets and the impact that tanking could have on revenues. The revenues generated by government sponsored gambling go back into the community to help fund education, infrastructure, and other community organizations. As a result, governments may be taking on additional risk that they may not be aware of by offering an opportunity to bet on games where tanking may be occurring. For executives in sports leagues, the results of this research will explain how gambling markets can inform sports leagues as to the public perception regarding the degree to which the outcome is uncertain and provide further insight into the strategic decisions made by the NBA.