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To cite this article: Denis Mike Becker, Harry Arne Solberg & Gaute Slåen Heyerdahl (2022): The financial challenges of hosting sports events: a problem of insufficient separation between decision-making and decision-control, European Sport Management Quarterly, DOI: [10.1080/16184742.2022.2044366](https://doi.org/10.1080/16184742.2022.2044366)

To link to this article: <https://doi.org/10.1080/16184742.2022.2044366>



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Published online: 03 Mar 2022.



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The financial challenges of hosting sports events: a problem of insufficient separation between decision-making and decision-control

Denis Mike Becker ^a, Harry Arne Solberg^a and Gaute Slåen Heyerdahl^b

^aNTNU Business School, Norwegian University of Science and Technology, Trondheim, Norway; ^bNorwegian School of Sport Sciences, Oslo, Norway

ABSTRACT

Research question: This article aims to explain that poorly functioning separation between decision-making, decision-control, and risk-bearing is a fundamental reason for the financial underperformance of major or large sport events. We look at empirical data from four major sports events hosted in Norway: The 1994 Lillehammer Winter Olympics, the 2011 International Ski Federation (FIS) World Skiing Championship, the 2014 FIDE Chess Olympiad, and the 2017 International Cycling Union (UCI) World Road Cycling Championships. All these events suffered financially.

Research methods: The study data were collected from 66 semi-structured interviews and different types of documents, like guides and reports filed by different stakeholders, applications for financial support, collaboration agreements, protocols of meetings, e-mail correspondence, financial statements, and budgeting documents.

Results and findings: Through an examination of the previous literature, our analysis confirms drivers and symptoms of financial problems at sport events. These are: the exaggerated focus on legitimising the event, soft-budget practices, interference by political interests, and so on. We argue that many of these factors could have been handled better if a more consequent separation of risk-bearing, decision-making, and decision-control was in place.

Implications: We propose a better separation between the decision-making and decision-control function, by means of a permanent and independent entity that is responsible for the decision-control function. Such an institution could enhance knowledge transfer, contribute competence and skills, and improve the financial outcome of a sports events.

ARTICLE HISTORY

Received 3 March 2020
Accepted 15 February 2022


KEYWORDS

Cost overruns; sports events; separation of decision and control; agency theory; agency problems

Introduction

The academic literature has documented that many major or large sports events fail to deliver the expected economic outcomes. This can include substantial cost overruns, diminished

CONTACT Denis Mike Becker  denis.becker@ntnu.no  NTNU Business School, Norwegian University of Science and Technology, Klæbuveien 72, Trondheim, Trøndelag 7491, Norway

 Supplemental data for this article can be accessed at <https://doi.org/10.1080/16184742.2022.2044366>.

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monetary and non-monetary benefits, venues with capacity exceeding post-event demand, or lasting financial burdens for local governments. Previous research has pointed to many reasons for financial underperformance, like strict deadlines, task complexity, the lack of experience of local organisers, and many more in relation to the Olympics (Baade & Matheson, 2016; Flyvbjerg et al., 2016; Preuß, 2004; Preuß et al., 2019) and International Federation of Association Football (FIFA) World Cups (Baloyi & Bekker, 2011; Molloy & Chetty, 2015), or both (Alm et al., 2014; Müller, 2015; Zimbalist, 2015). Similar problems have also been documented for events under this level, for instance, world championships in athletics (Hultkrantz, 1998) or cycling (Lazarus, 2016; Murray, 2015). However, these studies do not provide deeper insights into the underlying structural reasons causing these substantial financial debacles. Therefore, the purpose of this study is to gain a better understanding of these continued financial challenges of major sport events by using the theory of the separation of risk-bearing, decision-making, and decision-control in organisations (Fama & Jensen, 1983).

This study focusses on four different sports events in Norway, namely the 1994 Winter Olympics, the 2011 International Ski Federation (FIS) World Skiing Championship, the 2014 International Chess Federation (FIDE) Chess Olympiad, and the 2017 International Cycling Union (UCI) World Road Cycling Championships. All events had severe negative financial consequences, not only for national sport federations, but for other contributors that were involved in hosting the events, like police departments, hospitals, municipal governments, and the road administration.

One might believe that in a small and relatively homogeneous country like Norway, event organisers would have learned from previous failures. However, the empirical data illustrate that it has been difficult to prevent problems from repeating themselves. The reasons for why it is so difficult to learn from previous failures represent the motivation for this study: why do sport events continue to end up with financial problems, and what can be done to reduce these problems?

The purpose of this paper is to look at this question from a perspective that has not been applied to the organisation of sports events, namely using the theory of the separation of risk-bearing, decision-making, and decision-control in organisations formulated by Fama and Jensen (1983). According to the theory, organisations cannot operate sustainably if they do not manage to implement an adequate separation between decision-making and decision-control. We claim that the absence of a separate decision-control function comes along with undesired phenomena that are observed at sports events like insufficient knowledge transfer, soft budgeting, conflicts between stakeholders, and ultimately financial trouble. Our comprehensive interviews with agents involved in the organisation of sports events point to these undesired effects, and manifest the absence of a sufficiently separated decision-control function. To implement such a function for hosting one-off sports events, we propose the establishment of permanent independent institutions that enable knowledge transfer, contribute with competence and skills, and improve financial planning.

Theoretical perspectives

Literature on cost overruns

The most recent and structured framework for cost overruns was developed by Preuß et al. (2019) who differentiated casual and structural reasons. As casual reasons, the

authors identified unpredictable delays, mismanagement of the event, exaggerated optimism, and cost underestimation. Further casual reasons are: intentionally biased economic impact analyses that aim to convince voters of the worthiness of subsidising sports events (Crompton, 2001); soft budgeting, cheating, and corruption (Andreff, 2012); political enthusiasm and lock-in (De Nooij & van den Berg, 2018); the subjection of urban planning to event requirements; the suspension of the regular rule of law; the use of public resources for private interests (Müller, 2015); the influence by advocates who profit from sports events, like the construction and hospitality industries (Baade & Matheson, 2016); soft-power strategies (Grix et al., 2015); poor direction for governmental funding; unclear or misunderstood requirements from international event owners; and the failure to engage key stakeholders (Molloy & Chetty, 2015).

Structural reasons are: poor governance; the use of public funding and public goods (Preuß et al., 2019); the auction-like awarding process of an asset of uncertain value with a strict deadline (Andreff, 2012); hard-to-monetarise effects like joy and happiness (De Nooij & van den Berg, 2018); an entity that decides who wins the bid but, has no responsibility for the costs; and the uniqueness of events (Flyvbjerg et al., 2016).

In the next section, we will introduce the theoretical foundation that will be used throughout this study.

Stakeholder and principal–agent relations

International sports events involve and affect several stakeholders, like international federations, local organisers, national/regional governments, local municipality administrations, police, hospitals, private suppliers, sponsors, the media, athletes, and taxpayers. The stakeholders and their relationships play an important role in the organisation and performance of sport events (Leopkey & Parent, 2009; Parent, 2008). Many of these relations have the character of principal–agent relations, in which one party, the principal, delegates tasks to the agent (Solberg et al., 2017; Solberg & Preuß, 2015). According to agency theory, two main problems arise in such relationships: (a) the principal and agent pursue opposing interests and (b) the principal and agent possess asymmetric information, and the reduction of this asymmetry is either impossible or expensive (Eisenhardt, 1989). On the one hand, this implies that the agent behaves opportunistically, and increases the costs and risks of the principal (this is a moral hazard). On the other hand, the principal can take advantage of being better informed than the agent. Specifically, the principal may withhold negative financial information from preceding events to attract applicants. This can increase the agent's risk of falling short of the projected financial success.

The self-serving behaviour of agents has been comprehensively discussed in agency theory (Douma & Schreuder, 2017), which has focussed substantially on the relationships between owners and managers of organisations. According to Fama and Jensen (1983), these relationships are constituted by agreements on the provision of financial resources, and the allocation of two high-level decision processes throughout the organisation, namely decision management (decision initiation and implementation) and decision-control (decision ratification and monitoring). Fama and Jensen (1983) argued that organisations can only sustain (remain financially successful) if they choose one of the following two settings. In the first, there is no separation between decision management and

decision-control. This also requires that there is no separation from risk (the responsibility for costs). In this case, the principal is largely congruent with the agent, thus limiting the emergence of agency problems. In the other setting, we see a separation of risk from decision management (performed by an agent). In such a situation, opportunistic behaviour can easily occur, and a separation of decision management (one agent) from decision-control (another agent) is required to limit such behaviour. In companies, this separation is forced by laws that define roles, like those of the executive board, the supervisory board, and the general assembly, or which prescribe the submission of financial and tax reports. Separation can also be enabled through a hierarchy between lower (decision-making) and higher level (decision-control) managers (Fama & Jensen, 1983). In particular, this internal structure of an organisation continuously evolves over the course of time. Organisations that do not manage to build one of these two settings will be exposed to agency problems, and will not remain competitive in the long term. For sports events, this leaves the following two choices: decision-making, decision-control, and risk-taking (financing) are unified in the same agent, namely international sports federations organise and finance their events themselves. Conversely, when sports events hosting depends on financing by national/regional governments, the decision-making and decision-control functions need to be sufficiently separated and distributed to different agents. However, the separation between decision-making and decision-control is neither enforced by law, nor has it evolved over time for organisers of sports events that consist of national sports federation and host cities. Hence, the separation of risk-bearing from the decision-making process, coupled with an insufficient separation of decision-control, adds to the drivers of financial underperformance. In what follows, we will investigate this lack of sufficient separation in three of the main principal-agent relationships.

Government (principal) and organiser (agent)

Sports events are often financially supported by national governments, which is justified by acclaimed positive externalities (Solberg et al., 2017). Measuring the impact of a sports event is not a trivial task, and the government (principal) depends on information from the organiser (agent) who needs to convince the principal that the event generates far-reaching benefits, and event organisers even tend to initiate supplementary activities to increase the willingness in relation to public subsidisation (Wright, 2007). If the agents are better informed than the government, they can manipulate opportunistic and present prospects of exaggerated positive impacts at underestimated costs. Often buttons are pressed to convince the government, like the improvement of the image and prestige of the host nation (Grix et al., 2015).

Taxpayer (principal) and national government (agent)

Another principal-agent relationship exists between national politicians and taxpayers. Here taxpayers act as principal, and politicians administer taxes and other incomes, which in democratic countries belong to the people. However, most taxpayers do not possess sufficient information on spending alternatives and their benefits. Furthermore, taxpayers do not appear as a homogeneous group, and benefits from spending are perceived differently by different taxpayers (Solberg et al., 2017). Neither do people vote

directly on which alternatives to finance. Moreover, many benefits are non-monetary and hard to evaluate. This constellation reduces the taxpayers' efforts to monitor the use of public funds. Therefore, politicians can, to some extent, dispose of public funds in a discretionary manner, which comes with the side effects outlined in the following.

Soft-budget syndrome: this describes the phenomenon that organisations, despite their persistent financial problems, neither cease their activities nor go bankrupt because they are constantly bailed out, or rescued by a third party like the government (Kornai, 1980, 2003). This syndrome has also been observed in sporting activities and events where organisers are saved from financial difficulties by the public sector (Storm & Nielsen, 2012). A weaker form of soft budgeting occurs when the public acts as a debtor, but when the debt cannot practically be collected due to bankruptcy. If soft-budget practices occur repeatedly, they generate expectations that this will happen in the future. The expectation of soft budgeting can stimulate behaviour that is too risky, particularly if those involved in the event organisation are not held responsible after it.

Events as springboards for political ambitions: because international sports events receive substantial attention in the media, they represent a platform for marketing a country nationally and internationally. As such, events can become a part of a nation's soft-power strategy (Nye, 1990), and government may be willing to spend substantial resources on a legacy of positive images (Grix et al., 2015). Furthermore, politicians may use the events to increase their popularity or to enforce their individual objectives.

Lobbying: a lack of proper decision-control and monitoring creates room for organisers of sports events to lobby the relevant sources of power in the national government (Lechner & Solberg, 2021).

The event owner (principal) and the organiser (agent)

Another agency relationship exists between the event owner (the principal) and the event organiser (the agent). Compared to those described before, this relationship has some specific characteristics. Most events are distributed in auctions, where the owners of the event try to orchestrate bidding wars between the applicants. In addition to paying fees for bidding and the hosting rights, the applicants may also have to invest in sports facilities to maximise the chances of winning the event. The event owner is not a direct beneficiary of this expenditure, but the outlays can increase the popularity of the event. In turn, this affects revenues from sales of international media rights and international sponsorships, of which the event owner receives a large proportion (Baade & Matheson, 2016). The event owner has therefore an intrinsic interest in pushing the organiser's expenditures to the limit.

The owners of sports events also have more experiences than the bidders (local organisers) concerning the challenges of hosting events. The more optimistic the bidders are with regards to the impacts, the more they will spend to get the event. This represents a situation that the event owners can benefit from. More specifically, this can motivate owners to withhold information from the applicants about the problems that occurred in preceding events. Although, it should also be noted that event owners are aware that applicants for sports events depend on financial support from the government. Therefore, they will benefit from supporting the applicants, and by painting a positive picture of the event and its impacts. Hence, the applicants and the owner have joint interests in persuading the government to grant the necessary funding.

Further stakeholder dimensions and problems

At the local level, the organisation of sports events requires that cities, municipalities, and public agencies like the police, fire stations, hospitals, and so on, all work together. This is because sports events interfere with other, and in many cases opposing, societal goals, like safety, security, health, the environment, and the like. This means that different agents, with different mandates and prioritisation concerning these goals, need to negotiate to find a trade-off between these goals. The outcome of these negotiations will depend on the distribution of power. The ability of an agent to influence others depends on whether the matter is of urgency for its counterparts (Mitchel et al. 1997). This is particularly the case when the objective of an agent is both important and time sensitive. Major and large sports events fulfil these two criteria because of their economic impact, fixed deadline, and short duration.

Additionally, there can be situations where stakeholders involved in the hosting use the events to legitimise aims that are not completely necessary for the events, but where the event makes it easier to get projects prioritised and/or funded. As on the national level, events can be (mis)used as a springboard for community development, upgrading infrastructure, enforcing security measures, and more.

Given the agency relations and problems described in this section, the remainder of this paper aims at investigating to what extent such problems appeared in the context of four different sports events in Norway. Before we introduce these events in detail and discuss our major findings, we will briefly describe the methods of data collection for our study.

Data collection and method

The research in this paper is mainly based on 66 in-depth semi-structured interviews with members of the organising committees; members of the national and international sports federations; representatives of the host cities or municipalities; agents from different departments in the public sector (fire, health, and police); private suppliers of goods and services, and other key persons that were directly or indirectly involved in the organisation of these events. More details on the respondents in these interviews are given in the second table of the Supplemental Material provided with this paper. Individual interviews were conducted by one to four interviewers and focussed on the individual's experiences concerning the event. For each interview, a broad agenda of topics had been prepared based on earlier research. These topics were related to the planning process, relations with other stakeholders, the quality of communication and coordination, financial control, risk management, knowledge and competence prior to the event, knowledge sharing and transfer during the event, and more. However, the interviewers could deviate from this agenda to react to the respondents' information, in order to receive more detailed information, and to discover new phenomena relevant to the research. Generally, the respondents could reflect freely about how they perceived their participation in the event and their relationship to other actors. All interviews were transcribed and anonymised.

In addition, a substantial number of documents and reports have been reviewed, including the regulations of the owners of the events (the IOC, the FIDE, the FIS,

and UCI); reports filed by different stakeholders; applications for financial support; collaboration agreements; protocols of meetings; e-mail correspondence; financial statements; and budgeting documents. The collected documents were studied with respect to the appearance of controversies between stakeholders (e.g. protocols or letters), the description of responsibilities of agents and the leeway for discretionary action (e.g. in contracts/agreements), and cost and revenue figures indicating the financial progress of the event.

Furthermore, economic impact reports published by consulting firms (see Supplemental Material) and coverage in the media (including websites, newspapers, and magazines) were collected and reviewed.

Empirical cases: the four events

1994 Winter Olympics, Lillehammer

The initiative to host the 1994 Lillehammer Winter Olympics was taken by local businesspeople and politicians early in the 1980s. When the initiative was launched, the region in which the event was planned was going through an economic recession, and the Olympics were expected to stimulate economic activities, and make Lillehammer a future winter sport destination (Heyerdahl, 2014).

In the first budget from 1982, costs amounted to NOK 600 million. The budget increased to NOK 1.48 billion when the application for the 1992 Olympics was submitted, and further to NOK 1.82 billion in the application for the 1994 Olympics. The two applications were accompanied by governmental financial guarantees of NOK 1.48 billion and NOK 1.78 billion, respectively. In the negotiations of the Parliament (23 May 1985), leading politicians said that it was unlikely that the Olympics would end with a deficit, and that the government could safely give a financial guarantee. According to Heyerdahl (2014, p. 240) ‘many actors did not think that the Olympics in Lillehammer would become a reality [...], and it was foolish to waste political capital on something that would probably not happen’. Therefore, the government was hardly involved in the preparations before the confirmation of Lillehammer as the venue. This changed after the confirmation in 1988 when the two Norwegian ministries of culture and finance took over the preparations. The ministries soon discovered that the early preparations were based on unrealistic assumptions. In December 1989, the Ministry of Culture presented a cost frame of NOK 6.7 billion and revenues of NOK 2.25 billion. One year later, the parliament agreed on an Olympic budget of NOK 9.22 billion. Hence, from the financial guarantee given in September 1988 to December 1990, the cost overrun was 517% in nominal figures.

The major reason for these cost overruns was the underestimation of the number and capacities of venues. The planned outdoor skating arena was replaced with an indoor venue at a cost of NOK 150 million. The costs of the ski-jump increased from NOK 60–130 million; the costs of the bobsleigh and skeleton arena grew from NOK 30–204 million; investments in accommodation rose from NOK 150–763 million; and the costs of the media centre expanded from NOK 50–530 million. Finally, an ambitious cultural programme costing NOK 360 million was added on.

2011 FIS Nordic World Ski Championships

The problems with the skiing championship appeared in connection with the construction of the venues, and not with respect to the organisation of the event itself. When the event organisation applied for the event, they expected a moderate upgrading of the existing infrastructure using a budget of NOK 110 million. By 2005, FIS had changed their requirements, and after the awarding in 2006, the budget increased, first to NOK 581 million, later to 930 million, and then to 1.2 billion. The final outlays ended up at NOK 1.82 billion, representing a cost overrun of approximately 1600%. The investment included two ski-jumps with total costs of NOK 1.1 billion, and an arena and ski tracks for NOK 355 million. An additional NOK 400 million went into improvements of infrastructure.

2014 FIDE Chess Olympiad

The 2014 FIDE Chess Olympiad was planned as a celebration of the 100th anniversary of the Norwegian Chess Federation (NCF). Consequently, NCF was only interested in hosting this event in 2014. The initial budget in 2009 amounted to NOK 119 million. With revenues of NOK 133.1 million and costs of NOK 137.2 million, the financial loss was NOK 4.1 million. Without extraordinary help from the government, these losses would have amounted to NOK 16.1 million. The major reasons for financial problems were the following: after the organiser had submitted its application for governmental support, the international chess federation required the organiser to host a qualifying tournament for the individual world championship which came with extra costs of NOK 13.5 million. The Chess Olympiad attracted 2900 visitors (players, coaches, arbiters, media, etc.), while only 2150 were initially expected. Since the regulations of FIDE require the local organiser to pay for room and board for the players, this resulted in additional costs of approximately NOK 1.9 million beyond the initial budget. Sponsorships were budgeted at NOK 23.8 million, but the organiser achieved NOK 14.1 million, while ticket revenues amounted to NOK 450,000 less than budgeted. Additionally, the organiser had to compensate the hotels with NOK 900,000 for non-attendance.

Initially, the government supported the event with NOK 75 million. However, the financial problems forced the organiser to apply for additional NOK 15 million of which they received NOK 12 million.

2017 UCI World Road Cycling Championships

To organise the cycling championship, the Norwegian Cycling Federation (NCF) prolonged the existence of a limited company (renamed to Bergen 2017 Ltd.) that was originally established to organise the 2014 World Mountain Bike Championship. This posed challenges because the 2014 Championship ended with a deficit of NOK 8–9 million. The NCF hoped that the 2017 World Championship would create a surplus sufficient to cover the previous deficit.

The first budget from 2011 had a total framework of approximately NOK 85 million. When the application for government funding was submitted, the budget amounted to

NOK 156 million. An independent consulting company was hired to quality check the costs, but not the income. However, the outcome was not as expected, and Bergen 2017 Ltd. was declared bankrupt six months after the event. The final account showed a deficit of NOK 55 million (revenues of NOK 130 million and costs of NOK 185 million).

On the revenue side, sponsorship support was NOK 9.2 million lower than budgeted. Because the payments to the UCI were denoted in EUR, the organiser lost NOK 8.8 million because of a strong depreciation of the Norwegian currency. Media revenues and those from hospitality and VIP were, respectively, NOK 10.2 million and NOK 6 million lower than budgeted. The costs for racetracks increased by NOK 19 million. The costs associated with the arena and the start/finish area increased from NOK 25 to NOK 44 million.

The championship also became significantly more expensive than planned for the public sector. First, the organiser was subsidised with NOK 113.7 million, of which NOK 52 million came from the national government, NOK 41.5 million from the host municipalities, and NOK 20.2 million from Hordaland County Council. Initially, Bergen municipality budgeted expenses of NOK 15–20 million. However, this estimate neglected to take into account the restructuring of health and emergency services, traffic, and the safeguarding of municipal properties and urban areas. Gradually, the costs increased to NOK 74 million. Furthermore, indirect costs associated with planning were estimated at NOK 25–30 million. The police, in their first budget, estimated costs of NOK 3.2 million, which in the end amounted to a figure of NOK 68.8 million.

Major findings

(1) Exaggerated efforts by the organiser (agent) to convince the government (principal) that the event is worthwhile: all the events were totally dependent on governmental funding. In their applications to the Government, the applicants claimed that their events would create extensive externalities like:

- growth in economic activities in the region (Lillehammer Olympics),
- tourism promotion of the destination (all four),
- promotion and improvement of image (all four),
- improvement of residents' health condition (World Cycling championship),
- teaching children to play chess (Chess Olympiad).

The following quotes from the application for funding the cycling championship demonstrate the ingenuity of applicants when applying for funds: 'The cycling championships have a unique marketing value with more than 300 million real TV viewers. It will show Norwegian nature, culture, sports, and a folk festival that will be disseminated to the whole world'. '[They] will generate long-lasting and positive effects on public health, urban development and the environment'. '[They] will inspire thousands of children and young people to cycle, and one day to be as good as Thor Hushovd, Edvald Boasson Hagen, and Alexander Kristoff'.

This illustrates how event organisers operate strategically and take advantage of unsubstantiated assumptions or claims. Governments rely on such information from

the applicants when considering whether the event is worth funding or not. However, previous research has shown that the events often fail to deliver these impacts (Baade & Matheson, 2016; De Nooij & van den Berg, 2018; Zimbalist, 2015). Indeed, such findings have also been documented with regard to the Lillehammer Olympics (Spilling, 1996; Teigland, 1999), and the cycling championship (Denstadli & Solberg, 2017, 2021). In the end, the applicants are not held responsible for the outcomes that they had promised. Although the events create positive impacts for some agents, they create negative externalities for others. For example, the racetracks at the cycling championship were indeed spectacular, but the warning signs for their costs came too late, as described by a respondent from the municipality administration:

[...] Later we suddenly saw that we had many zones in our city that were blocked off for traffic [...] parts with home nursing, kindergartens, schools, private businesses, and where you just shut down the road network. From these zones you could not exit [...] so, you could just forget using the car that week, [...] or you have students with wheelchairs that are dependent on transportation. And how in the world do you solve this?

A respondent from one of Bergen's hospitals with operational responsibility confirmed the frustration that was experienced:

We were literally cut off from traffic. The main hospital has approximately 2,000 patients and 4,800 employees arriving and departing every day. We were not involved in the decisions on the racetracks. This implied an extra cost of NOK 15 million for the hospitals.

(2) *Skills and abilities of agents (organiser) are insufficiently verified*: with all four events, a pattern emerged whereby those involved in the early preparations were inexperienced in mounting such events, and focussed mainly on how to be awarded the event – not on the consequences. The initial budget of the 1994 Winter Olympics was prepared by local enthusiasts, who had no experience with such projects (Heyerdahl, 2014). This budget was less than 10% of the final costs. The racetracks' locations at the cycling championship were decided without rigorous evaluation of the consequences. The motivation was to create a spectacular scenery and exciting TV pictures. Too late, it was realised that the costs could have been lower if other tracks had been chosen. This, however, could have reduced the chances of getting the event. This illustrates the catch-22 situation that applicants of major events are often confronted with. Such priorities were clearly revealed by a respondent from the municipality who was involved in the early preparations: 'Bergen was to get the event: that was the most important thing. Therefore, we gave the cycling people too much power [...] when the racetracks were chosen, we only had one thought: Bergen must win over the others'.

The empirical data showed that many mistakes were due to a lack of experience in the host organisations. A respondent from Hordaland County Council stated that 'the organisation could [not possibly] have had an overview of the event they had undertaken. [...] They did not have a large enough organisation, and [...] good enough financial management'. In addition, potential knowledge and experience of the local public sector from previous events, which could have been useful, were not transferred. Therefore, organisers were unprepared for many challenges that appeared during the preparations. Although study trips to preceding championships were undertaken, those representing the municipality were inexperienced with large cycling events, as their interviews reveal:

I had never participated in hosting cycling events earlier [...] there were many questions we did not ask [...] the wise questions were not at the front of our mind. [...] the exercise of 'Sorry, we have to make this easier' was not done [...] closing of the city was senseless [...] The road administration had not thought about it; the police had not thought about it; we had not thought about it, no one had.

(3) *Restricted financial responsibility of local and national governments*: political ambitions can contribute to escalating costs, and we found evidence of these at the events. From an agency-theoretical perspective, the agents (government) try to convince the principal (citizens, taxpayers) of the necessity to spend money to leave a positive impression of the host destination. This is aptly illustrated by the statement of a governmental representative who was involved in the preparations for the Lillehammer Olympics: 'We cannot invite the world to a gala dinner and serve a cup of coffee' (Negotiations in Parliament, 10 April 1989; see Heyerdahl, 2014, p. 253). Likewise, two years before the cycling championships, the mayor of Bergen stated (Vik & Kvamme, 2018, p. 14): 'We cannot imagine what this means. When someone asks whether we can afford it, I will reply that we cannot afford not to do it. This is an investment in the future'.

(4) *The soft-budget symptom and how it creates false expectations*: none of the applicants (agents) applied for sufficient funding in the first place, due to the risk of being rejected by the government (principal). At the same time, expectations of being saved with extra funding due to the fear of cancellation promote such a strategy. However, the soft budgeting practice can also create false hopes that the principal will rescue the agent in the end. This happened with respect to the ski championships, where local politicians expected the government to fund 50% of the ski-jump because of Holmenkollen's national status. However, these hopes were not met, and the national government only contributed a marginal proportion of the total financial burden of NOK 1.8 billion. The Norwegian minister of culture at this time argued (NRK, 2006): 'We will not allocate one more penny to the venue at Holmenkollen. [...] This is what we can contribute, without going too hard on all the swimming halls, handball halls [...] that are to be built in the country'.

Similarly, the expectation and demand of the organiser of the cycling championship for a third round of funding was not fulfilled, leading the organiser to become bankrupt with unpaid bills to public and private entities.

(5) *Auction-like awarding process and information asymmetry between owner and organiser*: the four events were distributed in auction-like procedures by the event owner (principal), and the lingering uncertainty that the events could be awarded to others made the applicants (agents) willing to accept demands from the event owner. One year before the award of the skiing championship, the FIS presented new and costly requirements to the organiser. The project leader explained (NRK, 2007):

We had no reason to believe that it would be necessary to substantially upgrade the arena. It was FIS-approved, and we expected this to last into the future. However, when FIS inspected the arena in autumn 2005, they presented the real requirements, with [...] far-reaching consequences.

The reconstruction of the ski-jump turned out to be 17 times more expensive than the first budget. Similarly, the organiser of the Chess Olympiad was forced to host an additional tournament, which only incurred costs and did not generate any revenues. A respondent who had served as vice president of FIDE admitted that if they feared

that they would only get very few applicants for the upcoming tournament, then FIDE practiced a policy of encouraging other cities to apply. This strengthens the power of the auctioneer, which makes it easier to add on requirements.

The withholding of relevant information by the event owner concerning the previous events could be observed in Bergen. Although three of the four cycling championships prior to Bergen had substantial economic problems, interviews with respondents indicated that those involved in hosting the 2017 championship were not aware of this. One example was the lack of information about visitor numbers from preceding championships. One of the respondents responsible for accommodation observed that ‘information about the hotel bookings at the 2015 and 2016 World Championships would have been useful to predict the demand for accommodation, but [the organiser] said that such information has not been received from the UCI. Although the event attracted 700,000 spectators, the proportion of visiting spectators was significantly lower than expected.

(6) *Free-rider behaviour and conflicts between organising agents*: Holmenkollen, the venue for the skiing championship, is a good example for excessive demands brought forward by several legitimate free riders. This venue was designed as a multisport arena for championships in ski-jumping, cross-country skiing, combined skiing, and biathlon, as well as for concerts and festivals for one of Norway’s leading tourist facilities. During its construction, different interest groups operated as free riders and expressed their wishes without being responsible for the costs. The leader of the building organisation explained that:

During the first stage, the requirements were all but sober. The stakeholders showed absolutely no understanding for moderation. Their wishes were satisfied until the crisis appeared [...] The architects were unwilling to accept design changes that would reduce the costs [...] Their work will be appreciated mainly on the basis of design and not on the budget.

Bergen municipality and the Norwegian Cycling Federation partnered up when applying for funds from the national government. Later in the organisational process of the event, these parties developed diverging interests. In particular, Bergen’s Department of Societal Safety and Security (mis)used the event to try a new concept of societal safety and emergency handling. The situation was described by respondents from the organiser as follows: ‘The question being asked was what could happen in Bergen instead of what problems the Cycling Championship brings with it’; ‘The Department for Social Safety and Emergency Planning established standards that most of us did not recognise from before’; ‘The list of requirements [...] became so large that it was hopeless to satisfy’; ‘The level of detail was overwhelming [...], a risk analysis was demanded for each pedestrian crossing’; ‘Suppliers with a long experience of delivering in accordance with previous requirements, did not get approved now’; ‘Risk and vulnerability analyses at major events in Bergen approved by the police before were not good enough anymore’. This resulted in strained human resources and increased costs for the organiser. Other agents were insufficiently informed about the organisation of the event. A respondent responsible for operations of one hospital in Bergen explained:

We did not participate in the application process. [...] we had no idea about the consequences. We expected [...] some races back and forth between Bergen and a neighbouring city. Two years before the event [...] we got some information. However, we still did not understand that it would affect us over a period of nine days.

Other incidents showed how agents tried to put others in a predicament. In a media interview, the chair of the board of the chess Olympiad used the ‘cancellation card’ to make people aware of the consequences: ‘No money, no chess tournament? Yes, it means that. We have no opportunity to spend money we don’t have’ (Haugli, 2014).

Similarly, when the organiser of the 2017 Cycling Championship received information that they had to pay additional police costs, they threatened to make the police the scapegoat for the cancellation of the event. A respondent from the police stated: ‘If this claim was upheld then they cancel the event, and we would be held responsible’.

In the following section, we will outline the establishment of the decision-control function by means of an independent and permanent institution to resolve the conflicts described above.

Discussion and proposal of institutionalisation of decision-control

Ideally, destinations which host large-scale sports events should concentrate on events in activities in which they can benefit from having competitive advantages. This could rely on nature-based factors, such as climate, weather, topographical factors, and so on. However, it can also include human-made factors, for example knowledge, facilities, experience, cultural factors, and reputation. Whereas the first factors are difficult to alter, those in the second category are more flexible, and therefore easier to influence. However, achieving efficiency in this matter assumes that the host destination is willing to invest in the efforts necessary to achieve the required competence. The interview with the mayor of the city Tromsø (where the Chess Olympiad was held) illustrated some challenges in that respect:

I have suggested that the municipality should establish an event company that is skilled, not only in organising and hosting, but [that] also finds the right events that suit the city. The company would require approximately 4–5 employees, but I did not get support for this due to a lack of finances. Therefore, the city lacks a professional organisation that can build on the expertise gained by previous events.

The empirical data showed that the organisers and host cities rely very much on themselves in these matters. Although experiences and data from preceding events exist, they are not automatically shared with other organisers, either internally, within the host destination, or externally. The risk of valuable information getting lost was illustrated by another respondent: ‘[...] because there are many of the same elements, if it is [...] the ski world cup, biathlon world cup or youth Olympics [...] there is a lot of learning here, but it just disappears’.

These quotes illustrate the need to establish permanent institutions within the host destination that participate in hosting the events, but which are also responsible for collecting knowledge from other sources, for example, from similar events in other destinations. One of their aims should be to achieve the same transfer of experience, knowledge, and competence that recurring events benefit from.

The empirical findings also revealed conflicting aims between the stakeholders in the host destination and the entities at the national governmental level. The prospect of governmental funding can motivate destinations to apply for events in activities in which

they do not have competitive advantages. However, if lobbying is effective, they can be awarded events that fit better in other destinations. Additionally, the lack of control mechanisms and other forms of strategic behaviour can cause inefficiency, as illustrated by another quote from the interview with the mayor of Tromsø:

When the Ministry (KUD) gives grants, it should make sure that the allocation is sufficient to arrange a good event, and that the budget is quality assured. Applicants try to shave the budgets to increase the chances of getting a grant.

If organisers expect to receive additional funding in case of unforeseen problems, this can strengthen such strategic behaviour. All four events received additional funding. Despite this, two of them had severe financial problems. These examples illustrate the need to establish an entity at a governmental level that performs decision-monitoring and decision-ratification tasks. Specific tasks of such an entity with respect to the taxpayer–government relationship could be the following:

- Control of the credibility, feasibility, validity, and reliability of economic impact analyses and budgets. As mentioned earlier, the initial preparations prior to the 1994 Winter Olympics were managed by local initiators, who had no experience with budgeting events of this size. Similarly, the initial planning process concerning the construction of the ski-jump for the skiing championship was managed by bureaucrats in the local public sector who had no experience with such processes and tasks. Indeed, the construction process had even come halfway before a budget was presented. It is furthermore important that the models used to forecast the economic impacts are based on realistic assumptions. Taking the Chess Olympiad as an example, the economic impact analysis conducted by a consultancy firm assumed sufficient spare capacity in the tourism industry during the event. This, however, was not correct since the capacity utilisation in the hotel industry would have been about 50% without the event (Denstadli & Solberg, 2017). Hence, the event led to the crowding-out of regular tourists, which was not taken into account in the impact analysis.
- Ratification of decisions concerning the allocation of funds to events and sport federations. Public funds spent on events can be allocated to other goods and services. Only an independent institution can assure that funds provided to sports events produce a greater or an equal risk-adjusted value (or utility) as the best alternative use of funds that is rejected.
- Ratification of event destinations in the nation, aiming at an overall welfare goal. Limiting the number of destinations that can host the most cost-intensive events can contribute to better achieve long-term synergies, post-event utilisation, and facilitation of knowledge transfer at these locations.
- Taking measures to reduce soft-budget practices and their negative consequences as described above.
- Implementation of risk- and profit-sharing mechanisms: uncertainties in sports events cannot be excluded, but the negative and positive effects can be controlled and distributed. Looking at the cycling championship, the cost budget contained a Monte Carlo simulation that revealed possible cost scenarios. However, governmental funding was based on expected costs only rather than being aware of other cost

scenarios. Allowing for both undercutting and exceedance of costs accompanied with appropriate strategies for profit and loss sharing might alleviate the problem of soft budgeting and discipline the initiators of events to submit more accurate and serious budgets.

The decision-control function with respect to the government–organiser relationship should contain the following tasks:

- Improved evaluation of the quality of the organiser (personnel and financial resources, as well as competence and experience).
- Enforcement of a clear division of the agents' and their members' roles (for example, during the cycling championship, the CEO of the company responsible for organising the sports event was also the president of the National Cycling Federation and a board member of the International Cycling Federation).
- The provision of additional resources and competencies.
- Proactive stakeholder management that consists of the identification of different interest groups, their influence and legitimisation, and a plan of how to communicate and deal with them.
- Analysis of available and required resources for sport events and sport event tourism at the potential location of the event.
- A proactive role for assuring knowledge transfer across events; better knowledge of the event organiser with respect to revenues, costs, number of spectators, hotel bookings, and so on, would not only enhance the planning and reduce risks, but also leverage the organiser's position in negotiations with the event owner.
- A proactive role in the knowledge transfer from the event owner to the organiser.
- Continuous monitoring of the organiser from the early preparations until after the event is finished (progress, costs, revenues, externalities).

Furthermore, it is important that this institution is independent of the proposed institution on the regional level, but also of the organiser (both host city and national sports federation) in order to critically evaluate the suitability of the event for its destinations. In a small and relatively homogeneous country like Norway, such an institution could be empowered on the national level. In other countries, such an institution could have subdivisions at the regional level. In the end, one has to bear in mind that the decision-control function comes with its own costs which need to be balanced with the expected benefits of having such a institution.

Summary and further prospects

In this paper, we have studied financial problems at sports events from the theoretical perspective of a separation between risk-bearing, decision-making, and decision-control in organisations. Fama and Jensen (1983) argued that business enterprises are doomed if they fail to establish this separation that will keep agency problems under control. In our opinion, the same applies to sports events. We have pointed at different principal–agent relationships, and we propose the institutionalisation of the decision-control function for two of these relationships that are prone to agency

problems, namely (1) the organiser–government relationship and (2) the government–taxpayer relationship. We have described a brief list of possible tasks for such an entity. However, further research needs to address the details of such an institutionalisation. Some open questions are: what informal and formal knowledge transfer mechanisms (manuals, reports, seminars, checklists) should be established, and what will be the benefits and challenges? The separation of decision-making and control by means of one or several institutions does not come for free. There will be agency costs like monitoring or bonding costs that need to be measured against the economic benefits of this institutionalisation. Further research may also address the imbalance of power between event owners, organisers, and the proposed institutions. Better-informed organisers are only one element of this imbalance, and what other factors play a role in this needs to be studied.

Acknowledgements

We want to express our sincere gratitude to the reviewers of this paper. Their extensive, concise, and well-thought-out comments and recommendations were extremely valuable and indispensable for this paper.

Disclosure statement

No potential conflict of interest was reported by the author(s).

ORCID

Denis Mike Becker  <http://orcid.org/0000-0002-3303-9775>

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