

Case Study

A Power Play for Howard

Student Name

University

Subject

### **Case Study: A Power Play for Howard**

As a sophomore during the 1995-96 NBA season, Juwan Howard posted superstar-like numbers for the Washington Bullets. The fifth pick in the 1994 NBA Rookie Draft was immediately courted by many teams as he was about to be a free agent in the 1996-1997 season.

Although publicly stating he wanted to stay with the Bullets, Howard and his agent, David Falk, were not attracted to the team's seven years \$78 million offer. Howard felt that his market value was far more than that. Then Miami Heat offered a 7-year/\$98M contract. The Bullets pushed their offer to \$89M, but stopped short of matching the Heat's offer.

On July 15, 1996, Howard signed a \$101 million contract with the Miami Heat. However, this contract was voided by the NBA citing that the Heat exceeded its salary cap. On August 5, 1996 Howard returned to the folds of the Bullets after signing a seven-year contract worth \$105 million. The Heat went to court to challenge the NBA's ruling.

#### **Assumptions**

The NBA indicated that the Heat violated its salary cap and only used this as basis to void its contract with Howard. However, salary cap violations come with strict penalties - \$5 million penalty to the team and a season long suspension for Heat Coach Pat Riley. The NBA maintained that the Heat already had an agreement with center Alonzo Mourning before signing Howard and, that the bonuses of two other players were not counted against the cap when they should have been.

#### **Vantage Points**

1. Impose the \$5 million penalty against the Heat and season suspension for Coach Riley.
2. Give concessions to Miami for it to stay competitive in the league during the season.
3. Allow the courts to settle the matter.

## **Diagnosis**

### ***Impose Sanctions against the Heat***

For the NBA to pursue its allegations of salary cap violations against the Bullets it would have to seek imposition of the \$5 million penalty against the Team and a season long suspension of Coach Pat Riley.

The league maintained it had evidence that the Heat had an agreement with its center Alonzo Mourning prior to signing Howard – a violation of salary cap rules. The league also maintained that the bonuses in the contracts of Tim Hardaway and P. J. Brown were not counted against the cap by Miami, and that those bonuses should have been included. These allegations, as expected, were denied by the Heat camp.

Voiding Howard's contract with the Heat and imposing severe penalties on the team may have been the right thing to do, but many things would have to be given consideration – the Heat can contest the matter in court and the league could face a backlash from Miami fans and other fans of the league who might view this action as too much on the part of the NBA. Remember, the Heat took pains to prepare for drawing Howard to Miami unloading several of its high value players to make room for Howard. Now left with a shallow roster of talents, Miami will be facing an uphill challenge to stay competitive and maintain its base of loyal fans in market rich Miami.

If the Heat decides to slug it out in court, as would be expected if the matter reaches arbitration, the players union and the team owners would be coming into the picture as the union was supporting Howard and the Heat was getting sympathy from some team owners. In that situation, a lock-out scenario could be inevitable and it's one scenario that the NBA – from Howard Stern down to the last man in a team's staff - dreads.

### ***Give Concessions to Miami***

The NBA can opt not to pursue sanctions against the Heat as a concession. At the same time the league should recognize the Heat's disadvantages – if losing Howard is not enough, losing key players just to make salary room for Howard has given a serious dearth in team competitiveness. The league should stay away from giving impressions that it favors certain teams.

Coach Riley had suggested that the Bullets' first round pick should have been given to the Heat. Giving Miami concessions would allow it to stay competitive and maintain their fan base.

The NBA decided that Washington can keep the players it had signed up after renouncing Howard - Tracy Murray and Lorenzo Williams, Rod Strickland and Harvey Grant. These are high caliber players that Washington could not have been able to sign up if their initial deal with Howard pushed through in the first place. Sure the Bullets forfeit their next year's first-round draft choice for the right to re-sign Howard still they got a huge concession in this case.

The league can also require the Bullets to release one or both of their free agent signings (Tracy Murray and Lorenzo Williams) and pay the difference between the final offer for any player cut and the deal they signed with the Bullets.

In the overall picture, Washington became a powerful team by a stroke of circumstances. And the Heat just had to start from scratch, again.

#### **Allow the courts to settle the matter**

The Heat had gone to Florida state court and was granted a temporary injunction. According to the Heat, the judge's order stated that Howard could not sign with another team, and that the league could not approve Howard's contract with the Bullets, unless the contract recognized the prior validity and superiority of Miami's contract. If the Heat won the case it would have been disastrous for the league as its powers to scrutinize and approve player

contracts will be put to question. Team owners can follow suit and bend the salary cap rules then bring the matter to court and have a reference case to peg against.

On the other hand, if the league wins the case and Miami gets sanctioned, the Heat would claim that David Stern succumbed to pressure by the Bullets and, more importantly, by the players' union - an idea that would not sit well with a lot of team owners.

**Prescription**

The NBA is successful because it thrives on balanced competition. And one way that ensures that balance is the implementation of a salary cap. If not for the cap the richer teams will raid the players' roster with abandon. Fans like to see healthy competition; they don't pay to see their team to get trashed by other teams with deeper resources. I say impose the sanctions on Miami. The spiraling salaries of players need to be put in check. Otherwise, what is a salary cap for? Ultimately it is the fans that pay for the spectacle that is the NBA. And they will pay more if the league loses sight of this basic premise.

**Implementation Chart**

WEEK	NEGOTIATION STRATEGY	RESOURCES	ACTION
1 <sup>st</sup> week	Mixed-Motive Negotiation – by approving the contracts they protect the team, the players and the league	NBA Legal Department	Approve Miami's contract with Mourning, forward P.J. Brown and guard Tim Hardaway. This will seal the voiding of the Howard contract.
1 <sup>st</sup> week	Integrative Negotiation – imposing the sanctions will deter teams from tampering salary cap rules.	NBA Legal Department	Impose sanctions on Miami
Do this on a regular basis	Integrative Negotiation – the league has to keep an open ear to those who have an impact on the NBA.	NBA Management	Regularly conduct consultations with players thru the union, team owners and other stakeholders in the organization. Most especially, the fans.

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