Exogenous Policy Shocks and Institutional Change: NBA Policy and NCAA Externalities

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Relevance and Literature

Recent studies of institutional theory have focused on examining organizational fields rather than individual organizations or entire organizational populations as primary units of analyses. Davis and Marquis (2005) suggested that organizational research utilizing an entire field of organizations as the unit of analysis serves as potentially the most fruitful for further developing the literature on institutional theory. Further, the body of research examining the role of institutional logics in dictating the actions of organizations primarily examines the mechanisms by which individuals or collectives are influenced by the beliefs, rules, and norms acting as the predominant logics driving decision making in organizational fields (Thornton, 2002). One way in which logic shift can be seen is in organizational fields where some type of exogenous shock occurs so as to force the organizations comprising the field to adapt. As suggested by Oliver (1991), organizations are unlikely to resist institutional pressures when they emanate from key entities occupying prominent positions within its field.

Purpose of Study

Using the frame of institutional theory and organizational fields, the present study examines the field of North American basketball as being comprised of the National Collegiate Athletic Association (NCAA) and the National Basketball Association (NBA). We focus our analyses on programs comprising NCAA Men’s Division 1 basketball as those teams have been directly impacted by an exogenous policy shock dictated to them by the NBA. Specifically, we investigate the “one-and-done” rule associated with drafting amateur basketball players in the NBA as an exogenous policy shock impacting team composition and competitive balance outcomes in the NCAA. Here, our organizational field of North American basketball serves as a research context in which two key entities (the NBA and NCAA) have directly impacted one another through policy and, ultimately, sharing the pool of player talent. As such, both NCAA and NBA teams will be impacted in terms of human resources (i.e., roster composition) that result from this expected change in the talent distribution.

Data and Method

Our data are comprised of recruit rankings, draft position, and performance data (poll and NCAA tournament) to identify the many dimensions of talent concentration and outcomes in each year across our sample of NCAA Division 1 member teams. With the exception of the recruiting data (1999 start), we begin our data in 1989 (i.e., the first year of the 64-team NCAA Tournament and a two-round NBA Draft). All data come from College Basketball Reference. We focus on four measures as proxies of constructs that could be affected by exogenous institutional changes to address the multidimensionality with which resources and market share are distributed across NCAA programs. Our recruiting data identify the pool of available resources which may produce output (i.e., basketball wins). The AP Poll and Tournament appearance data identify the outcomes, which are more salient than recruiting rankings, given the uncertainty over the talent pool and their prospective ability to produce at the team level. The measures here are two-fold in that they proxy the output of individual actors—the recruits themselves—as well as identify possible innovations in strategic team building and interaction across programs using different types of talent.

For each of the recruiting, draft, tournament, and AP Poll appearances, we aggregate across team in each year to make use of the normalized Herfindahl-Hirshman Index (HHI) to characterize the concentration of these measures across collegiate basketball programs. To evaluate the changes in concentration of top recruits, drafted players, and AP Poll appearances, we use an interrupted time series approach (Wagner, Soumerai, Zhang, & Ross, 2002; van der Vegt, Essens, Wahlstrom, & George, 2015). This modeling strategy leverages the known policy change point in order to split the data into two relevant regimes. Time series models are fitted using the Prais-Winsten approach, allowing...
for AR(1) autoregressive errors and imputation of the first observation in the series, providing more useful data in time series that are relatively short in length (as those presented here). Indicator and yearly trend variables are included as regressors in the PW model to identify the before or after regime level and trend as it relates to the policy of interest. We allow for both shifts in the intercepts and slope of each dependent variable at the policy change point.

Results, Discussion, and Contribution

Preliminary results indicate changes in both the intercept and trend of recruit concentration from before to after implementation of the one-and-done policy by the NBA, but no statistically significant changes in the concentration of draft picks. Prior to the policy, top recruits were more concentrated among schools in NCAA. However, afterward, there was a downward shift in the regression estimation, indicating a lower concentration of top recruits going across Division I programs. In other words, more schools were landing top recruits in the post-policy period. Further, the strong upward trend was substantially reduced in the post-policy regime. While the level shift was, on average, upward relative to before the policy, there seems to be a clear mitigation of the strong upward trend, and a reduction of the HHI just from just before the policy to just after.

Our regression estimations for AP Poll concentration reveals a sharp downward shift, or more schools appearing on the AP Poll more often than before the policy change. This finding is in line with that of HHI in that we would expect a reduced concentration of top teams in the case where the concentration of recruits is reduced as well. As a wider dispersion of schools land more top recruits, this appears to be shown in the AP Poll throughout the season, with more teams appearing in the rankings than in previous seasons.

Finally, we find only limited evidence of a change in concentration of tournament appearances (across conferences in Division I basketball). Specifically, the change in intercept for this measure is statistically significant only at the 10% level, and indicates a possible upward shift in the measure. This would indicate an increased concentration of tournament appearances among a smaller number of conferences. At first glance, this may be counterintuitive based on the findings for recruits and AP Polls, but could be indicative that the reduced concentration in recruiting and rankings happened within the top conferences had an adverse effect on top teams in lower level conferences. The conference level tournament appearance analysis is currently under construction, which we will also include in our presentation.

Ultimately, by examining an institution with international reach (i.e., the NBA) with respect to the NCAA, this study addresses the opportunity identified by Washington & Patterson (2011) in terms of studying an expansive organizational field (i.e., North American basketball) to isolate micro-level impacts of policy changes (i.e., the “one-and-done” rule) with respect to competitive balance across institutions (the NCAA and NBA) occupying the same organizational field. The implications for sport management are clear: individual organizations that are not the most prominent in the organization field can experience externalities from other organizations' policies, which could ultimately affect opportunities for athletes both positively and negatively. We expand on these implications in our presentation.