# Racing Towards Sustainability?

## Formula 1 and Corporate Social Responsibility

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# List of Abbreviations

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| CSR | Corporate Social Responsibility |
| FIA | Fédération Internationale de l'Automobile |
| FOCA | Formula One Contructor Association |
| FOM | Formula One Management |
| KERS | Kinetic Energy Recovery System |
| NGO | Non-Governmental Organization |
| MDG | Millennium Development Goals |
| MNC | Multinational Corporation |
| UN | United Nations |
| VAGO | Victoria Audit General’s Office |

## 1. Introduction

The outcomes of globalization, or the rapid integration of countries in tighter webs of interdependence are highly debated (Seligson, 2008; Pieterse, 2007; Utting, 2010). One area that is highly contested is the effects of multinational corporations (MNCs) on social outcomes, such as labor rights and sustainable development. Liberals believe that open markets lead to the modernization of backward economies because of the transfer of knowledge and best practices from MNCs from the richer countries to domestic companies where standards and technology for achieving sustainability might be lower. The markets would regulate themselves according to liberal theory dating back to Adam Smith's ideas about free market and the "invisible hand" and many predict that "we would all be rich" under conditions of globalization (Passé-Smith, 2008). Globalization and the unrestricted flow of capital, goods and services would lead to the creation of wealth among all participating countries (Sethi, 2003). Economic integration and convergence in economic policies around the world would lead to economic growth through reform and harmonization in the nation's fiscal and monetary policies, tax systems and other regulatory mechanisms (ibid.). In addition, "the end of history", the victory of the neo-liberal idea over all other ideologies was declared by Francis Fukoyama (1992), and during the nineties it may have looked that way because of rapid growth rates.

However, others believe that the growth of MNCs globally is inherently exploitative and would lead to a 'race to the bottom' on social standards (Utting, 2010). Recent turbulence in the world's financial, food and energy markets, global recession, as well as climate change, persistent poverty and growing inequality, may suggest that various features of globalization and economic liberalization are fundamentally flawed and may be a driver of unsustainable growth and underdevelopment (Utting & Marques, 2010). These observers call for restricting and regulating the activities of global capital, including the MNCs, who are seen as profit-seeking actor that place monetary gain above the interests of communities and ordinary people (Klein, 2007). Gradually, the idea of Corporate Social Responsibility (CSR) emerged as a middle way for addressing the dilemmas posed by MNCs. It is recognized that while MNC investments are vital for growth because they control finance and knowhow, they might also be held accountable for their actions by the global community. This initiative would seek to address the new challenges for MNCs associated with risk, uncertainty and complexity, while improving corporations' social and environmental performance where they invest.

As a result of the globalization debates about whether or not increased corporate activities will be a boon or a bane for communities, the late nineties saw an exponential growth of voluntary initiatives and codes of conducts being produced, by individual companies as well as sectorial codes and international frameworks (Corporate Watch, 2006). These codes included the International Organization for Standardization's ISO 14001 in 1996 (Iso.org, 2010), the Global Initiative Sustainability Reporting Guidelines in 1997 (globalreporting.org, 2010), Social Accountability International's SA8000 in 1998 (sa-intl.org, 2010), the Accountability AA1000 Assurance Standard in 1999 (accountability.org, 2010), and finally a comprehensive framework in the form of the UN Global Compact. This study will examine the CSR activities and commitment of the globally branded Formula 1 sport industry to gauge whether or not companies are likely to comply effectively with good corporate governance initiatives, such as the Global Compact, to safeguard its valuable brand name. It might be assumed that a popular brand name as Formula 1 would not have to take CSR seriously, whereas less popular businesses may have to build up reputation. Knowing if and in what ways Formula 1 invests in CSR, thus, would allow us to understand better how CSR initiatives play out in terms of changing how business does business and the outcomes for development among host societies.

## 1.1 The Global Compact

In 2003 Secretary-General of the United Nations Kofi Annan, appointed the academic John Ruggie as a leading expert[1] to develop a program of action that came to be known as the "Global Compact". This was a new development in the ethical aspects of business operations all around the world (unglobalcompact.org, 2003). The UN was now going to make guidelines for businesses and especially MNCs, relying on their cooperation and feedback in order to ensure better outcomes related to corporate activity abroad.

The UN recognized that businesses were one of the primary drivers of globalization, and by adhering to principles, they could ensure that "markets, commerce, technology and finance advance in ways that benefit economies and societies everywhere" (unglobalcompact.org, 2010). The goal of the global compact, as stated from the UN, is to align the objectives of the

[1] John Ruggie, former Assistant Secretary-General of the United Nations, was appointed Special Advisor to Secretary-General Kofi Annan on the Global Compact, effective 15 July 2003 (unglobalcompact.org, 2003).

international community and the business world. Common goals and partnerships between corporations, local stakeholders and non-governmental organizations (NGOs) was seen as a driving force towards a more sustainable and inclusive global economy (un.org, 2010).

These goals are to be achieved through two specific objectives:

1. Mainstream the two principles in business activities around the world
2. Catalyze actions in support of broader UN goals, including the Millennium Developmental Goals (MDGs)

The global compact is based on ten universal principles from the areas of human rights, labor legislation, environment and anti-corruption. Also, it is the largest corporate citizenship and sustainability initiative in the world, with over 7700 corporate participants and stakeholders from over 130 countries (unglobalcompact.org, 2010).

However, some academics and commentators seem to feel that the Global Compact is not achieving what it set out to do. Many NGOs have been highly critical of the Compact, since it has no monitoring or enforcement mechanisms, and many see it as an easy way out for businesses. As some argue, it allows companies to use the name of the United Nations to reinforce their reputations and brands without requiring them to change any aspect of their activities (Bruno, 2002). "*By promoting these instruments as substitutes for international governance institutions, the UN and the OECD effectively undermine the ability of national governments to put forward a different approach"*(Doane, 2005). The Compact can in other words be viewed as a cloak that MNCs can hide behind when dealing with foreign governments, making their actions seem more legitimate by already having a 'stamp of approval' from the UN.

The Global Compact fared poorly with those who were most knowledgeable about CSR and those who were most likely to be involved in activities encompassed by the Global Compact. The central issues of the debate have been the choices of corporate partners, since the UN was too eager to seek cooperation from MNCs. The companies that would profit the most from a UN partnership tend to be the ones that are known for their actions against such issues as human rights, environmental protection, worker abuse prevention, right of free speech and association, and protection against child labor (Sethi, 2003).

## 1.2 Thesis Purpose and Rationale

By studying a typical case, Formula 1 (F1), this thesis will test the hypothesis that the liberal perspective that sees increasing globalization as increasing the value of brand names, thereby ensuring that MNCs will act to protect this valuable asset by being a good corporate citizen. F1 has been chosen, since it is a particularly strong brand in the sports industry, and has a very strong business component to it. F1 is one of the world's biggest sports, both in terms of spectators[2] around the world and the money generated through it and spent on it[3]. F1 offers greater frequency, a longer season and therefore also greater sponsorship possibilities than for example the Olympics or World Cup soccer which are held every four years. F1 takes place annually, enjoys a relatively high frequency of events[4], and is less dependent on weather than many other sports. Basically, F1 is the world's most market friendly sport (Jenkins et. al, 2009). Thus, this thesis will try to see how a most likely case has been responding to the dilemmas of CSR and try to adjudicate whether or not globalization skeptics are right in their critique against CSR. Is CSR only make-up that enables corporation to do "business as usual" while boasting their environmental and social profile?

By looking at the empirical evidence in the F1 case, this thesis finds that professional sports today in many ways resemble business life. Although governed by a non-profit organization that represents stakeholders all over the world through member organizations, the business side of F1 is very much like the corporate world. The data this study examined is mostly financial, as it is an important part of shedding light on how big the business of F1 really is. As mentioned, it is governed by a non-profit organization, but the management of the sport is for profit. It is a business, and incorporates a multitude of companies that manage the different operations of the sport. The teams are professional actors in an industry where the product served to the customer is partly a high-performance, high tech engineering product, partly an entertainment service. The business of F1 is further presented as a global platform and profit-making exercise for sponsors, who invest heavily into the sport, and could not have done so unless they felt that they aligned themselves with a strong brand, and expected to draw market shares and new customers from it. Evidence from the management side of F1, does not prove promising for the hypothesis, as the multitude of companies involved in the structure makes it difficult to draw conclusions. However, when looking at a team's own CSR initiatives, there

[2] . The 2008 season attracted a global audience of 600 million people per race (paddocktalk.com, 2009).
[3] It is a massive profit-generating sport, as well as the most expensive sport in the world (espn.com).
[4] The 2011 season is set to have 20 races over 8 months.

is still hope for a socially accountable sport in the future. Although the data does not cover actual spending on CSR related initiatives, CSR report statements are taken into consideration when discussing the evidence. As a sport that might have a significant economic impact to a region or city hosting a race, and data surrounding a race-weekend is looked upon, although there seems to be discrepancies in reporting the economic outcome of such a weekend. It is therefore not clear whether or not a F1 race is important to a country's economy, but that it is a political move in some ways remains a feasible assumption. Examining four cases may have sacrificed depth for width in the analysis, and this thesis need as such to be regarded as a pilot project, as further research is needed to fully answer the hypothesis.

The guiding research question to this thesis, thus, is as follows: *to what extent does the Formula 1 industry incorporate CSR to present the image of being a socially accountable corporate citizen?*

### 1.3 Thesis Outline

First, this thesis will take a closer look at the CSR discourse, and several definitions of the concepts as well as two separate managerial interpretations, the triple bottom line and stakeholder approach, will be presented. Chapter 2 is devoted entirely to the CSR discourse, as it is an approach to business that holds many promises, but may seem to not yet have reached its potential. The critical approaches to CSR that fuels the debate are presented since they also make out an important part of the discourse. These critiques raise questions of the validity of corporations' attempts to present the image of being more socially responsible. The chapter on CSR is concluded by presenting an alternative to those who evaluate corporations' social performance reports, namely the Sethi CSR Monitor.

Secondly, the issue of Formula 1 is thoroughly presented. Chapter 3 will look at the development of the sport from its conception in the early 1900's to the present. The gradual professionalization of the sport and the making of a sport into a business is a main point, as it underlines the importance of looking at professional sports with much of the same scrutiny as businesses.

Thirdly, empirical evidence from F1's CSR initiatives will be critically examined with a four level case analysis, where different levels of the sport represented by the governing body, the

Formula 1 management group, one of the most successful teams, and a host circuit are examined using some financial data mainly from the 2008 and 2009 seasons, and statements from the actors. This chapter is followed by a discussion on the different CSR related initiatives found in the sport and what this likely case can tell us about the willingness of MNCs to behave like good citizens. Finally, the thesis will summarize the findings, which point to that although some initiatives exists, mainly at the governing body and at the team level, the F1 brand as a whole has done little effort to change its business through CSR. However, further and more extensive research into the matter is needed to provide a clear answer to the research question raised by this thesis.

## 2. Corporate Social Responsibility

To get better insight into the debate on the social expectations to businesses, this section of the thesis will explore the theoretical foundation of corporate social responsibility (CSR). Although some historians looking at the history of major companies will tell you that whenever a firm have received negative attention, this have been countered with actions to negate it (Jones, 2005), corporate social responsibility as a concept of have not always been there.

As there are many theories, there are also multiple definitions of what CSR stands for. The European Commission defines CSR as: "*a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis*" (European Commission, 2000). Another definition of the concept is: "*...the commitment of business to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve their quality of life*" (World Business Council, 2000). Dahlsrud (2006) offers an analysis of further 37 definitions of CSR, which shows that this is a discourse with many voices. But one way to view CSR is something of a middle way, reducing the social costs and impacts of business operations throughout the world.

Following these short definitions, the thesis will continue to map out the theoretical foundations of CSR below.

## 2.1 The discourse of CSR

The concept of CSR is a highly debated one, and new interpretations of the concept, as well as new theories of the use of the concept are being added to the discourse on CSR. A search in Google scholar for CSR results in 249.000 hits[5], and a general search in Google results in 39.6 million hits[6]. Norwegian newspapers appear to be very concerned about 'samfunnsansvar' (a broad term for CSR in Norwegian), and often report on Norwegian multinationals operating abroad whenever they seem to breach a ‘moral code’ on how they should behave. Recent examples of this have been Telenor in Bangladesh (tv2nyhetene.no), concerning workers conditions, and Hydro in Libya, concerning transparency concerns (na24.no). There has also been an increased scrutiny on how multinationals operate abroad coming from states, organizations, and consumers (Zadek, 2001: 9). In addition, the focus has risen among corporations themselves (Crowther & Rayman-Bacchus, 2004:1).

CSR can be described as the principle that companies should make a positive contribution to society. Using CSR, companies can manage the social, environmental and economic impacts they have, and listen to their stakeholders as well as shareholders (Corporate Watch, 2006). This responsible behavior is not codified in law, and can in practice refer to a lot of different types of actions that companies can take, from donating money to charity causes to bettering the working environment for their employees to making sure they adhere to emission standards (ibid.).

The CSR literature is, however, a complex and vast area of literature spanning many different areas and academic disciplines, which is illustrated by Øivind Hagen in a recent report (2009). In the report, he maps out the different directions and interpretations of the concept of CSR, based on the massive amount of literature that exists.

Hagen divides the literature in six different approaches to CSR:

1. Instrumental theories, political theories, integrative theories, and ethical theories
2. Historical approaches
3. Normative vs. economic approach

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5 Search performed 10.05.10
6 Search performed 10.05.10

4. Geographical/cultural approach
5. CSR as eclectic concept
6. Institutional theory

As Hagen explains, these six theoretical approaches to the CSR-discourse are archetypes or stereotypes, and most works on the subject combine two or more approaches. It is natural to place the theories and approaches in this thesis within the instrumental theories as well as institutional theory, as these directions discuss CSR as means to maximize shareholder value and as a marketing strategy. They focus on the fact that a corporation is a part of society and look at the interaction between corporate life and society (Hagen, 2009).

There are many strategies for a company to undertake in order to look more socially responsible. *Cause-related marketing* for instance, is a partnership between a company and a charity, where the company uses the charity's logo in marketing campaigns and brand promotions. Examples of this include Tesco's successful "Computers for schools" promotion (Corporate Watch, 2006:3). This is somewhat similar to *corporate philanthropy*, where a company simply donates money to charities, in order to get viewed as "responsible" and at the same time get a numerical value on their "commitment". This is the "easiest" way of positively promoting a company's brand, but it also can make it look like nothing more than a PR-strategy. In order to counter such critic, donations now seem to be larger in size and goes to a smaller number of charities (ibid.). Another form of spending money to look more "responsible" is *sponsoring awards* like The Reebok Human Rights Awards, Nestlé Social Commitment Prize, etc. Through these awards, companies can market themselves as experts on an issue and a leader of CSR merely through a large donation (ibid.).

In addition to this, institutional theory discusses the legitimacy of corporations (Hagen, 2009:16). When a corporation has acceptance from society and when its operations are in line with what is deemed responsible and sensible, it has legitimacy. However, even though it seems legitimate, it is hard to tell if it actually produces from its efforts, monitoring is needed to make sure that a corporate CSR vision is acted upon. Even though corporations employ CSR-strategies, or report that they do, the monitoring of these strategies, and measuring potential outcomes is difficult.

*Codes of conduct* have become more and more common amongst large multinational companies. These are statements, often of a company's values and standards of behavior. The *codes* often vary from company to company, with regards to contents and quality, but all cover some common issues: health and safety, human rights commitments, the treatment of workers, consumer reliability, dealings with suppliers, transparency, environmental impact, and other issues (Corporate Watch, 2006:3). While some companies opt to monitor their own codes of conduct, in many cases they are also monitored by external verifiers. Examples of these are large accounting firms like PricewaterhouseCoopers and Ernst & Young.

There is a close link between codes of conduct and company's social and environmental reporting, which is something that was pioneered by Shell (Tepper Marlin, 2003). Of the largest 100 multinational companies in the world, about 85% report on anti-bribery measures, 80% have some sort of environmental reporting, and more than 60% produce a human rights report, as seen in figure 1.

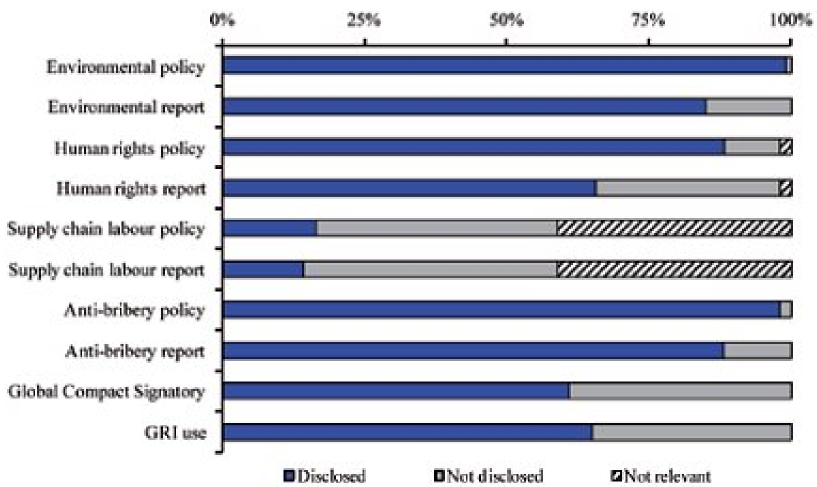


Figure 1: CSR practices among the 100 largest MNCs (UNCTAD, based on data from EIRIS, 2010).

Reporting is a popular activity amongst MNCs as it is a fairly easy exercise, and lets the company boast its image. They can be done to the standards of the Global Compact, or any other guideline, as mentioned above, but the principle remains, it is still a voluntary exercise, and there are more often than not no-one to enforce any breaches of codes of conduct.

Although most of the world's largest companies donate money to charities, have their codes of conduct and produce reports on their CSR-efforts, the bottom line is still that CSR is a more or less voluntary effort, and  herein lies much of the critique of the CSR-discourse, which the thesis will continue to discuss below.

To conclude this part of the study concerning theories of CSR, the thesis will shortly present two different approaches used by companies and theorists looking at those affected by business activities. These two directions will also form the basis for the case-analysis in chapter 5, although the stakeholder theory approach is most fitting for the three first cases, while the triple bottom line approach is more fitting to explain the last case; Albert Park.

### 2.1.1 The Triple Bottom line approach

Coined by John Elkington in 1997, the triple bottom line approach focuses on the non-market and non-financial areas of corporation’s activities and responsibility while looking at the economic, environmental and social impacts (Sugget & Goodsir, 2002). The approach is used as a framework for measuring and reporting the fore mentioned parameters as a part of corporate performance (Elkington, 1997). Accountability to shareholders and relevant stakeholders is at its core, as well as transparency in reporting of activities, and integration of the tenets of the triple bottom line into strategic planning operations, and stakeholder engagement (ibid.).

This approach has its roots in sustainability, which focuses on meeting the needs of the present without compromising the needs of the future. Figure 2 illustrates how the three areas are interconnected.

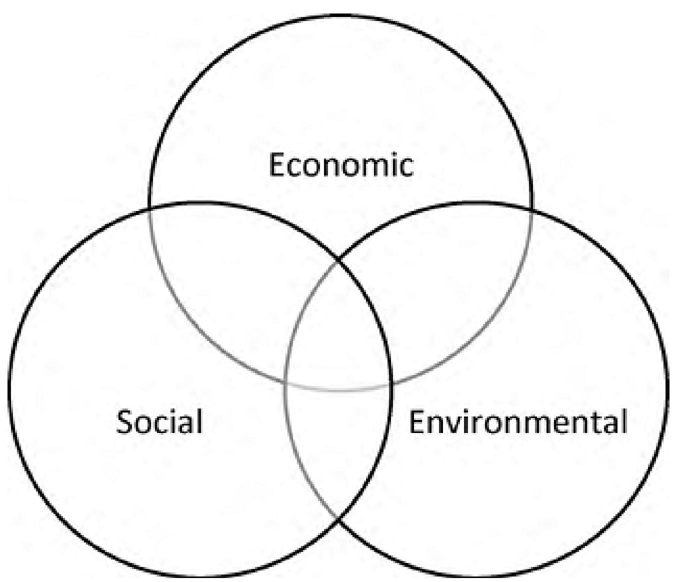


Figure 2: Diagrammical representation of triple bottom line

In its broadest sense, triple bottom line captures the spectrum of values that organizations must embrace – economic, environmental and social (Elkington, 1997).

### 2.1.2 Stakeholder theory

Stakeholder theory is an approach to management that focuses on the individuals or groups who affect, or are affected by, the impact of a particular activity or event (Covell, 2004; Freeman, 1984). Stakeholders are groups or individuals who “have claim or ownership rights, interests in a corporation and its activities, past present and future (Clarkson, 1995:106). In this approach to CSR theory, social considerations no longer lie outside the business, but became part of its purpose of being. CSR in this regard becomes a question of stakeholder identification, involvement and communication (Mitchell et.al., 1997;Morsing & Beckmann, 2006; Morsing &Schultz, 2006)

> “The purpose of stakeholder management was to devise a framework to manage strategically the myriad of groups that influenced, directly and indirectly, the ability of a firm to achieve its objects” (Freeman & Velamuri, 2006).

One may say that the aim of the stakeholder approach is to analyze how a company can serve its customers and be lucrative by also serving other stakeholders, for instance suppliers, employees and their surrounding communities (Hockerts & Morsing, 2008). It is an instrumental theory about the corporation, including traditional management theory with resource based views and market based views as well as a sociological view.

One of the challenges with stakeholder theory is to identify who the stakeholders are, and what power they have to influence the managerial decisions. Therefore, when looking at special events like F1 races, the triple bottom line and stakeholder theory are linked, since the social, environmental and economic outcomes of such events may have very different importance to the different stakeholders of the event (Fairley et. al., 2010:4). Thus, it produces a mixed economy of sort which requires a more an even more articulated view to understand the complexity of commercial, government and non-profit stakeholders, and collaborations between them (ibid.).

## 2.2 Critical Approaches to CSR

As we have seen in the chapter above, there are many different theories and managerial approaches that all fits under the ‘umbrella-term’ CSR. There are, however many academics that claim that CSR is not the optimal approach to making corporations more responsible actors in society. Before moving on to the two main critiques I will focus on, and most relevant to my case study of F1, we must look at what a *corporation* is, and what *responsibility* means.

The main foundation for the type of critique that CSR encounters lies in the definition of the *corporation* itself. A corporation is the property of its shareholders, and as such, legally bound to act in the best interest of the owners (Corporate Watch, 2006:9). Although the full quote is a bit more substantial, economist Milton Friedman has on many occasions been credited the line “*the business of business is business*” (1970). Because of this, CSR can only be insincere, since the structure of the corporation is pathological in its pursuit of profit (Bakan, 2005). Following this argumentation, it seems as though a corporation can only decide on things that serves the common good when it is also the most profitable decision to take. No company can ultimately have any other values than its share-value (Corporate Watch, 2006:9).

*Responsibility* is a word that implies other meanings like; duty of care, authority, control, obligation and responsiveness. Are these functions that a corporation or business have? Through CSR related activities companies seek to engage with stakeholders, but without taking the duty to respond to their concerns. Companies may prefer the word *commitment* to *duty*, since corporate definitions make reference to actions that go beyond legal requirements. The corporations have, in other words, no obligation to carry these actions out. The notion of *responsibility* is self-defined, not defined by the company’s social surroundings. Since it is self-defined, it is also almost impossible to measure and assign value to, so it makes for perfect PR (ibid.).

CSR as a public relations scheme works. Even though CSR is supposed to be win-win, where both company and society benefits, it is speculated that CSR has ulterior motives (Corporate Watch, 2006:12). For instance, when corporations make donations to charities, simple corporate philanthropy, it is using the shareholders money, something they can only do if there is potential profit in it. Improving image by associating themselves with a cause, countering claims from pressure groups, exploiting a cheap vehicle for advertising, are all motives for using the shareholders money in that matter; ultimately there is a financial benefit in it for the company (ibid.).

CSR help companies to build brand awareness and loyalty by appealing to customer's consciences and desires. It develops a personal connection with their customers. The involvement of charity and linking the company to causes may give market access as well as more power to the company's message (Corporate Watch, 2006:12). This type of positive reinforcement of a company's identity is one aspect of CSR as public relations platform, so-called g*reenwashing* is another.

Greenwashing is a way of helping a company restore image, by covering up negative impacts by feeding the media with positive images of the company's CSR credentials (Corporate Watch, 2006:12). CSR in a way enables business companies to claim progress despite the lack of verifiable change (Doane, 2004:8). As long as it is easier to spin stories than to actually change, it is part of the business case of CSR that being seen as socially responsible is not more than a PR exercise. To add to this critique, it is not accidental that most of the people working with CSR in companies more often than not sit in the communications and PR departments (Corporate Watch, 2006:12).

CSR is based on voluntarism and self- regulation from companies, but as Joel Bakan (2004) puts it;

> "No one would seriously suggest that individuals should regulate themselves, that laws against murder, assault and theft are unnecessary because people are socially responsible. Yet oddly we are asked to believe that corporate persons – institutional psychopaths who lack any sense of moral conviction and who have the power and motivation to cause harm and devastation in the world – should be left free to govern themselves".

An extreme point of view perhaps, but it still manages to get the point across.

## 2.3 The intellectual crisis of the CSR-discourse

Following the fore-mentioned critiques of CSR as a concept, I will continue to discuss what has been called "the intellectual crisis of CSR". This chapter might be a small sidestep from the rest of this study, but I feel that it is important to include some views that are fairly new, and hopefully will help make the CSR discourse more relevant and potentially helpful.

"The intellectual crisis of CSR" is a notion felt by some authors (Utting & Marques, 2010; Crouch, 2010; Sum, 2010; Noyoo, 2010; Blowfield, 2010; Ireland & Pillay, 2010) critiquing the very foundations of the CSR discourse. Both the camp that endorse and try to develop the discourse and the camp that critiques it are challenged by new publications on the matter. The recent credit crunch has brought on much of this view on CSR, as it has revealed corporate practices that underpinned the crisis and provided evidence that critical issues have never been discussed in the mainstream CSR agenda. The focus have been too narrowly centered upon visible forms of development related to environmental degradation, occupational health and safety in MNCs affiliates and suppliers, child labor in in the supply chain and community assistance (ibid.). A major blind spot in both CSR discourse and practice, according to the authors, is related to a crucial dimension of social development, namely distributional justice and equity (Utting, 2007). This has been made very clear by the recent, or current, financial crisis, where issues of executive pay, dividends to shareholders and tax avoidance/evasion and the relationship between a debt-driven consumption model and inequities in the functional distribution of wages are striking (Utting & Marques, 2010:3). The inequalities in supply chains and economic globalization have resulted in North-South imbalances that CSR sought to address in the first place.

The main argument of many of the authors that question the foundation of CSR as a concept is divided in several issues:

- ignoring the lessons of history that shed light on why and how business contributed to inclusive development at different times, in different countries;
- emphasizing empirical approaches that thrive on anecdotal evidence and the analysis of how CSR affects business, with limited systemic understanding of corporate responses and development impacts;
- disregarding certain theoretical perspectives that help to illuminate the potential and limits of CSR, and;
- failing to grasp the complexity of institutional settings and power relations that drive progressive reform and deepen CSR.

As we have seen above, some of the critique regarding CSR is that it is voluntary, unregulated and entirely up to each individual company to set their own standards. Reporting and monitoring is in no way standardized, and it is pretty much up to the companies themselves to determine how they are performing. In the light of this, there are alternatives, one of which I will present below.

### 2.4 The Sethi Monitor – Setting the standard

One of the CSR-theorists that have been critical to the way corporations is ‘self-monitoring’ themselves, without some sort of framework or standard for how this should be done, is Prakash Sethi. Professor Sethi is the founder and president of Sethi International Center for Corporate Accountability (SICCA) based at City University of New York.

> “SICCA is an independent non-profit organization dedicated to making the impact of global business as positive as it can be for shareholders and stakeholders at international, national and local levels. SICCA understands the evolving issues of corporate behavior in an interconnected global economy and strives to develop conceptual and practical ways for companies to adhere to high standards of ethical and professional conduct” (Icca-corporateaccountability.org, 2010).

In 2003, Sethi released “Setting global standards”, which discusses much of the problems associated with measuring and monitoring corporate social responsibility activities and reporting. Without proper monitoring of the outcomes from corporate CSR-initiatives, CSR will only function as ‘make-up’, or a marketing strategy to make companies look better than they really are. However, according to Sethi, voluntary codes of conduct provides the best way to bridge the gap between MNCs performance and societal expectations, especially in developing countries, in the areas of sweatshops[7], human rights violations and environmental degradation (Sethi, 2003:199). The problem does not lie within the codes themselves, Sethi argues, but rest with the MNCs and the manner in which they currently create and implement those codes. What the MNCs need is the right kind of external pressures and inducements on the one hand, and proactive responses from socially responsible and forward-looking MNCs and their leadership on the other hand (ibid.).

[7] Sweatshop like working conditions have been the cause of most critiques of MNCs production facilities.

In order to be viable and acceptable to both the corporation and its external critics, a code must narrow the credibility gap between societal expectations and corporate performance (Sethi, 2003:201). Since corporations operate abroad to make money, we cannot expect that they would contribute to the overall health of the local economy and well-being of the local people if that would threaten their own survival financially. Codes of conduct that impact operational costs, productivity, and factory output must take into account the economic environment and the competitive constraints (ibid.). What we should be able to expect, according to Sethi, and must receive from the MNCs is accountability for their conduct in their own operations and the operations of their local suppliers and strategic partners (ibid.).

Since progress and efforts done in the name of CSR, is more or less voluntary, in order to independently evaluate companies CSR reports, SICCA have come up with a scoring system and a way to compare individual reports. This can be a complex and challenging task and in order for stakeholders and decision takers, like politicians to be able to judge how one company does, compared to other companies in the same sector, the Sethi CSR monitor could prove to be an important tool. SICCA's latest publication using this tool is "Making Sense of CSR 2010" (icca-corporateaccountability.org, 2010). The report is unique due its systematic approach to the content analysis. Their database covers 1385 companies, 513 of which have produced CSR/Sustainability reports. Each CSR report is scored on 12 CSR related topics by objective analysts (ibid.).

This initiative by SICCA could, if used the right way, prove to be a fruitful development in the CSR discourse and community.

## 3. The Fast Paced World of Formula 1

Today, F1 is one of the world's biggest sports, both in terms of spectators[8] around the world and the money generated through it and spent on it[9]. F1 offers greater frequency, a longer season and therefore also greater sponsorship possibilities than, for example, the Olympics or any World Cup in other sports. As I have stated above, F1 is considered the world's most market friendly sport (Jenkins et. al, 2009). In some regards, hosting a F1-race can be

[8] The 2008 season attracted a global audience of 600 million people per race (paddocktalk.com, 2009).
[9] It is a massive profit-generating sport, as well as the most expensive sport in the world (espn.com).

compared to hosting the Olympics once each year. For one weekend, the eyes of sponsors, in other words – massive corporate interests, media, and not to forget hundreds of millions of fans worldwide are on one country, on one circuit. The data examined in this part of the thesis are mostly financial and is included to underline how much of a business the sport of F1 has become.

### 3.1 Origins and evolutions

What we today recognize as one of the world's biggest sports can be traced back as early as the turn of the twentieth century. It started out in Europe, where some of the first car racing was done using standard road cars racing from town to town. The first race to use the term 'Grand Prix', was in 1901 at the Le Mans in France (f1-grandprix.com, 2010). In 1908 the first 'pits' came into use, which led to signaling from the pits to drivers entering the sport in 1914. Even though there was a general interest for car racing in these early years, events like WW1, the great depression in the 1930's and WW2 halted the further development of the sport. Although Adolf Hitler gave significant financial support to the manufacturers Auto Union and Mercedes Benz for the promotion of the Third Reich in the 30's, the sport did not fully take on until after WW2 (ibid.).

In 1950, the term 'Formula'[10] was first used, and the FIA announced plans of a world championship the following year. Cars were now limited in terms of motor size (1,500 cc supercharged and 4,500 cc un-supercharged) and all manufacturers needed to comply with a set of standardized rules.

The fifties came to be seen by many as a sort of high day of the sport, as it produced some of the most legendary drivers and rivalries. Especially Juan Manuel Fangio is seen as one of F1's greatest, with his five world championships[11], and even though the sport was something completely different back then, drivers like Michael Schumacher seem to enjoy being compared to drivers like him and "who is the best driver" is a constant debate (latimes.com, 2002).

[10] The "formula" in the name refers to a set of rules with which all participants' cars must comply (dummies.com). The sport was first called "Formula A", but that quickly changed to the name we know today (f1-grandprix.com, 2010).

[11] Fangio won four consecutive world championships in the years 1954-1957, a feat no-one was to copy until Michael Schumacher did the same in the seasons 2000-2005.

The sixties became important in the history of the sport not so much for its legendary rivalry between drivers, but as a decade that produced some technological advances that forever would change the face of the sport. With the Lotus 25 in 1962 a monocoque (one-piece) chassis was introduced, something that made it lighter and more durable than previous models. With the introduction of rear engines, F1 cars were looking more and more like those that we can see race today (f1-grandprix.com, 2010).

In the decades that followed, new technological improvements came along, sponsors invested more money, and car-manufacturers dedicated own research and production facilities for their F1-teams and the sport became more professional. In the seventies and eighties technology developed in a massive pace, with the introduction of the rear-mounted wing. The wing increased traction and 'downforce' became a part of F1 terminology making aerodynamic engineering a vital part of car design. Six-wheeled cars and ground-effect skirts were all part of the next technological leaps in design, although the most extreme new technologies were quickly banned by the FIA (f1-grandprix.com, 2010).

Technical improvements like turbos, ground-effect skirts all came and went, as the FIA went stricter and stricter on the rules to keep the development of the sport in check. At some point in the nineties however, cars had become so technologically advanced that some felt that it was no longer up to the driver talent to decide who won, just who had the best engineering team back at the headquarters.

Traction controls and launch controls[12] made former F1 World champion Nigel Mansell comment that "*It should be a challenge and the ultimate test of skill to drive a Formula One car but, with traction control and launch control, a monkey could drive these cars. …even average drivers can be made to look good in these cars. Basically, all you have to do is boot it. You watch them cornering and it's no longer a test*" (Sunday Mirror, 2002). There were several of critical comments like this, and coupled with Ferrari's supremacy in the seasons 2001-2006, there was widespread fear that the sport was rapidly becoming uninteresting to the wider audience. The FIA again responded by changing the formula and getting rid of some of the technologies, so that the cars again would be more challenging to drive which in turn would make the sport more fun to watch.

[12] Traction control gives the cars extra grip on the road and launch control should ensure a near-perfect start off the grid.

The latest and most prominent technological innovation is the *Kinetic Energy Recovery System* (KERS), which in short converts the kinetic energy from braking into electrical power, stores this in a battery to be used again in acceleration, giving a power boost (approx. 82 extra hp). This technology was introduced to the sport in 2009, but only a two teams, McLaren and Ferrari managed to use it in every race, and it went away in 2010, only to be reintroduced in 2011 (Formula1.com, 2009).

FIA's former president Max Mosley was a key driving force for this technology;

> "I think it is very important that Formula 1 should develop technologies which are demonstrably useful in the real world. With the amount of intellectual talent and money that is now deployed by the top of the Formula 1 teams, it makes a great deal of sense to arrange the formula so that a performance advantage can be derived from doing something which is socially useful. The KERS technology is a good example because, no matter what the means of propulsion of road vehicles in fifty or a hundred years' time, it will still make sense to recycle the energy which would otherwise be lost when the vehicle is slowed" (Jenkins et. al., 2008:21).

Team principal in the former Honda F1 team, Ross Brawn also underlined the importance of producing new technologies that as well as giving a competitive edge could help the environmental image of F1:

> "We're definitely one of the teams that are fully supportive of any environmental or ecological initiatives that can be accelerated through Formula 1; KERS, the Kinetic Energy Recovery System, is a good example. I think there will be other examples in the future – because of course this is the beginning – but Honda are very keen and very supportive because they recognize that Formula 1 is a very intense environment to generate and develop these technologies. It is possible more intensive than any other environment because it's so competitive" (Jenkins, et. al., 2008:23).

Although there has always been technological innovation and development since the early years of F1 racing, the World Championship was a relatively unorganized affair financially, with individual races determining the financial results and the advertising and media rights for each event. This all changed in 1972, and the business-side of the sport became more coherent and professionalized.

## 3.2 The making of a sport into a business

Bernard Charles Ecclestone was the man that would forever change the business aspect of F1, and together with Formula One Management (FOM), his name is associated with the business of F1. FOM is one of the cases in chapter 4, and will be further investigated below.

Before examining the rise of the business side of F1, would make sense to figure out what type of business F1 actually *is*. A F1 team is certainly a performance engineering business. Producing only a handful of highly specialized vehicles every year that are continually developed to enhance their performance and to keep up with the competition. But F1 teams are not only involved with engineering, former Tyrell and Jordan marketer, Mark Gallagher, meant that F1 teams: "*...produce an engineering product yet make their money from selling a service: a marketing service which includes brand exposure for sponsors globally, hospitality, marketing, promotion, PR, endorsements, merchandising and so on*" (quoted in Jenkins et.al., 2009:115).

F1 teams are engineering businesses that delivers a product which is more in the entertainment and luxury brand business than anything else. Jenkins (et.al, 2009) divides their consumers in two groups. First, the main customers of the events – the audience, and second, the firms that provide money and/or services in exchange of the exposure they get from being aligned with the sport (ibid.).

Bernie Ecclestone, who for most people is synonymous with the business of F1, started out as a racing driver himself, although never in F1, became a manager for Austrian driver Jochen Rindt in the 1960s and purchased the Brabham Formula 1 team in 1970. He saw the potential of making huge profits from the sport by making the constructor teams more powerful. He started out by founding a team-owner's association to balance the influence of FIA. The Formula One Constructors' Association (FOCA), initiated and presented by Ecclestone became a cohesive bargaining group that took much of the power away from the circuits and into the hands of the constructor teams who raced their cars in the World Championship (Jenkins et.al, 2009:27).

The advertising and media rights of the races in the World Championship became the property of FOCA, and the circuits now had to pay for the rights to host a F1 race. It was determined that the financial profits were to be distributed to the teams according to how they placed in the championship according to the Concorde Agreement[13]. The shift of power in the structure of the World Championship made Bernie Ecclestone, as well as a lot of other team owners very rich men. In fact, Ecclestone has become a billionaire from being the 'boss' of F1 (ibid.).

In the 1990s, when more car manufacturers again became involved in the sport, concerns about the management company (now called FOM) was too powerful and it was argued that the revenues were not fairly distributed to the teams and circuits. Many of the circuits were at that time also facing large investments in safety requirements and spectator increases (Jenkins, et. al., 2009:27).

Although much has been said about how Bernie Ecclestone manages the series, almost all agree that he has been very successful in making a sport into a well-functioning money maker. When faced with questions on how his managing style might seem to others, he replied: "*I don't think democracy is the way to run anything. Whether it's a company or anything you need someone who is going to turn the lights on and off. [ ] I don't get any individual pleasure because we don't win races or titles in this job. I'm like most business people. You look back at the end of the year and you see what you've achieved by working out how much money the company has made. That's it*" (espnf1.com, 2010).

The F1 teams of today operate with budgets often in excess of $300 million a year and employ workforces of up to 1000 people. They are no longer small organizations, but companies specialized in marketing and technology which serves up the glamour and spectacle of the F1 series. Each race of the race season involves up to 2,000 people, a number made up of the teams themselves, as well as a range of support organizations including the race organizers, medical staff, hospitality and marketing operations. This is just the start of it though, as there are a further 10,000 individuals working at the factories and facilities connected to F1 (Jenkins et. al., 2009:19).

Similarities between sports and business life become obvious when one compare the F1 industry to the environment that corporate executives face since both:

[13] The agreement was signed at the headquarter of FIA in Paris, at the Place de la Concorde. It stipulates how the revenues are distributed among the F1 teams (Jenkins et. al.,2008).

- are highly competitive
- experience change on a constant basis
- require continual innovation to stay ahead of the competition
- rely on sharing of knowledge across functional divides
- require teamwork to achieve common goals, and finally;
- in both the most important measure of success is actual performance

(Jenkins et al, 2009:1).

An example of the growth the sport has had in just 20 years can be found in the Williams F1 team. In the early 1990s F1 was still a relative small niche industry, with small firms. At Williams in 1992, there were 190 employees; in 2004 the number had risen to 493 and in 2008 it had surpassed 500 (Jenkins et. al, 2009).

Another way to look at the business side of F1 would be to examine those who sponsor the sport and make money from it. The next chapter will take a closer look into that specific part of the world of F1.

### 3.2.1 Sponsors

The sponsors that invest money into the sport are an important part of the business-aspect of F1, as in any other money-making sport. Commercial sponsorship to F1 first saw the light of day in the late 1960s, when Colin Chapman's Lotus team painted their cars in the colors of Imperial Tobacco's 'Gold Leaf' cigarette brand to secure funding. Tobacco companies became an important source of funding to F1 teams for many years, with the Philip Morris' Marlboro brand as the most enduring and visible (Jenkins et. al, 2009:26). Marlboro has actually extended their sponsor contract with Ferrari until 2014, being the only tobacco producer remaining in F1 (yallaF1.com, 2010). This is despite the very strict anti-tobacco legislation that prevents them from putting their branding on the car. This came into play when FIA adapted the World Health Organization's (WHO) Framework Convention on Tobacco Control, which recommended the ban on all tobacco advertising in motorsports by the end of 2006 (who.int, 2010). Since then the Marlboro F1 logo has been a bar-code where the car previously had the brand logo.

When the Dutch bank ING decided to step into F1 in 2006, Isabelle M. Conner was part of the team;

> “We had a short list of three: the Olympics, tennis and Formula 1. The Olympics, we decided after further research, were really for brands that were already well known, so that wasn’t our case. Tennis was much harder to activate and Formula 1, the more we looked at it the more we saw 850 million fans around the world. The fact that Bernie [Ecclestone] has brought the sport into people’s living rooms in 185 countries; the fact that the sport is growing. How many sports can you talk about where they are growing? And we like places where they are growing” (Jenkins et. al., 2009:19).

They came to the sport viewing F1 as a global platform for building brand awareness and visibility, as Conner explained: “*ING treats Formula 1 as a business: the sponsorship is a way to generate revenue, not cost*” (Jenkins et. al, 2009:101). F1 helps ING with: “*building global brand awareness, improving brand perceptions and driving business that contributes to our bottom line – this makes F1 a core activity*” (ibid.). ING became one of the largest sponsors of the Renault team, and in 2008 it was calculated that the value of their media exposure as a whopping 79.755.429,00 dollars (Sylt & Reid, 2010:131). That made them the second most exposed sponsor of the sport, after Vodafone, the biggest McLaren sponsor. The top title sponsors could really be said to get exposure to match the money they put into the sport (ibid.). In the ING case, F1 investments increased new business, enhanced customer relationships and increased global awareness of ING as a bank (Jenkins et. al, 2008:101). In 2008, ING’s support of Renault was calculated to a total of 50 million dollars, but 13 races into the 2009 season, they dropped their sponsorship after the race-rigging scandal that hit the team (ibid:32).

ING is not the only financial service firm that has invested a lot of money in F1; other examples include The Royal Bank of Scotland (RBS), which until the end of 2010 was involved with the Williams team. Santander, the Spanish bank, entered the world of F1 in 2007, when it joined forces with McLaren. According to Santander’s director of corporate communications, Juan Manuel Cendoye: “*A global sponsorship such as the McLaren team is a way to leverage the single brand in the forty markets where Santander operates that wasn’t possible before”* (Jenkins et.al, 2009:102). In 2008 Santander reported that F1 related promotions had raised the consumer awareness of Santander in the UK from 20 per cent to 70 per cent at the end of the year (Financial Times, 2008:40f).

The global reach of F1 is part of the attraction that could provide sponsors with real commercial benefits and benefit them in ways that might not be possible in other sports. As well as getting public exposure there are also other reasons for a sponsor to start working with a F1 team. The most prominent of these is engaging in a technological partnership, like the one Ferrari and Shell has. Shell not only provides funding to support Ferrari, but the technical support and the joint development of the engine, fuel and lubricant products are also vital parts of their partnership (Jenkins et.al, 2009:26).

As well as influencing a team's success in the sport, sponsors may even under some conditions hold the power to decide who gets to race in F1. There are multiple examples of drivers being preferred over other drivers, not based on their talent, but on how much money they can bring to the team. In the end of the 2010 season, Nico Hulkenberg lost his seat in Williams, even though he was the winner of the GP2[14] series in 2009. Lucas Di Grassi recently lost his seat in Virgin to a driver that had more financial backing (planetf1.com, 2011).

Not only sponsors head into F1 to revitalize their brand and make profits from it. The car manufacturers themselves can differentiate themselves from other manufacturers by highlighting their results in the sport. This can be an attractive option to other forms of advertising expenses, and allows them to also draw on the racing experience and heritage to form their brand identity. For example, in 2008 Renault made special editions of their car models Mégane and Clio, the Mégane F1 Team R26 and the Clio Renault F1 Team R26 to brand their image as more sporty and competitive (Jenkins et. al., 2008:99).

As we have seen some examples of in this short chapter about sponsors, it is mostly the global reach of the F1 brand that attracts them to the world of F1. In the next chapter we will see how the sport has expanded its global reach in the quest for new markets over the last 12 years.

[14] The GP2 series championship was started in 2005, and has fed drivers to F1 since then. It is one of the premier one-make racing championships in the world (gp2series.com, 2011).

### 3.3 Spreading the formula

F1 has shifted from being a primarily European series to one with global reach and appeal. Driven by globalization, new circuits have been built in countries spanning over four continents, with races in China, Malaysia, Abu Dhabi, and other countries that seemed very unlikely to ever host such an event only a few years ago. India and Russia are added to the calendar this year, and talks about races in Africa are also underway. In the words of former F1 driver and now manager and commentator Martin Brundle:

> "Formula 1 has moved out into other areas of the world where there are a lot more emerging markets and so the global awareness is much greater. The Olympics and the World Cup are globally bigger of course, but they are every four years. F1 events take place approaching twenty times per year and so just the day-to-day of it has to be so much greater" (Jenkins et. al., 2009:18).

Formula 1 the sort of attention a national economy wants. Possible investors, increase in FDI[15], could be the outcomes of such a weekend. Bahrain experienced a 200% increase in FDI inflow over a three-year period following the first F1 race hosted by the country (fdi.net). However, some data also suggest that hosting a race in the F1 series is not something that always gives a full return on investment, but that it is both profitable for the sport to explore new markets and for some countries to be associated with F1 seems highly likely.

It is reasonable to assume that a somewhat profit-driven sport and global brand would look to new and developing markets of scope and scale when deciding to implement new circuits to the race calendar. And as Asia has become a more and more important continent in the world economy, with the rise of the four tigers, China and India in the last 10-15 years it makes sense that F1 would look to those countries as hosts for races. The BRIC-countries, Brazil, Russia, India and China are by many regarded as the biggest developing economies in the world. Out of these four, two countries (China and Brazil) are already hosting F1, India will be added to the calendar this year (sportbusiness.com, 2009), and a Russian Grand Prix[16] could be a reality in the near future (gpupdate.net, 2010). The addition of Indian (Karun Chandhuk) and Russian (Vitaly Petrov) drivers also indicate the direction of the sport. F1

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[15] FDI – Foreign Direct investment. "'Direct' investment is an investment from one firm in another, with the intention of gaining a degree of control over that firm's operation. 'Foreign' direct investment is simply direct investment across national borders." (Dicken, 2007: 36).

[16] All rounds of the FIA Formula One Championship are called Grand Prix.

goes for markets with potential, guided by massive corporate interests from the sponsors wanting to reach consumers in developing economies of scale.

This assumption makes sense in many ways, but two reasons stand out. First of all, more viewers and fans to the sport, as China and India alone counts for almost 2,5 billion people (undata, 2010). This can be achieved in many ways, but hosting races, making them available to people, as well as making sure that there are drivers or teams from relevant markets seems to be the best strategies. India has been the most successful so far, with the introduction of Indian drivers, as well as the F1 team Force India, owned by Dr. Vijay Malla and a Dutch family. Force India arrived in F1 in 2009, making it the first Indian F1 team in history (forceindia.com, 2011).

Second, the sponsors of the sport might see (as the examples above show) the spread of F1 as a way to get their products known in new and otherwise difficult markets to get into. As we also have seen in the chapter above, sponsors have some power to influence the direction of the sport, as they contribute large financial resources to the teams.

Figure 3 below, shows the geographic spread of races in 1999. As we can see from the diagram, most of the races took place in Europe, 11 of them, or 69%. Two races took place in North America, making it the second in hosting F1 races, Canada and USA had one race each. South America (Brazil), Oceania (Australia) and Asia (Japan) each had one race on the calendar.

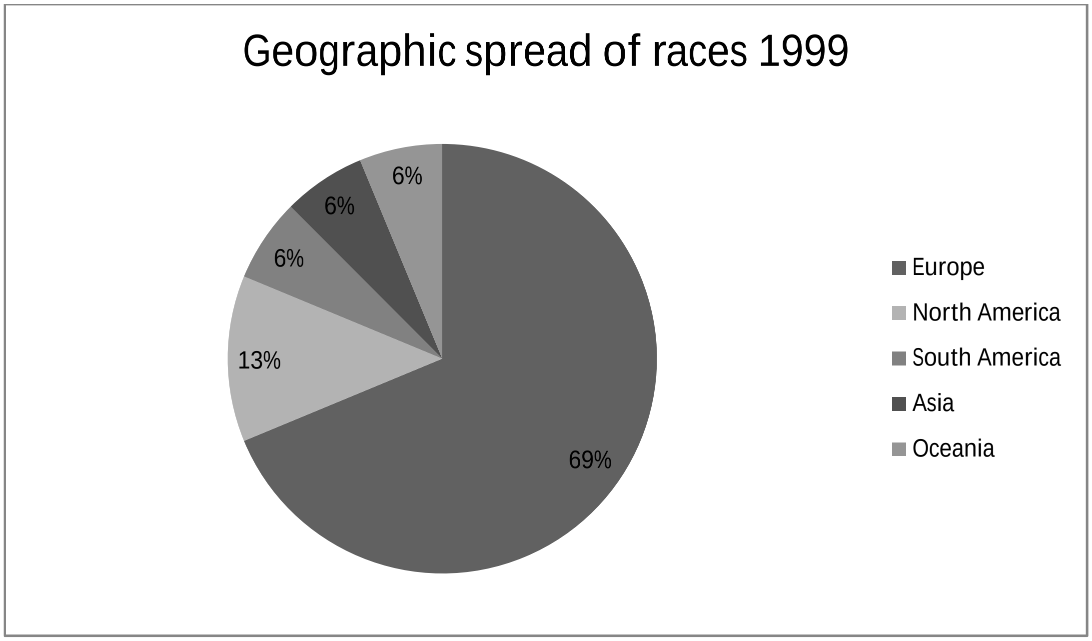



Figure 3: Geographic spread of races 1999 (Sylt & Reid, 2010:128)

When we turn the focus to the next figure, it shows how the sport is spread out ten years later. Here, Europe is still hosting most races, but barely, with 8 races to Asia's 7. North America is entirely off the F1 calendar, while Oceania and South America still are hosting the same races.

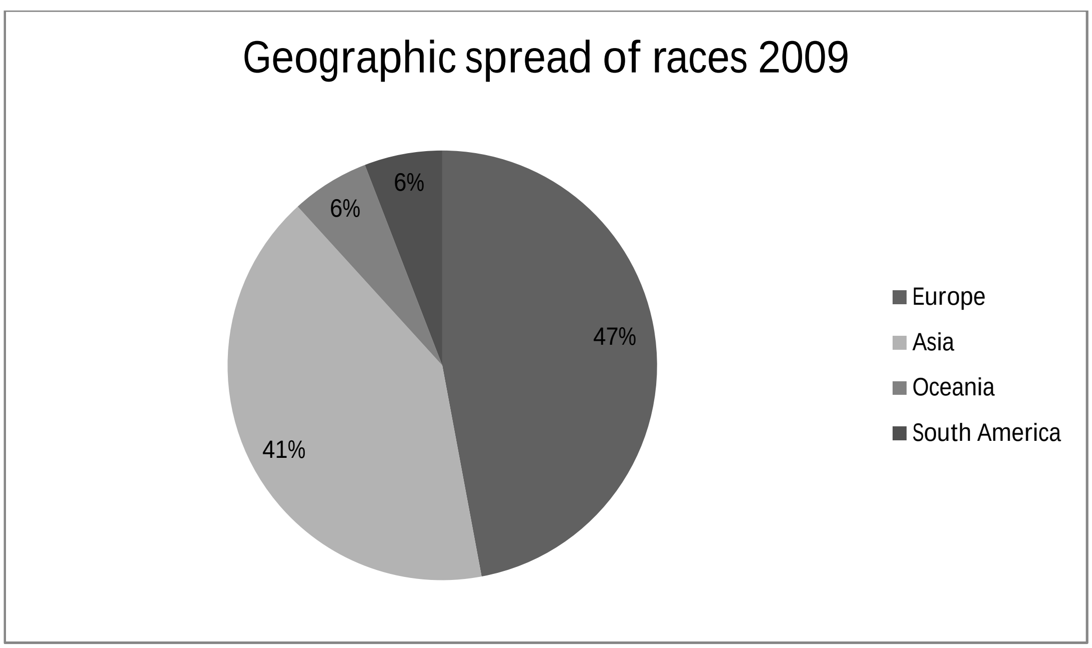



Figure 4: Geographic spread of races 2009 (Sylt & Reid, 2010:128)

These two figures together shows how large an impact on the sport the financial rise of Asia has had to say in regards to how the sport has spread out over the world. And in some ways this also shows how the geographical spread of F1 races can be symptomatic to how the economic growth in certain parts of the world influences the world economy.

The 2010 season saw the first race held in South Korea, at a newly built 5,6 km long venue in Yeongam, which has been described as the best track in Asia. It is forecast to bring in 1,8 trillion dollars in “visible and invisible” economic gains to the region over seven years (planetf1.com, 2010). Before going to the track in Korea, Bernie Ecclestone took the time to look at the progress of the track under construction in India 40 km from Delhi, which will be part of the 2011 race calendar. “*Very, very happy*” he told the journalists there. “*Much better than I thought. I have no fears about the circuit. After the Commonwealth Games, silly people said ‘be careful’ but I'm so happy about the progress of work. It is going to be much better than many tracks*” (espnf1, 2010b).

### 3.4 So, does Formula 1 have a bad image then?

This study makes the assumption that F1 does have an image problem. Not so much seen with eyes of corporations, but maybe in the eyes of concerned NGO’s and other stakeholders in areas affected by the events that make out the F1 series calendar. A point made earlier is that F1 may in a way be regarded as a ‘rich-men’s club’, a spectacle to celebrate the spending of money and wasting resources that might seem highly inappropriate in this day and age. The two single most important causes for this type of thinking would be the poor environmental profile of the sport and the very high financial cost of operating in it.

Is reasonable to assume that the biggest image problem for F1 is the general environmental concern about the sports carbon emissions. It is a *motor*-sport, which entails that the action and excitement produced is done so by burning fossil fuels. In a time where the changing global climate is believed to be human made, at least on a political level, a sport which is reliant on the consumption of fuel and emission of the same CO2 that governments are trying to limit, might seem as counteractive. And as this short analysis will show, most of the negative press that F1 get is from environmental organizations and people that care for our shared environment.

For instance, in the 2007 season, car manufacturer and former team owner Honda, had their cars decorated with a massive graphic of the earth, promoting the 'myearthdream' web-page[17]. The car had no sponsor logos whatsoever, which is uncommon to say the least (seeing that the visibility of the logos is very much part of the reason why sponsors shovel so much money into the teams in the first place).The web-page is no longer active, but during the 2007 season it was a tool for raising consumer awareness about how to reduce your own personal carbon footprint. By making a pledge on the website your name would also appear on the digital picture of a Honda F1 car on the website, as well as be added to the graphic on the real car. Greenpeace commented that the 'earth car' was a hypocritical publicity stunt: "*There is some irony in the fact that Honda are attempting to promote the environment and calling on others to address environmental issues when they are contributing to climate change by participating in what is probably the most polluting sport on the planet*", said Emily Armistead, a spokesperson for Greenpeace (The Guardian, 2007).

The cost of participating in the sport is also grounds for critique, as many might feel that it has lost its innocence and the appeal it had decades ago when heroes of racing battled for their wins in cars much more similar to the road-going vehicles of the day. Instead of focusing on the competition, the focus is on making money.

The credit crunch made many manufacturer teams re-evaluate their investments in F1. Honda, BMW and Toyota all exited the sport in 2009 and 2010 as a result. The car makers had to cut back on their spending, and in Honda's case, the withdrawal from F1 meant saving 350 million dollars. The total reduction in the spending of team owners in 2009 was around 500 million dollars, from 1,6 billion in 2008 to 1,1 billon in 2009 (Sylt & Reid, 2010:16).

The car-maker Porsche have for many years been synonymous with racing, and there were speculation that the VW Group, which owns Porsche would enter the F1 series in 2013. This rumor was commented on by the CEO in Porsche, Matthias Mueller: "*There are undoubtedly some attractive aspects*," he told the Swiss car newspaper *Automobil Revue*. "*But there are other sides to it as well. Formula One is very expensive, while success is far less predictable [than in other series]*" (espnf1.com, 2011).

[17] This site, myearthdream.com, has since been closed down.

Not only the cost for manufacturers and teams are rising, host circuits and event organizers are experiencing that the rise in sanction fees. This creates the prospect that no Grand Prix will be able to survive without some form of government financial backing. Already, historic racing grounds like France, San Marino, and Austria have dropped off the series calendar, making place for the newcomers Abu Dhabi, Singapore, Malaysia, China and Bahrain. The biggest differences in these are how willing the governments are to take the cost of building the circuits that host the new races. Singapore is the place where the government is investing the most, with an annual 60 million dollars that goes into the Grand Prix, it is followed by Bahrain (45 million) and China (42,5 million). All in all, government investments totaled almost 300 million dollars in 2008 with a total economic impact of 1,99 billion dollars for all races (Sylt & Reid, 2010:114f). The changes in sanction fees for the average and highest fee are shown in figure 5.

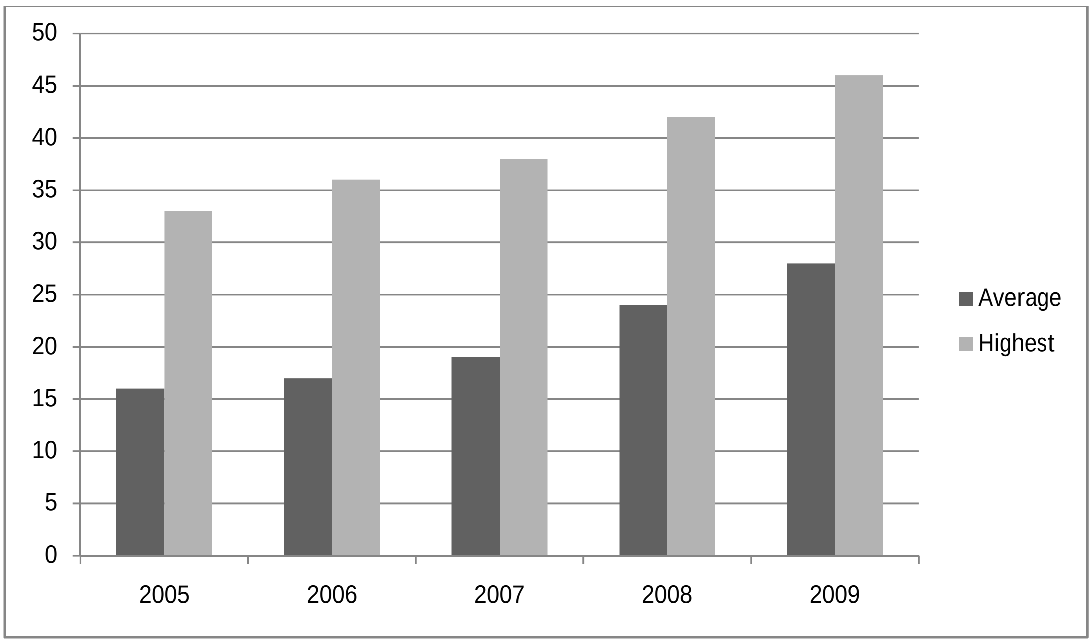



Figure 5: Average and highest sanction fees (million dollars) in F1 2005-2009 (Sylt & Reid, 2010:118).

The rising cost of hosting also affects the ticket prices for audiences coming to see the spectacle. In 2009, the average ticket price for the most expensive ticket for all races was 722 dollars, an increase of 53,3% from just three years earlier (ibid.). The cheapest tickets also increased in price over the same period, with about the same percentage, as shown in figure 6.

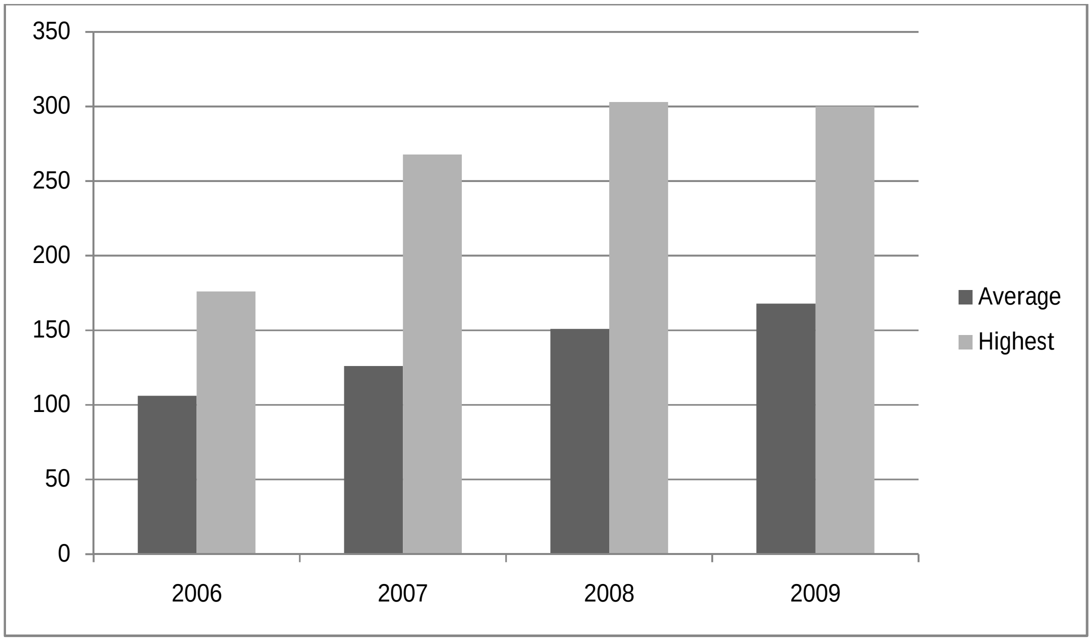



Figure 6: Average and highest ticket prices (in dollars) 2006 – 2009 (cheapest tickets) (Sylt & Reid, 2010).

The 2009 season saw F1 getting a lot of negative media attention. This makes the PR argument even more plausible, as it was a season plagued with controversy. Three of the most powerful men in the history of the sport, Ron Dennis, Max Mosley and Flavio Briatore all departured in more or less clouds of controversy. The biggest of all may be the exit of former team principal of Renault, Flavio Briatore, who was found guilty of rigging the 2008 Singapore Grand Prix by agreeing for one of his drivers to perform a very dangerous high speed crash in order to force out a timely safety car (Sylt & Reid, 2009).

The new president of FIA, former team principal in Ferrari, Jean Todt, is now getting heat from media commentators for not speaking up, especially regarding the recent events in Bahrain, which has changed the series calendar this year. Bahrain was meant to be the opening race of the season, but FIA has had to cancel it due to the unrest (speedtv.com, 2011).

The 2009 season also showed that even F1 was not immune from the “credit crunch”. Two of F1’s biggest sources of funding were those who were hit the hardest, namely the banking and car-making industries. This gave sweeping changes to the sport, especially in regards to sponsorship, as many actors cut their spending. F1’s total revenues in 2009 took a financially significant drop to 4,6 billion dollars from 4,8 billion dollars the year before (Sylt & Reid, 2009:16).

In this chapter we have seen that there are many bumps in the road for car-racing in the future, at least in its present form, both regarding environmental concern, and costs. As the following chapter might show though, there could be alternative routes to go.

### 3.5 Racing Towards Sustainability?

Knowing that motor racing in the form that we know and enjoy it today is not sustainable; one must wonder where it will go next. Technology that exists now can give us some sort of idea. The quests for smaller, more fuel-efficient – but still powerful engines have been the focus of cars manufacturers for many years already. This is also evident in F1, where engines have gone from V10's to V8's and are supposed to become even smaller in the coming years (V6's). At the same time the power measured in horsepower (HP) have remained around 700-800. So progress is being made. For the 2013 season, FIA has decided that F1 will switch from the 2,4 liter V8 engines used today, to 1,6 turbo charged four cylinder engines that combined with the KERS technology is promised to keep the power at current levels, while improving the fuel economy by 35% (autocar.co.uk, 2010).

Equally, in the FIA-controlled World Rally Championship (WRC), rule changes last year meant that manufacturers had to develop new 1,6 liter turbo charged engines instead of the 2,0 liter engines used the last few years. As a consequence, manufacturers also made their rally cars from considerably smaller models. Ford started using their smaller Fiesta model as the base for their rally-cars, instead of the heavier and larger Focus, which has been their rally-car for almost ten years. Citroen are now using the DS3 instead of the C4, and later this year, Mini will join the WRC as a constructor. The initial response of this from the drivers and rally spectators is very positive, at least when judging from the results of this year's first rally in Sweden. The verdict is that the new cars are giving the drivers a more level playing field (wrc.com, 2011).

Porsche debuted their hybrid racing car, the 918 RSR racing car at this year's Detroit motor show, which will not compete in any races, but still is a demonstration of what possibilities that lies before them (espnf1.com, 2011).

Already we see racing classes that are based on electrical cars are starting up, featuring cars like the electrical city car Think (evcup.com, 2010). Hydrogen powered cars can also provide a good substitute. The main challenge for these two possible substitutes is to still be able to provide the audience the action and experience that cars powered with combustible engines does. After all, the smells, the sounds and the heat that a current racing car gives you, be it a rally car, a formula car or even a go-cart, is a vital ingredient for any 'petrol-head'[18].

# 4. Methodology and Data

This part of the thesis will focus on the methodology of the study, as well as cases from four different levels of actors in the sport of F1. The purpose of this chapter is to look at whether or not these actors have some sort of formulated CSR strategy, or at least to explore what issues they could be struggling with. This will tie into the debate on MNCs and their challenges concerned with combining financial growth with a socially accountable way of doing business. The data presented in the four cases are mostly financial, from the 2008 and 2009 season of the F1 World Championship together with statements from one team. Not only does it underline the business aspect of the sport further, but it can also put some perspective on how much or little is being done when it comes to taking CSR seriously and implementing it as a part of F1's operations.

## 4.1 Discussion on methodological approach

In the social sciences there are often talk of a methodological divide. The divide lies between the type of methods mostly known as *qualitative* and *quantitative*, or as Knutsen and Moses (2007) phrases it: *naturalism* and *constructivism*. Both methodological approaches identifies the need to explain patterns observed in the world, but what this world is, and what the source of the patterns is, is something they differ on. For naturalists, there exists a 'real world' out

[18] A common nickname for any car and motor racing enthusiast.

there, independent of our experience of it. This ‘real world’ can be gained access to by thinking, observing and recording our experiences carefully. Thus the patterns of the world can be revealed (ibid: 8). A constructivist on the other hand, recognizes the important role of the observer, and that people may look at the same thing and perceive it differently. Rather than uncovering a true account, constructivists seek to capture and understand the meaning of a social action for the agent performing it (ibid: 9).

It is up to the researcher to evaluate which type of approach fits best to the study being performed, as neither of the two approaches is superior to the other (Knutsen & Moses, 2007:2). For this study of CSR in the world of F1, the case-study has been chosen as the research method. Although it is often associated with qualitative research (Bryman, 2008:53), according to Knutsen and Moses, the case study belongs to the naturalist social science but can be used both by naturalists and constructivists.

## 4.2 Method: Most Likely Case Study

What is a *case*? And how does one justify a case? These are important questions that a researcher must ask him- or herself when deciding on a research design and case selection. Case studies are used in a variety of different research designs and tend to involve a combination of scientific objectives, including both theory development and theory testing (Knutsen & Moses, 2007:140). The case study is a case of something (Knutsen & Moses, 2007:139). It points beyond the object at hand and seeks to move from an empirical level to a level of general statements (ibid.).

John Walton argues (1992) argues that cases are made by invoking theory:

> “The process of justifying a case – as a case of something important – involves showing that the case belongs to a specific family of phenomena. This family, in turn, is important because of its relevance to general social scientific thought (“theory”). This theoretically grounded character of cases explains both why they are central to the advancement of theory – why cases appear prominently in the history of social

> thought – and why new cases can be made and remade as new theories are applied to known cases.”

Following Walton’s argument, this study of cases in the world of F1, and why they are important, lies in the fact that they belong to a family of phenomena connected to the globalization of economy. By applying theories of CSR, the study will hopefully provide new insights to the CSR discourse and how brand awareness and stature can affect the need to implement CSR.

Thus, this study is ‘most likely case study’ on four different levels of F1. The most likely approach has been chosen as discussed in chapter 1, because F1 is a particularly strong brand in the sporting industry, and because of this, both sponsors and countries seem eager of aligning itself with it. The case will hopefully give some insights into the hypothesis regarding whether or not liberalists are right in the assumption that in order to enhance financial growth, corporations will behave like good social citizens.

Starting with FIA, the governing body of the sport, the thesis will take a look at their campaigns and charities directed towards the general population. Next, the thesis will examine at the business of F1, represented by FOM, Formula One Management. The team level is represented by Team Vodafone McLaren Mercedes, and their take on CSR is examined, as well as some of their financial records. The final level of analysis will be on the circuit level, where Albert Park in Melbourne, Australia seemed as a relevant choice, as there has been some controversy surrounding the area that is being used to host the event.

The analysis will be based on examining numbers from budgets and statements from the cases chosen. Since actual numbers on CSR-related spending are very hard to come by, the analysis will rely on a discussion surrounding the brands involved and how they impact on their social environment.

### 4.3 Cases

### 4.3.1 Fédération Internationale de l'Automobile

The Fédération Internationale de l'Automobile (FIA) is the governing body for world motor sport and the federation of the world's leading motoring organizations. Founded in 1904, with headquarters in Paris, the FIA is a non-profit making association. It brings together 221 national motoring and sporting organizations from 132 countries on five continents. Its member clubs represent over 100 million motorists and their families (FIA, 2009a). The table below demonstrates how the headquarter of FIA in France budgeted their 2007 revenues and costs, according to Sylt & Reid (2010). It also shows how there is no profit margin in their operation, as it is a break-even budget.

2007 BUDGET FIA France

| Revenue Stream | Operating income |
|---|---|
| Member club subscriptions | 1,7m |
| F1 super licences | 0,5m |
| F1 registration and entry fees | 3m |
| World Rally registration and entry fees | 1m |
| GT/GT3 Championship registration and entry fees | 2,5m |
| World Touring Car registration and entry fees | 2,1m |
| Other series' registration and entry fees | 8,6m |
| Cicruit inspections, fines, karting products and other misc. sporting related income | 5m |
| F1 commercial rights annual fee | 7,3m |
| World Rally commercial rights annual fee | 0,9m |
| Subscriptions and project income from regional offices | 1,2m |
| Currency transaction gains, interest and other misc. financial income | 0,2m |
| FIA FRANCE TOTAL OPERATING INCOME | 34m |
| Cost Source | Operating expenses |
| Office costs, rent, insurance, repairs and temporary staff | 5,9m |
| Fees and expenses for agencies and specialists | 4,6m |
| Fees to FIA Switzerland | 7,6m |
| Travel and entertaining | 6,3m |
| Involvement in FIA championships | 2,6m |
| Personnel costs | 3,2m |
| Regional expenses | 1,5m |
| Misc. expenses (telecoms, finance etc.) | 0,5m |
| Depraciation allowance | 1,8m |
| FIA FRANCE TOTAL OPERATING EXPENSES | 34m |

Table 1: 2007 Budget FIA France (in dollars) (Sylt & Reid, 2010:28).

One of the more interesting numbers in this budget is the F1 commercial rights fee, in other words the fee that FIA charges FOM annually for their use of the F1 brand, and for their management of the sports business side. It is a mere 7,3 million dollars, a very low number considering the revenues FOM make from selling commercial rights to the media. These numbers will be presented in the next case, presenting FOM.

The FIA has been dedicated to representing the rights of motoring organizations and motor car users throughout the world via campaigns and activities that serve their interests. On issues such as safety, mobility, the environment and consumer law the FIA actively promotes the interests of motorists at the United Nations, within the European Union and through other international bodies (FIA, 2009a).

As the governing body for motor sport worldwide, FIA also administer the rules and regulations for all international four-wheel motor sport including the FIA Formula One World Championship, FIA World Rally Championship and FIA World Touring Car Championship.

FIA has a potentially big impact on motorists and consumers around the globe, due to its amounts of local clubs worldwide. Through the reach of its local clubs around the world FIA hopes to be able to influence the consumers to make educated choices of car type when buying new cars. The *Ecotest* is an example of this, as it seeks to provide consumer knowledge, testing new cars to show their performance on fuel economy etc. (FIA, 2009b).

FIA promote two different initiatives that is very relative to the environmental challenge the transport sector face: ‘Make cars green’ and ‘Make roads safe’. In addition, FIA has released several papers relating motoring, motorsports and infrastructure to lowering emissions (in particular CO2), setting new environmental agendas and worldwide standards for emission and fuel consumption. For example, the FIA declaration on air quality, climate change, and automotive fuel economy is meant to encourage the UN to set a worldwide target for CO2 emissions for passenger cars. It further outline ways to promote environmentally friendly and fuel efficient behavior, reform motoring taxation with an emphasis on use rather than ownership, introduce new technologies to help motorists monitor their environmental impact, save energy through improved tire design, and encourage global use of unleaded and sulfur free petrol (FIA, 2009b).

Reducing the costs of F1 have been a focus for FIA the latest years, and everything from guidelines on how many races engines and transmissions are supposed to last, to restricting the number of test days in every season have been implemented[19]. Some of these changes have been to the teams and drivers frustrations, as they fear that for instance less testing will make it harder for inexperienced drivers to get accustomed to F1 cars (Bleacherreport.com, 2011).

In 2009 FIA pressed on for a budget cap of 40 million pounds (UK) on the teams spending, a proposal which made FOTA, the teams association, and FOM, Formula One Management threatened to establish a separate world championship for formula cars. The teams who wanted to break out of F1 were Ferrari, Brawn, McLaren, Renault, Toro Rosso, Toyota, BMW-Sauber and Red Bull (dagbladet.no, 2009). Max Mosley, the president of FIA, had for a long time been relatively unpopular with some of the team owners, and this budget-cap proposal brought F1 to the brink of extinction. Two-time world champion Fernando Alonso were quoted saying "*Formula One is finished. It will become a series with small teams and standard engines for all. That's not for me. I want to join to the new world championship when it comes"* (dagbladet.no, 2009, author translation). The matter was resolved after long negotiations where FIA agreed to postpone the budget cap for the 2011 season.

Commenting on the budget cap proposal and the agreement, Ferrari team principal Stefano Domenicali said: "*We have asked to go into next year with the 2009 rules and then see what we can do to change for next year. Cost is something all the teams are fully committed to working on, but it is something on which the teams have to decide what they can afford. We don't feel it is something someone can impose on us"* (bbc.co.uk, 2009). Max Mosley were however still hopeful that the budget would come down to about 45 million Euros by 2011 without any of the teams leaving the championship, but cut-backs on team spending has been a major issue for FIA for many years (ibid.). For some, the budgets needed for succeeding in the sport and the way the prize money is divided amongst the teams is a "celebration of unfairness":

> "I describe Formula 1 as a celebration of unfairness: if you win you get more money, you get more TV. Everything's stacked in your favor and frankly you don't have to be so very good to continue winning, in business terms. But if you're down in the bottom it is an awesome struggle. As you look up the stack everything is against you doing well. This is because all sorts of wheeler-dealer types and the top teams have bought advantage. You know, the best

[19] In the 2010 season, testing was limited to 15 days in-season, and no testing in the "winter-break", as a result, teams have invested heavily in simulators that drivers have to use to get to know the machinery and new race courses KILDE.

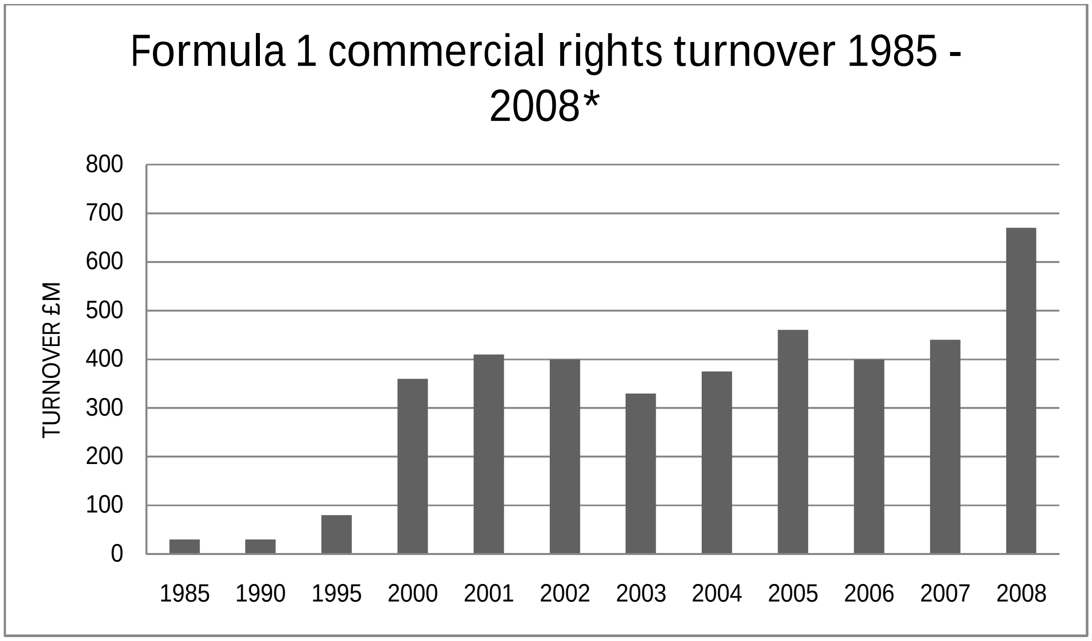
teams gets the best garage, the best drivers, the best engineers. This has gone to such extremes that they are horrified that cars don't get out of the way for them. It doesn't stop on the track; the position with the motorhomes is the best team get the best position. It's absolutely stacked up to favor the top teams. The important thing here is that the TV revenues and the extra sponsorship you command give you a huge advantage if you're in the top three, because money buys success in this game. So it's a bit odd in that way. It's not a remotely even playing field" (Tony Purnell, quoted in Jenkins et.al, 2009:216-217).

### 4.3.2 Formula One Management

Formula One Management Limited (FOM) is an affiliate of Formula One Administration Limited (FOA) and acts as its agent and business manager and together with Formula One Licensing BV, these companies form the Formula One group of companies (Formula One Group) (f1.com, 2010).

The company structure of FOA is complicated, to say the least, with many different companies established to serve the different parts of the F1-series. It actually consists of 30 different companies, whose connections to each other are very complex, as their shareholder and ownership ties are not very transparent.

As FOA holds the commercial rights to the F1-series, a large portion of their revenues are generated through sales of TV rights. The figure below demonstrates how these revenues have increased since the mid-eighties.




*2000-2008: Formula One Administration; 1985-1995: Formula One Promotions and Administration

Figure 7: Formula 1 commercial rights turnover 1985-2008 (Sylt & Reid, 2010).

In 2006, a venture capital fund, CVC, purchased a 72 percent stake in the corporate structure from Ecclestone in the part that promote and keeps all the media rights to F1. CVC requires a sustained return on its investments; therefore it does what is in its best interest, and makes sure that the business model develops in a way that reaches their financial objectives. Table 2 shows how the total revenues of F1 in the 2009 season looked like.

| Category | Estimated Revenues | Formula One Group Share |
|---|---|---|
| Team owner spend | 1.130m | - |
| On-car team sponsorship | 770,75m | - |
| Ticket sales* | 483m | - |
| TV rights | 450m | 450m |
| Race sanction fees | 448m | 448m |
| Government grants to circuits* | 299,6m | - |
| Trackside advertising* | 265,6m | 253,5m |
| Sponsorship activiation | 130,6m | - |
| Paddock Club | 130m | 130m |
| FOA sponsorship | 102m | 102m |
| Tyre supply | 74m | - |

| | | |
|---|---|---|
| Sponsorship of TV broadcasts | 65m | - |
| Customer engine supply | 60m | - |
| Off-car team sponsorship | 49,8m | - |
| Driver sponsorship | 34.5m | - |
| Other** | 155m | - |
| F1 Sub-total | 4.647,75m | 1.383,5m |
| GP2 management revenues | 38,8m | 38,8m |
| *TOTAL* | 4.686,55m | 1.422,3m |

* 2008 data

** Includes payments from Honda to Brawn, driver's license fees, print media sales, PR, hospitality, merchandising etc.

Table 2: F1's total revenue generation 2009[20] (Sylt & Reid, 2010).

As table 2 illustrates, most revenues are generated though from circuits (race sanction fees and government grants), television-rights, advertising, license fees and ticket sales. Race sanction fees climb as F1 replaces older circuits with higher-paying tracks in the new markets. Between 2008 and 2009 they rose 11% from 403,5 million dollars to 448 million. In the contracts for the host circuits, a 10% annual increase in the sanction fees is included, so this source of funding will be expected to continue to rise in the future (Sylt & Reid, 2010:16). The revenues from sanction fees are expected to grow even more, as new circuits added to the series pay considerably more than some of the ones that end their contracts with FOM.

### 4.3.3 Vodafone McLaren Mercedes

> "At Vodafone McLaren Mercedes we race to win. That competitive ethos underpins everything the McLaren Group does. From the art of aerodynamics to the science of great food, we strive to lead in every field of business we compete in. We are six companies with a single purpose: to be the very best at what we do" (Mclaren.com, 2011b).

Team Vodafone McLaren Mercedes is a constructor team[21] in F1 and has been in F1 since 1966. This makes it the oldest, apart from Ferrari, team to still race today. McLaren have won the world championship for constructors 8 times, has 169 race wins and ranks as number two on almost all records in F1 (motorsport-total.com). In its present configuration, McLaren builds its own cars and Mercedes provides the engines.

[20] All numbers in dollars.

[21] Jenkins, Pasternak and West (2009), differs between constructor teams and manufacturer teams. Constructor teams are those that are solely concerned with running a F1 team, while manufacturer teams are those who also produce road cars (p.13).

Team Vodafone McLaren Mercedes is owned by the McLaren group, a British engineering and technology company which in turn have grown out from the activity in F1 (McLaren.com, 2011). It is located in Woking, UK, an area where F1 teams are highly represented, almost like a “silicon valley” cluster of F1 (Jenkins et.al, 2009).

In 2009, McLaren had an income resource of 483,85 million dollars (Sylt & Reid, 2010:83), which made them the highest earning F1 team of the season. It increased from 433 million in 2008, largely due to an increase in prize money for winning the 2008 championship. However, sponsorship dropped from 150 million the year before, as well as the funding from Mercedes, which dropped from 265 million in 2007 (ibid.). Broken down, the income was as follows:

- Team owner contributions – 225 million
- Sponsorship money – 146 million
- Prize money – 68,65 million
- Supply of customer engines – 24 million
- Suppliers – 12,8 million
- Tire provision – 7,4 million

The total earnings of all F1 teams put together were a staggering 2,71 billion dollars, and the average approximately 270 million (ibid.).

Below is a figure that shows how the resources McLaren had in the 2009 season were divided.

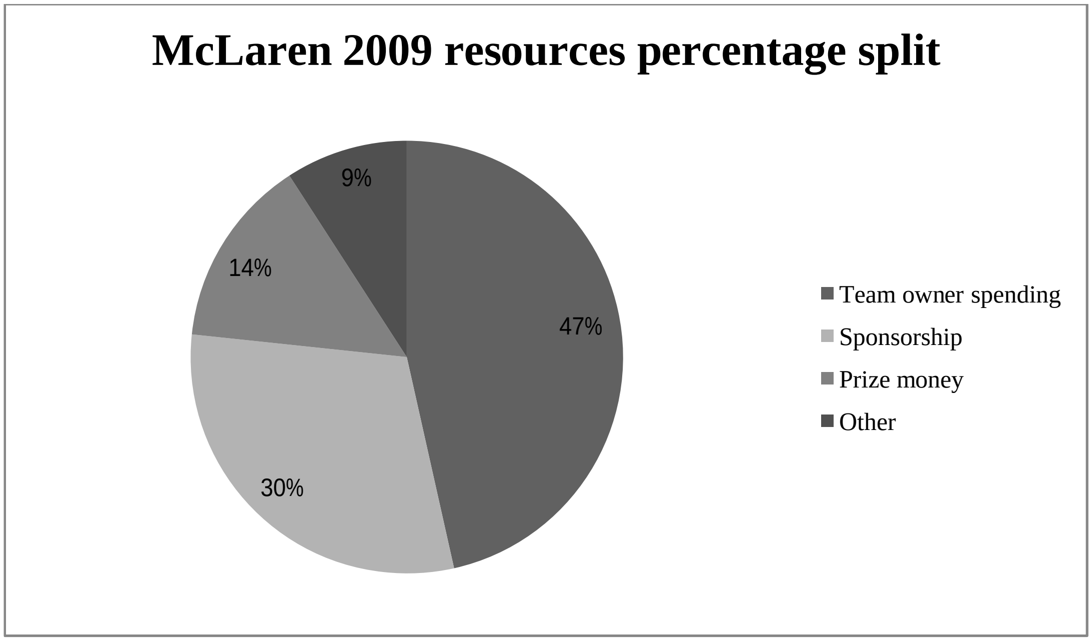



Figure 8: McLaren 2009 resources percentage split (Sylt & Reid, 2010:85)

The expenditures are commonly divided into four main categories; chassis production, engine production, salaries and operations/marketing.

The McLaren group is one of the few, if not the only one, to have a formulated CSR strategy guiding their activities.

> "McLaren's CSR policy is comprehensive, deep-rooted, realistic and under constant review. To date, a great deal has been achieved, so much so that we've rather developed a taste for it, and instead of slackening off, we're pushing harder as we catalogue many examples of the McLaren Group's CSR success" (mclaren.com, 2011a).

However, as in most real-world examples regarding different companies, the definition of CSR varies. The McLaren Group bases their policy on three main principles:

- Conserving the environment
- Connecting to people
- Creating opportunity through innovation

In short, to the McLaren Group, CSR refers to reducing their carbon footprint, and caring for their employees. This could be called a somewhat narrow interpretation of the concept, but at least CO2 emission is something that can be measured, and reducing it is after all a good thing. They claim though, that in 2007, emissions from F1 cars, both testing and racing, contributed only a mere 0, 4% of McLaren's carbon footprint. Their goal is to reduce CO2 emissions levels by 18% in 2012 (Mclaren.com, 2011a). They also claim to reduce electric usage by 13,000 kWh by the use of low energy lighting, as well as the design of the Technology Centre, which lets in much of the natural light in daytime (ibid.).

In the team's own words:

> "The philosophy behind our CSR strategy is simple. Starting with the premise that our main business is motor racing, a sport which impacts upon the environment, the McLaren Group aims to be at the forefront of any moves to reduce these impacts" (Mclaren.com, 2011a).

The McLaren Group is indeed a very high-tech organization, something they show off visually with the McLaren Technology Centre (MTC), an enormous headquarter that rooms all their activities, from F1 to R&D and production in other areas. The MTC also embodies their goals of reducing their carbon footprint. The whole site of 62 hectares accommodates the center (57,000 m2) and a park which has been planted to offset the size of the center. The park is publicly accessible, and according to the McLaren Group the park has enriched the local community. The park also holds five lakes, which are used for the cooling of the building, reducing the need for conventional water towers from seven to two. The building process started in 1999, and the whole site was completed in 2004 (Mclaren.com, 2011c).

Although McLaren's main CSR focus is on the environment and employees, they also want to support charities and their local community and do so through philanthropic projects like the park and helping three local charities in the Surrey area; the White Lodge, The Surrey Care Trust and The Woking Hospice (Mclaren.com, 2011a). They have implemented criteria to identify further charities to support in the future.

Even though McLaren have their own CSR philosophy, that doesn't mean that the team's sponsors have one. A quick survey[22] of which ones are participants in the UN Global Compact looks like this:

| Sponsor | Participating in Global Compact |
|---|---|
| Vodafone | No |
| Santander | Yes |
| Mobil 1 | No |
| Johnny Walker/Diageo | No |
| Aigo | No |

[22] Survey done 22.02.2011 on the UN Global Compact homepage, were search for participants worldwide is possible.

| | |
|---|---|
| Bridgestone | No |
| Hugo Boss | No |
| SAP | Yes |
| Hilton | No |
| Kenwood | No |
| FedEx | No |
| Nescafe Express | No |

Table 3: Companies sponsoring the McLaren F1 team participating in UN Global Compact

From this short survey it is obvious that 10 of the 12 most visible sponsors of McLaren (those that are on the car and the driver's outfits) are not participating in the Global Compact. McLaren itself does not appear to be a participant either, an observation that might cloud the clear CSR profile that the team has taken upon itself.

### 4.3.4 Albert Park – Melbourne, Australia

The Australian Grand Prix is an annual event that since 1996 has been on the F1 calendar. Before 1996, the Australian Grand Prix was held in Adelaide, but after an aggressive takeover campaign from the state of Victoria, Melbourne won the right to host the event (Fairley et. al., 2010). Melbourne was named in 2007 and 2008 as "the best city in the world to host a sport event" by Sport Business International (Sport Business Group, 2008). have made efforts to be known as this through hosting a variety of events, including the Commonwealth Games, the annual Australian Open (tennis) and the FINA World Championships (swimming) (Fairley et. al., 2010). However, the Grand Prix is the event that receives the most financial support from the state government (Fairley et. al., 2010).

The rationale for choosing the Australian Grand Prix as a case is that the event has been under scrutiny for the past few years. The net benefits and long-term sustainability of the event have been the focus of a cost-benefit analysis, recommended by the Auditor-General of the Victorian government (VAGO) (Fairley et. al., 2010). The economic, social and environmental impacts of the event were to be examined, in a triple-bottom line approach as discussed above. Another report about the event has also been produced, ordered by Australian Grand Prix Corporation (AGPC), called the NIEIR report. These two reports (NIEIR and VAGO) produced different results regarding the financial benefits from hosting the event, and discrepancies in both visitor numbers and economic outcomes, which will be outlined below. Other stakeholder groupings include Save Albert Park, who strongly opposes the hosting of races in the park (ibid.).

As mentioned above, FOM owns the rights to every F1 event, and therefore the host country (state) must pay an increasingly substantial license fee to Bernie Ecclestone and FOM to host the event. There is no standard license fee, and it varies from host country to host country. In Australia, the AGPC is responsible for the management of the event, and has a multi-year deal with FOM to host and deliver the event until 2015 (Fairley et. al., 2010). The license fee for the Australian Grand Prix in 2008 was 27 million US dollars, and is compounded annually at 15% (Sylt & Reid, 2010).

Because of the high licensing fee, the Victoria state government contributes about 40 million AUS dollars in assistance every year. These are public monies, and the justification for this funding is based on the belief that the event itself contributes economic benefits to the state (Fairley et. al.2010). As table 4 illustrates, the event relies on government financial backing to break even. In 2008 this backing was 27 million US dollars, exactly the same amount that FOM charges in sanction fee for the event. The budget is only part of the picture, as there are major discrepancies in the VAGO and NIEIR reports created about the impacts of the event, something table 5 shows.

| *Australian Grand Prix* | |
|---|---|
| Revenues | |
| Ticket sales | 29m |
| Hospitality | 8m |
| Total revenues | 37m |
| Costs | |
| Sanction fee | (27m) |
| Other costs | (37m) |
| Total costs | (64m) |
| Total | |
| Profit/(loss) before government assistance | (27m) |
| Government assistance | 27m |
| Profit/(loss) | *Break even* |

(Numbers in US dollars)

Table 4: 2008 Australian Grand Prix Budget (Sylt & Reid, 2009:119).

| | NIEIR | VAGO |
|---|---|---|
| Economic impact (increase in GSP[23]) | 174,8m | 62,4m |
| Net economic benefit | Not determined | (-6,7m) |
| State tax receipts | 15,2m | 3,5m |
| Economic impact on Australia | 54,2m | 1,9m |
| Commonwealth tax receipts | 9,0m | 2,7m |
| Jobs created | 3.650 | 400 |

(Numbers in AUS dollars)

Table 5: Discrepancies between NIEIR and VAGO reports (Save Albert Park, 2005)

In the NIEIR-report the economic impact in the state of Victoria is stipulated to 174,8 million AUS dollars, considerably higher than what the VAGO report stipulate, with 62,4 million. Since the net economic benefit is not determined in the NIEIR report, it cannot be compared, but the VAGO report stipulate that the event does not break even, but experience a loss of 6,7 million AUS dollars.  Further, the economic impact for Australia as whole varies from 54,2 million in the NIEIR report to 1,9 million in the VAGO report, again a major discrepancy in numbers.

The NIEIR report also suggest that a total of 3.650 jobs are being created by the event, with the VAGO report only reporting a much smaller number, with 400 jobs created. Since the Albert Park circuit is not a fixed circuit, but has to be prepared each year before hosting the race with most of the infrastructure changes being assembled and dismantled every year. Some structures have been built and are permanent, such as pit garages, concrete underpasses, grandstands and other motorsport infrastructure. The VAGO report estimated 1,7 million dollars in community costs related to ambulance, fire, police, roads etc., plus highlighted that the Albert Park is unavailable to public use for six weeks surrounding the event (Fairley et. al.2010).

One must keep in mind that these two reports are from two different stakeholders, one party that host and make money from the event, and another, with a more independent relationship to the event itself, but still with own interests. Therefore, and especially since the reports vary so much in the numbers they produce, one have to be aware that both reports may be biased.

Although the Grand Prix weekend is a full 4-day festival event, including a cross-section of events not only designed for the traditional car-racing fans but a wide selection of the population, the F1 race is still the main event. Other activities include concerts, kid's events,

[23] GSP – Gross State Product is a measurement of the economic output of a state or province, also called GDP by state (bea.gov, 2010).

street parades and celebrity challenges (The argument from the AGPC, as in any country hosting F1 races, is that the event itself benefits the local economy from visitors, and extra income that would otherwise not flow into the state. This is an argument that is hard to prove, since knowing how many who would come were there not a F1 race only would be speculation.

The NIEIR report estimated, however, that the event in 2005 attracted 23,606 international visitors, 35,503 interstate visitors, and 12,281 visitors from areas outside of Melbourne (Fairley et. al.2010). Further, the report estimated that 27,764 attendees were *extra visitors*, which would not otherwise have come to Melbourne, had it not been for the Grand Prix. 2,458 visitors were reported to be *stay-extenders*, who extended their planned stay in Melbourne because of the Grand Prix. Over 3,000 drivers, team members and officials were attracted by the event, as well as 800 media representatives (ibid.). On the basis of these numbers, the NIEIR report calculated the additional spending in the state because of the Grand Prix to a total of 60,6 million AUS dollars in 2005.

Attendance at Albert Park in 2008 went up with 1,4% from the year before, with a 3-day attendance of 257,000[24]. This is not bad, when compared to China, which has one of the newest circuits, with the largest seating capacity of 200,000. China only managed to get 90,300 attendees over 3 days (Sylt & Reid, 2009). This might tell something about the position and interest of the sport in the individual countries, especially when ticket prices in China are considerably lower than in Australia[25]. However, as we can observe from the diagram below, attendance in 2009 went a little bit down again.

[24] Albert Park has a capacity of 120,000, and attendance in 2008 varied from 71,000 on Friday to 108,000 on Sunday – Race day (Sylt & Reid, 2009:123).

[25] The cheapest tickets in Australia are 147 dollars, while in China the cheapest tickets are 53 dollars (Sylt & Reid, 2009).

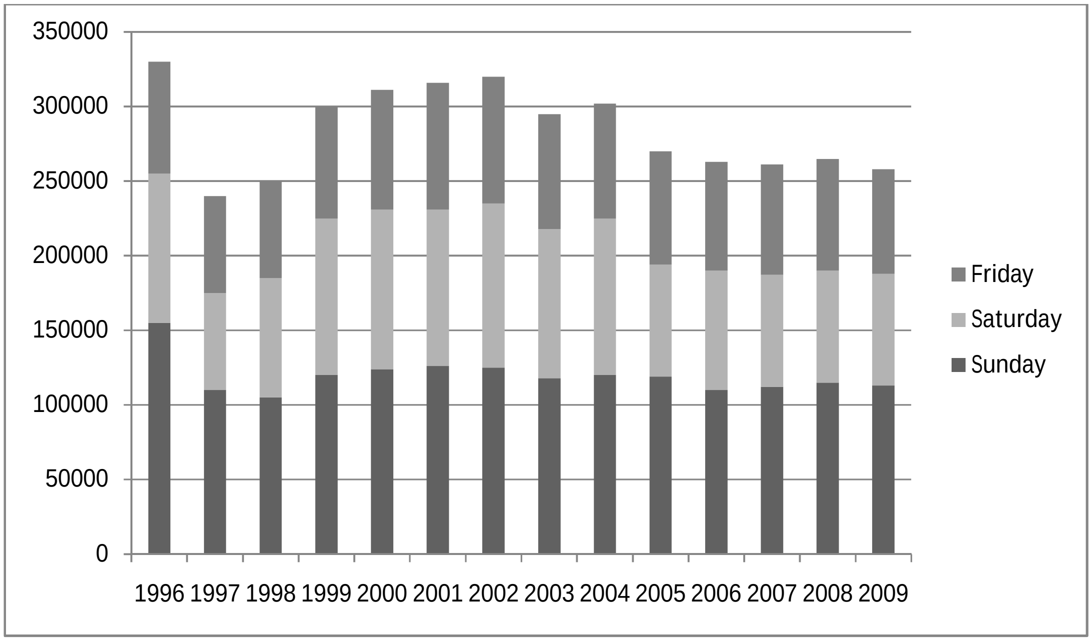



Figure 9: 14-year review of F1 attendance in Australia (Sylt & Reid, 2010:125).

Again, there was debate surrounding these numbers, as not all tickets and attendees were paid. In the NIEIR report this is not mentioned, but the VAGO report suggest that a total of 28,100 free admission tickets were released, to sponsors and representatives from partners. According to Save Albert Park, attendance figures are inflated by as much as 45% due to the inclusion of free and giveaway general admissions tickets (Save Albert Park, 2005). As we have seen above in this study, the average ticket prices have risen over the last few years, and thus might impact the attendance negatively.

## 5. Analysis and discussion

A commentator once said, "*For two days every other weekend, Formula 1 is a sport, the rest of the week it is a dog-eat-dog business*". And as this thesis hopefully will show, the gap between sports and business is becoming smaller, making sports look more and more like business every year. If shareholders and owners are expecting the same profits and returns in revenues from their sports investments, it makes sense that other stakeholders should be able to expect some kind of pay-off as well. The point I am trying to make is that when sports are looking more and more like business, there should be the equal amount of scrutiny towards the world of sports as there is to the world of business. Recent examples in the media both regarding the FIFA[26] and high level corruption in the last World Cup, the IOC[27], which have been viewed as an old, rich man's club shows that this does not only apply to F1.

The purpose of this thesis is to examine whether or not the business-like sport of F1have changed some of its image due to implementation of CSR related strategies. As the introduction implies, the liberalist thought is that global brands, like F1 will spread knowledge and best practices to developing economies, and that the spread of global capitalism is good. As a well-established brand, F1 may not need to take into account the need to be a good corporate citizen, and the cases chosen for this thesis might help to shed light one this assumption. The cases are all on different levels in the sport of F1 as it gives a more comprehensive view on whether or not the hypothesis is correct. Methodologically, choosing this subject has been a challenge, as there are little or any hard financial data that shows how much the F1 related actors chosen actually spends on CSR related initiatives. As this thesis has tried to underline, Formula 1 is more than *just* a motorsport, it is a global business, and as any global business, its operations affects people all around the world. The F1 'circus' is transported around to 20 localities throughout the season, and the hosting of these races impacts the local communities and other local stakeholders, such as local business owners, special interest groups, people that work for the event mangers etc.

FIA, as the non-for profit organization it is, as the governing body of all motorsport stemming from Europe, at least, is probably also the least business-like part of the F1 world. Even though it is a motorist and motorsport organization, FIA heads multiple campaigns to increase road safety and make cars more environmental. This would have to qualify as well within the goals of the CSR discourse, at least from an environmental point of view.

Although FIA is not 'part' of the F1 brand, as the governing body, especially concerned with rules of the formula etc. is still is important to the sport and those who are interested in it. Both average motorists and those involved with motorsports make out the member base of FIA. As shown in the case, FIA fronts several campaigns, which seek either to inform the consumers, like the 'ecotest', or to inform both consumers and decision takers, like "Make Cars Green", and "Make Roads Safe". In this author's view, campaigns like these, which raises awareness amongst consumers, as well as car making producers and politicians implies a very responsible citizen. In many ways, the FIA and FOM seem like two poles in the same

[26] The international football association
[27] The International Olympic Committee

sport, one very much caring for its members and the future of cars and the environment, on the other side, a greedy corporation made up of many companies in a very complex structure that seeks to make as much money out of the sport as possible. Because of the deal that once was made between Bernie Ecclestone, FIA member clubs do not benefit from the massive incomes in Formula 1, since they don’t filter to the grass level, as in many other sports. FOM only have to pay a limited fee for the use of the F1 name annually, which is symbolic compared to the revenues of FOM. A mere 7 million annual fee compared to the 1,4 billion dollars FOM earned in commercial rights, trackside advertising, sanction fees and management fees in 2009. One could only wonder where all the money goes, since the complexity of the corporate structure and ties between the companies in the FOM group is not very transparent.

FOM determines the sanction fees that event hosts and circuits have to pay to take part in the F1 series. In the contracts, there lies a 10% annual increase in those fees, which in turn has to in part be covered by ticket incomes. As we have seen above, the most expensive of the cheapest ticket prices have increased by almost 50% in 5 years’ time. This has a negative impact on attendance to races, as seen from the Albert Park case, where attendance (depending on which report one chooses to look at) have gone down from a record 350,000 the first year (1996) to around 250,000 the last few years. This might have a negative impact on the financial outcome for the region, and affects the triple bottom line negatively. Returning to the Albert Park case further down will shed more light on this argument.

The company arrangement of FOM could be seen as a complex, and with much speculation around the financial gains some of the investment companies included in the structure. The selling out of shares to the sport might have made Bernie Ecclestone a very rich man, but is better for the sport, or does it come out as more accountable as a result? Probably it is better for a sport that not all the power lies rests in the hands of one man, but even though Ecclestone is a minor shareholder in FOM, since CVC bought most of his shares, CVC have no interest in steering the course, which ultimately leaves any marketing and future approach to where the sport should go up to Ecclestone.

Although the economic development of some of the newcomer host countries in the series probably is the reason to why the sport is introduced to these countries, another aspect of them needs to be looked, however briefly. One could speculate why many of them are what one would classify as non-democratic regimes, with somewhat questionable records regarding topics like, freedom of speech, human rights, regulation concerning health and safety for workers etc. Maybe it is easier to operate in countries with non-democratic regimes, much like MNCs have exploited workers in low-cost countries where abundant cheap labor leaves little incentive to improve technology and labor productivity. Take for instance China, as long as there is enough space and the economy allows it, putting 400 million dollars on the table to construct a new circuit of the outskirts of Shanghai and investing 45 million annually into the event is no problem, since there are no political opposition against it. It is public monies being used to sponsor these events, and maybe it's worth it to be a part of the 20 Grand Prix hosting countries. In one way these countries may be regarded as sort of a sporting event elite.

The McLaren case shows that even though having car racing as a core-activity, a company can still be environmentally responsible. Or, at least claim that they are. Judging by their statements they do have made some thoughts about how their core activity, racing, may impact their surroundings, namely the environment. However, as we have seen in previous chapters, there is a significant difference between having, or saying that one has ambitions of being a god corporate citizen, and actually acting like one. Producing statements and reports is a fairly easy task, and since there are no outside authority to evaluate the correctness of such statements. In the data presented, of the revenues and costs of the team, there is no single place to place such CSR-activity, and therefore the validity and extent of the financial support to the charities they claim to support is hard to evaluate. Further, as we have seen in the chapter regarding types of CSR-related activities a corporation can perform, donating to charities is an easy way to make a corporation look responsible, while in reality, it's merely a PR exercise. Looking at the fore mentioned financial data, and the way it spreads out, with a budget of almost half a billion dollars in 2009, Team McLaren is one of the teams in the sport with the largest financial reserves. The operation costs are divided in four main categories, as for all the F1 teams, chassis production, engine production, salaries and operations/marketing. One would think that any CSR related activity is included in the operations/marketing category. This further tells the story of what type of business F1 is in, namely the mixed business of providing a high-tech engineering product and an entertainment service. A strange mix perhaps, but there are different 'customers' to the products they deliver. A F1 team becomes a vehicle for sponsors to align themselves with an action-filled sport, where the competition is intense and the rewards for performing at the top are profitable. At the same time, as in other sports, a F1 team delivers entertainment and excitement to fans worldwide, and as such, serves some social good.

The Australian Grand Prix, with Albert Park as the center of attention is an important case in this thesis. It is at the event level that the business side of F1 meets most of its customer base, the audience and the suppliers, as well as sponsors and media. This is the ground for the most extensive part of analysis, where the stakeholder and triple bottom line approach to CSR becomes most relevant. Event organizers and destination managers should take it upon themselves to not only assess the economic impact of such events, but also the social and environmental. An event may attract a large number of tourists to a region, but as well as spending money which flows into the region; such tourism may also cause long-term environmental destruction. The economic impact of the Australian Grand Prix have been presented above, although the two reports used show major discrepancies in the numbers they produce, as well as if the net impact is positive or negative. As the budget for the event show, in order to break even, like most races, it relies on government assistance. In this case it is the state of Victoria which is the governmental source of funding. In order to justify the use of public money, it must be demonstrated that the money invested produces a benefit. Although by looking at the reports, it seems as though that evaluation is a very hard one. Critical voices to the funding of sporting events in general claim that public monies should be used for social causes such as education, health and infrastructure, issues that have a far more important impact on the community than hosting a single sporting event. In the case of Melbourne though, it is a city that has put a lot of effort into the image as being the number one host city for sporting events. This may in some cases contribute positive social benefits to a community when it comes to increased quality of life, a sense of pride and excitement, improvements in infrastructure and recreational opportunities. Negative impacts could include degradation of the environment; displacement and disruption of local residents, crowding or congestion, as the World Ski Championship in Oslo now prove. There, local residents have been stuck in queues lasting several hours because of delayed trains and buses, and missed events they had bought tickets for.

The environmental impacts of the event are of special concern to one group of stakeholders, the ‘Save Albert Park’ organization. They fear that hosting a F1 race in an otherwise public park and recreational area. How the race impacts upon the ecosystem in the park is not mentioned in the reports used in this case, but undoubtedly some consequences from the F1 races take place. Air and noise pollution is probably among the biggest impacts. Some of the race infrastructures in the park are fixed, while some have to be assembled and dismantled every year.

However, some benefits are direct and easily imaginable. F1 fans in Victoria are lucky to have access to their number one sport, as well as the rest of the community can enjoy the four day festival that surrounds the F1 race. The question still remains though, whether the benefits, financial, social and environmental, outweighs the costs. The reports this thesis has looked at leaves no clear answer.

## 6. Concluding comments

The reasoning behind choosing F1 as a subject lies in the liberalist thought about how the world benefits from the spread of MNCs and the free flow of capital and goods. In this line of reasoning liberals believe that open markets lead to the modernization of backward economies because of the transfer of knowledge and best practices from MNCs to host economies. Although critical voices underline that more often than not, the contrary is the consequence of global capitalism. Global capitalism has not produced more equality, but bigger gaps between the rich and the poor, according to them. Although the UN launched the Global Compact eight years ago based on CSR rhetoric, NGO's are still challenging the corporations and academics involved. The CSR discourse has by some been looked upon as a middle way to negate some of the undesirable consequences of global capitalism. While some applaud the efforts made by companies to look like socially responsible corporate citizens, some feel that strong brand names only use CSR as a marketing tool. This thesis has taken a case-study approach on the motorsport Formula 1 to make a contribution to this part of the CSR-discourse. F1 is a sport, but also a profit- driven business which ultimately impacts its surroundings in both environmental and social ways.

Choosing cases that varied from the legislative part of F1, to the business side of F1, represented by FOM and McLaren and finally where it makes the most direct social impact, on the circuits, represented by Albert Park in Melbourne show a diversity of actors in the sport, and gives a more comprehensive picture of what measures are being taken to ensure that F1 has an image of being socially accountable. The data presented suggest, however, that the global brand of F1 is so popular that it does not need to take CSR seriously. It has a well-founded fan base as well as 20 host circuits eager to spend more money to ensure that F1 stays in their country. Although some important data was presented and examined, further research is needed to provide a clear answer to the hypothesis. The complexity of the business structures made FOM, for instance, a very hard subject to investigate. Choosing to examine four different cases in the sport instead of focusing on one, may have sacrificed depth in the analysis to width. This thesis may therefore be viewed as a pilot project in that regard, as more in-depth analysis is needed.

What this thesis may hope to add to the debate of CSR and the behavior of strong brand names in the form of MNCs, though, is the question of whether or not sports should be put under the same scrutiny as the corporate world, which is probably the most academically interesting in this study, as sports are profit-driven and have massive corporate interest and investments. It is somewhat questionable that sports are not put under the same scrutiny as business. Maybe this is because the product that sports in general produce, namely entertainment, relaxation, excitement, dedication, etc. already serve a social function? It is not for this author to discuss the functions and responsibilities of sports in general, but it could be a topic for discussion, now that corporate life and sports are so closely linked to each other.

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