

## Growing Esports to a \$1.6B Industry and Corruption Risks



By **P. William Stark and Steven V. Walkowiak** | **January 25, 2019** | **Texas Lawyer**

The Chicago Black Sox. Over 100 years after the scandal, that name elicits a singular, resonating recollection. That team, perhaps more than any other, remains an enduring example of the label “cheater.” Other scandals, such as Pete Rose’s lifetime baseball ban, further evidence the dangers accompanying gambling and sports. Today, confronted with anti-corruption measures within traditional sports, gamblers and organized crime are aggressively expanding into new markets, hoping to stay one step ahead of enforcement.

Esports is precisely the type of new market that may be targeted. Competitive video gaming, collectively referred to as “esports,” has exploded into a mainstream endeavor firmly established as part of current popular culture. Popular games include *League of Legends*, *DOTA 2*, *Counter-Strike: Global Offensive*, and *PlayerUnknown’s Battlegrounds*, among others. Professional teams and players have fueled much of esports’ explosive growth, supported by significant investments from traditional sports franchise owners and players and increased visibility on traditional media outlets.

Those unfamiliar with esports may be surprised to learn that more worldwide viewers now watch esports than the NBA Finals or BCS national championship game in college football. Viewership continues to grow, in part based on the online accessibility of global tournaments and personalities. Rapidly swelling tournament prize pools reflect esports’ increasing popularity. The total purse for The International 2018, the *DOTA 2* annual championship tournament, exceeded \$25 million, eclipsing the 2018 Daytona 500 (\$15.5 million) and the 2018 U.S. Open golf tournament (\$12 million). Worldwide revenues for esports are predicted to reach approximately \$1.6 billion by 2021.

Esports' increasing popularity has been accompanied by similar growth in wagering. The global esports betting market is anticipated to be worth nearly \$30 billion by 2020. Last year's United States Supreme Court decision striking down the Professional and Amateur Sports Protection Act and opening the door to state-by-state legalization of sports betting is expected to significantly increase esports gambling in the United States. The rise in esports betting brings with it the unwelcome, and often unwitting, participation in activities such as match fixing and point-shaving, which endanger legitimate wagering, the players and teams, and esports as a whole.

Concerns of corruption are more than mere speculation. Esports betting markets are growing more quickly than any other sports betting market. There were 39 significant alerts into potential match-fixing in 2017, as fears grow that esports is vulnerable. Esports has already suffered match-fixing scandals, concentrated in South Korea and China, resulting in bans, fines, and arrests.

Corruption risks are particularly pronounced in esports since cohesive regulations, governing body, structure, or standards across the entire competitive ecosystem do not currently exist. Perhaps no game—or more accurately collection of games—is harder to regulate than esports. Unlike traditional sports, which have fairly well established “rules of the road,” esports is widely fragmented, with each game publisher controlling its own game(s). Thus, a publisher of one game often has no insight into activities of players in a game published and controlled by another company.

There are, however, steps esports organizations can take to mitigate the risks of corruption and protect themselves and their players. Teams are well served to take a proactive approach. In matters of integrity, ignorance is never bliss. This begins with a robust internal framework that includes comprehensive policies and procedures. While certain policies such as prohibiting employees from wagering on esports might be obvious, other, less apparent policies may include restricting the use of out-of-platform loot box exchanges (marketplaces used to trade items acquired in-game), which have developed as a form of grey-market currency.

The best policies and procedures are of little effect without proper training and education. Players, coaches, and front office personnel are substantially better equipped to identify and resist corruption when educated about the risks, how illegal schemes operate, and their own organization's rules and expectations. Given the scope and ingenuity of gambling related corruption, the best practice generally involves training the entire organization rather than merely players and coaches. Sophisticated gambling enterprises often gain advantages from seemingly innocuous interactions or social media disclosures that inadvertently reveal details about players or strategy. Training and continuing education reinforce the importance of ethics and compliance while also providing a forum to address new and developing issues. Simply, education dramatically and positively alters conduct.

Since even the best policies, procedures, training, and education cannot eliminate all risks and wrongdoing, esports organizations must constantly monitor compliance and evaluate the efficacy of their current structure and approach. Teams should proactively review and audit in-game trends and performance as well as compliance with their established internal frameworks. Although not always necessary, teams with particularly acute concerns may wish to retain independent organizations to monitor and evaluate compliance.

Reporting is the final, critical piece of the puzzle. As part of their policies and procedures, esports organizations should establish a framework that encourages and facilitates reporting of suspected violations while also protecting the individuals who make reports. After reports are received, teams must conduct well documented investigations and act upon the results where necessary. Additionally, organizations should use the reports and ensuing investigations to reevaluate their existing policies and procedures and

continually update them as new threats are identified. Reported violations often reveal new potential vulnerabilities.

As seen in other arenas, internal frameworks are only effective when supported and advanced by a culture of transparency and compliance. Upper management sets the tone for the entire organization. Esports is poised to continue its meteoric growth. The risks associated with increased gambling could stymie that growth, jeopardizing lucrative and successful organizations, but that need not be the result. Esports teams can and should protect themselves and mitigate these risks by taking an aggressive, proactive approach to corruption.

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