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The Economic Challenges of Hosting Major Sports Events - Why the problematic history repeats itself?

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Background:

- Major sports events often fail to deliver the planned economic outcomes.
 - Cost overruns,
 - Missed revenue targets,
 - “White elephants” (overdesigned venues and infrastructure for post-event use)
 - Less positive externalities than expected (tourism, public health,....)

Empirical data from four events hosted in Norway:

- 1994 Lillehammer Winter Olympics;
 - 2011 FIS World Skiing Championship in Oslo;
 - 2014 FIDE Chess Olympiad in Tromsø;
 - 2017 UCI World Road Cycling Championship in Bergen.
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- Our focus: Discrepancy between budgeted costs/revenues and realized costs/revenues.

- **1994 Lillehammer Winter Olympics** (all figures in US\$)
- Total budget: 81 million (1982) → 134 million (1983) → 199 million (1985) → 244 million (1987) → 901million (1989) → 941 million (venues) + 303 million (infrastructure) (1990).

- **2011 World Skiing Championship**
- Operating result positive: 12 million.
- Investment in venues: 19 million → 52 million → 100 million → 155 million → 207 million → 315 million
- Despite hosting previous World Cups at the venue: FIS now required substantial upgrading.

- **2014 Chess Olympiad:**
- Deficit \$700,000
- Avoided bankruptcy due to voluntary composition with the creditors
- “Forced” to host an extra event at a cost of \$2,2 million.
- FIDE offered rivaling city (Albena) to “buy the event”.
- Conflict => FIDE threatened to move the event to Sochi

2017 World Road Cycling Championship

- Bergen 2017 AS:
 - Costs: 20 million → 24 million
 - Revenues: NOK 20 million → 17 million => Bankruptcy
- Bergen municipality: Initial budget 2-3 million → 10 million (13 million incl. indirect costs);
- Public sector:
 - Financial support to Organizer: 13,3 million
 - Free services: 18,8 million
 - Police: 400,000 → 8,9 million
- Total costs organizer and public sector: 53,1 million.

Research Design, Methodology and Data Analysis

- 60 face-to-face semi-structured interviews.
- Questions touched on challenges regarding time, complexity, financial control, risk management, relations between stakeholders, and more.
- More than 200 documents analyzed: handbooks/guidelines from international sport federations, published reports on economic and societal impacts, governmental reports, protocols of the organizational boards.

WHY? Patterns?

1. Early preparations – Auction perspective

- Process driven by enthusiasts with limited competence - increases the chance of mistakes and unfortunate decisions
- Auctioneer interested in maximizing the value of their product
- Bidders' main focus is on getting the event – not on costs and consequences
- Bidder offering fees, size/quality on venues,...
- Distribution of power between auctioneer and bidder
- Experienced stakeholders more successful in auctions than inexperienced

2. Legitimize the events by means of externalities

- Tourism, public health, urban development, employment, boost economic activity,...
- Reduces time and efforts spent on core activities – a burden for small organizations
- Overoptimistic expectations => easy to spend more efforts than planned
- Changes in the scope of the event because of local cultures.

3. Small organizing committees:

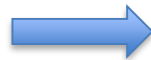
- Few employees with limited competence and experience on core activities (recruitment of sponsors, managerial accounting....),
- Extension of staff often ad-hoc based,
- Volunteers doing the job instead of qualified employees => Unprepared when facing the true complexity.
- No one operating as devil's advocate

4. Transfer of information from previous events not institutionalized:

- Conflicting interests between owner and organizer
- Owner (international federations, IOC...) not responsible for the costs
- Inspection tours to preceding events of limited value for inexperienced organizers
 - “We did not know what to look for”

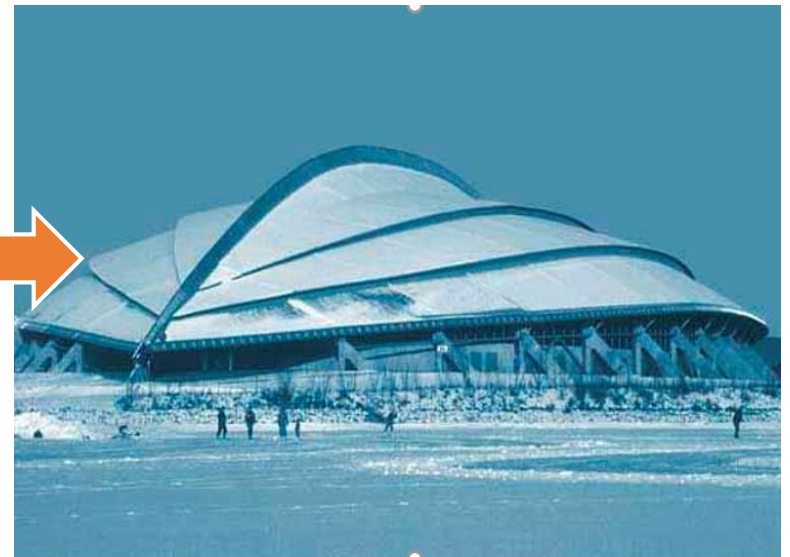
5. Free riding behaviour

- Governmental funding => Local stakeholders and owners operating as agents in a Principal-Agent relation
- Conflicting interests and situations of asymmetric information
- International sports federations “having a show case” sponsored by the host city
- Important to make a good impression on “The rest of the World”



The “best-ever” syndrome: "faster, higher, stronger" – translated to "bigger, better and more expensive."

We cannot invite the world to a gala dinner and serve a cup of coffee "



6. Fixed deadline

- Time pressure => not time to investigate cost saving alternatives
- Ad-hoc decisions,
- Late orders,

How to reduce the problems?

- Institutionalizing knowledge transfer – investing in competence
 - Event cities (UK), Sport events Denmark
- Horizontal integration: Collaboration between applicants?
- Risk sharing between owner and organizer
- More realistic and critical view ones' own capabilities:
 - Some one operating as **Devil's advocate**
- Embedding events in national/regional strategies

Thanks for your attention 😊



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