Maennig, Wolfgang

Working Paper
Governance in sports organizations

Hamburg Contemporary Economic Discussions, No. 60

Provided in Cooperation with:
University of Hamburg, Chair for Economic Policy

Suggested Citation: Maennig, Wolfgang (2017) : Governance in sports organizations, Hamburg Contemporary Economic Discussions, No. 60, ISBN 978-3-942820-35-6, University of Hamburg, Faculty of Business, Economics and Social Sciences, Chair for Economic Policy, Hamburg

This Version is available at:
http://hdl.handle.net/10419/175040

Terms of use:
Documents in EconStor may be saved and copied for your personal and scholarly purposes. You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.
Wolfgang Maennig

Governance in Sports Organizations

With the revelation of the Fédération Internationale de Football Association (FIFA) corruption scandal in May 2015, the integrity and thus the general configuration of (international) sports organizations were publicly contested. The principle of moral behavior in international sports organizations (Arnold, 1994) was clearly violated and the high (self) esteem of sports suffered. The accusations of corruption regarding the Men’s FIFA World Cups1 (BBC, 2015) as well as the bribing scandals during the Olympic bidding processes2 stained the integrity of sports. Sport values, also condensed in the concept of “Olympic spirit” (or “Olympism” (Adi, 2014)), are based on the philosophy that best performances (should) lead to best results and rewards. Sport serves as a symbol for respect, self-discipline, health and deserved rewards as a result of outstanding athletic achievements. The corruption scandals, which include the complete value chain of sports, threaten this philosophy and show why sports organizations require special rules for their governance.

This article deals with the general concept of (good) governance in sports organizations, explaining its required particularities through a look at its principles, existing challenges and issues that have yet to be resolved. It will also give an overview of which obstacles need to be taken into account for the implementation of good governance. Furthermore, it lays out some potential ideas for enhanced good governance through the example of mega-events such as the Olympic Games.

---

1 The next World Cups will take place in Russia (2018) and Qatar (2022). The announcement of the latter host was especially surprising, as the county’s human rights record is disputed and its weather conditions are not optimal for a soccer mega tournament. The alleged corruption scandals also include the decisions regarding the World Cups in Brazil 2014, South Africa 2010 and Germany 2006 (BBC 2015).

2 The most famous example is the bidding process for the Winter Olympics in Salt Lake City (2002), in which at least six members of the IOC were bribed to vote for Salt Lake City to host the Games (Maennig, 2002).
The principles of (good) governance

There is no generally agreed upon, exact definition of “good governance”. The term is used in different contexts, therefore serving different purposes. For the sports sector, one of the most-cited definitions is from the European Commission (2013, p.5): “The framework and culture within which a sports body sets policy, delivers its strategic objectives, engages with stakeholders, monitors performance, evaluates and manages risk and reports to its constituents on its activities and progress including the delivery of effective, sustainable and proportionate sports policy and regulation”. The concept of good governance has been subject to a number of revisions, additions, and analyses over the past two decades. Chappelet and Mrkonjic (2013) provide an overview of more than thirty published principles and checklists of good governance in sports, leading up to the critique that good governance has “too many meanings to be useful” (Rhodes, 1997).

Nonetheless, good governance is generally understood to imply the necessity to define clear roles, principles and responsibilities of sports bodies, as well as an enforceable code of ethics (European Commission, 2013).

The general good governance approach may seem at odds with the principle of the “autonomous decision-making processes within the law” (Chappelet, 2016, p.17), in reference to Council of Europe (1992). For a long time, the sports sector operated under self-governance and without control by an external institution, as sports were suggested to be independent of politics and other governmental organizations (Geeraert et al., 2014). Autonomy is also established as one of the main principles of the Olympic Charter (International Olympic Committee, 2016). However, with a growing awareness of and an increasing business volume by sports organizations, it seems appropriate to join the ongoing debate regarding the introduction and development of the normative concept of “good governance” in sports (Geeraert, 2013, among others).

---

3 For a review of recent contributions, see Alm (2013).
4 For an overview on good governance regulations in the 35 Olympic Sports Governing Bodies, see Geeraert, Alm and Groll (2014).
This results in a discussion about the need for more structured network governance within sports organizations, including the specification of clear rules and principles regarding good governance within the framework of autonomy, transparency, accountability and integrity. The literature agrees on the importance of an interaction between these key aspects of good governance not only in corporate firms, but also and especially in sports organizations.

The importance of the interaction between autonomy, transparency, accountability and integrity in sports organizations

The challenge for a general framework for good governance, including a code of ethics and rules for each relevant organization, is to unite different important core elements under the umbrella of autonomous governance of sports organizations. Furthermore, the governance structure needs to represent the ethical values of sports in general, which is why previous attempts at applying already existing checklists for corporate governance structures failed. In addition to autonomy, the relevant literature suggests that the principles of transparency, accountability and integrity (together with social responsibility) play a fundamental role in building a framework in which organizations of the sports sector can operate (Geeraert, 2016). It is important to clarify that these core principles cannot be considered in isolation, as they interacting with each other (Houlihan, 2013). Additionally, there are several other principles as to how good governance can be implemented, as there are a variety of important topics in each organization.

The principle of transparency includes the possibility of accessing relevant information concerning the organization, clear external communication, as well as external auditing and monitoring. Transparency is at the base of each democratic governmental concept, preventing corruption as well as the overall misuse of power in managing people (Geeraert, 2016); nevertheless, transparency is hardly practiced in some of the leading sports organizations. Transparency requires a certain degree of openness (“disclosure”, in business terms) of traditionally closed organization structures for external auditors and governmental inspections. This is hard to implement, since often the same people
are involved in both the decision-making process and the management itself, even after recent corruption scandals (Chappelet, 2016).

Internal role descriptions of “decision-makers” as well as information about salaries and bonus payments of presidents should also be available for external scrutiny to ensure transparency and integrity. Before successfully employing transparency in a sporting organization, the different relevant dimensions and objectives of transparency need to be stated clearly.\(^5\)

Transparency has to be accompanied by the principle of accountability, even though “a precise definition [of accountability] remains elusive” (Houlihan, 2013, p.22) in the context of international sports organizations. As mentioned above, both principles require external auditing and monitoring, giving members as well as outsiders of the organization the possibility of legitimately controlling checks and balances, posing critical questions and enforcing democratic structures within the company (Geeraert et al., 2014; Pielke, 2016). Accountability deficits in sports organizations and frequently rising revenues suggest a profit-oriented business that may lead to corruption and decreasing democracy within a company (Geeraert et al., 2014).

According to Houlihan (2013), questions remain that need to be solved beforehand, as for example, how much accountability is needed for integrity without negatively influencing a company’s efficiency and how an incentive scheme for accountability issues in sports organizations can be properly designed. Resolving these problems will be the first important step towards good governance, as functioning and well-integrated transparency and accountability principles are requirements for high standards of integrity and social responsibility.

Integrity is not only a symbol for successful control over corruption but also shows that social responsibility is taken seriously (Geeraert, 2016; Schenk, 2011). Social responsibility

\(^5\) Bos and van Eekeren (2013), for example, provide a good overview of the different dimensions and objectives of transparency. Not every type of transparency is implementable in every corporate firm or large (non-profit) organization. Therefore, the principles need to be defined before they can be implemented.
arises from the fact that sports organizations have the potential to contribute positively to society and its condemnation of corruption and unethical behavior. Large sports organizations are often the “headquarters” for many large and small clubs and associations that operate within them, being the home for many professional athletes and grassroots members at the same time. Members of these associations may be affected directly by anti-corruption activities of their club, since sharing the same values and interests may be a (personal) reason to join the association in the first place. This direct effect should not be underestimated, as grassroots sports is the sector with the most significant economic impact, with most members being involved in “sport for all” activities (Kirkeby, 2016); therefore, many people can be affected by good governance measures. An additional indirect effect can be observed in the influence of sports on society in general, especially by having very successful athletes as role models (in advertising and marketing campaigns, e.g.) and by sports organizations taking advantage of special forms of local patriotism in several areas of sports; here, the difference in the impact of “normal” corporate firms and sports organizations in particular is evident (Walker & Kent, 2009). By exhibiting integrity and creating a zero tolerance zone for corruption and doping, sports organizations “send a positive message to the world” (Schenk, 2011, p.1), serving as inspiration for several people of different societal backgrounds. Additionally, it can help other non-governmental sectors and businesses to employ transparency themselves, act honestly and fight corruption in their own business. As a result of the latest corruption activities, the reformation of the basic structures of large organizations in the sports sector became more visible than ever.

**Corruption as main threat to (good) governance in sports organizations**

Corruption is the main threat to the integrity of sports organizations. It generally “results from a desire for advantages for the occupant of the position” (Maennig, 2005, p. 189), although an exact definition that distinguishes between fair play, friendly behavior and corruption depends on the sports associations of respective country and

---

6 Kirkeby (2016) points out that introducing good governance in the grassroots sports sector bears difficulties, as many people help as volunteers and governmental structures hardly exist.
cannot be generalized. Additionally, any definition of corruption needs to consider that corruption is not an external “shock” to the system but is embodied within the political and economic systems themselves (Horne, 2016).

Corruption is not a new phenomenon in the sports world. The history of documented corruption goes back to the Olympic Games in 338 BC, and corruption scandals in the last 20 years have confirmed that these problems are still significant today (Maennig, 2002). Most prominent corruption scandals include the vote-buying scandal in the Salt Lake City Olympic bid (Longman, 2000) and the gold medal decision during the same Olympic Winter Games in 2002 in the figure-skating competition in favor of the Russian duo and against the Canadian duo (Clarey, 2002), as well as the systemic corruption among FIFA officials currently under investigation at the time of writing. The parallels between corrupt behavior and doping became obvious in the latest whistle-blowing case that revealed Russia and its systematic doping program during (at least) the Olympic Games in 2012 and 2014 (Ruiz, 2016). As consequence, the Olympic medals from cheating athletes from 2012 and 2014 have been revoked, and many Russian athletes were banned from the 2016 Olympics in Rio de Janeiro.

Corruption in modern sports affects a wide range of sports at almost all stages of the value creation chain and in all groups of “stakeholders”, including the allocation of rights (e.g., for televised transmission), nominations for positions (including honorary positions), and the commissioning of construction works for sports arenas and other venues (Maennig, 2005). In recent years, most cases of corruption in sports have been betting-related (Forrest and Maennig, 2015).

One of the purposes of the good governance approach is to prevent corruption by operating transparently, giving no member of the governmental board or association in charge a potential reason or incentive to become involved in a corruption process. From an economic point of view, corruption may be induced if the “expected net utility of a corrupt behavior (is) adequately large for both sides involved in order to outweigh any decline in the welfare” (Maennig, 2005, p. 205). In other words, corrupt agents are balancing the expected “positive” and “negative” from the corrupt action, as in Becker’s
model of general criminality (Becker, 1968). It is no wonder that corruption often occurs in sports with high media attention, such as soccer, basketball or baseball; respective sports organizations generate high economic rents, as they operate economically in the manner of a monopoly (Horne, 2016; Klitgaard, 1988; Maennig, 2002).

If costs of anti-corruption policies are taken into account, the extension of measures to reduce corruption should be expanded, as long as the “marginal social costs do not exceed the social marginal utility” (Maennig, 2005, p. 207). Put differently, the social marginal costs for the implemented measures should not exceed their marginal utility. In general, therefore, it can be shown that it is not always efficient to put too much effort (and cost) in the combat of criminal behavior but to tolerate a certain rate of delinquency (Maennig, 2005). But in sports, the degree of tolerance should perhaps be very low. Indeed, one case of corruption alone can cause significant social marginal damage; that is, in general, it may result not only in a considerable loss of image for the perpetrator but also for the sporting discipline as a whole and even for sports in general, and it may not necessarily stop at the borders of the individual country involved. For example, it was not only FIFA that had problems due to recent corruption scandals. Moreover, the many measures already undertaken by sports associations as well as other potential future measures that the social marginal costs of avoiding corruption in sports could be kept relatively low given a skillful combination of measures. The calculation that the fight against corruption should be extended until its social marginal costs correspond to its marginal utility should result in a rate of corruption that differs only insignificantly from zero.

With these economic concepts as theoretical background, a framework including improvements with respect to good governance can be derived and formulated. (Horne, 2016; Maennig, 2002; Tanzi, 1998) provide five key suggestions as to how to manage corruption and build a framework of good governance around it, in particular, by creating an organizational management and culture, as in large corporate businesses. These improvements feature the provision of a clear code of ethics that also includes how detection and measurement of misbehavior should be treated. Good governance should provide principles for a fair and transparent distribution of profits, meaning that
surpluses should be invested to encourage developments of grassroots sports or projects for young athletes. The incentives for corruption by insiders needs to be lowered, and punishments for misbehavior and bribery need to be enforced.

**Mega sports events and Good Governance**

To illustrate the potential of good governance in sports, some improvements measures will be discussed in relation to mega sports events like the Olympic Games.

First, financial controls and auditing are necessary as is a calculated financial plan (Carpenter, 2016) with well-communicated budget constraints and limitations. As a stronger measure, requiring mega sports events to operate without public funding would certainly lead to less corruption (Maennig, 2016), as there would be no funds to finance large bribes. Paramount examples for financing Olympic Games with mostly private investments are Los Angeles 1984 and Atlanta 1996.

Required ex ante referenda in bidding countries is one effective measure in the direction of good governance (Maennig, 2016). The strategy of the bidders, including finance, human resources, and legacy, would have to be optimized, as convincing a country’s own population may be difficult otherwise. Further, the IOC or FIFA would have the certainty that there would be less resistance prior to the tournaments because not only officials of the respective organization but also the citizens have the right to vote and therefore the right to refuse the proposal.

In addition, the IOC or FIFA could choose a “pool of future hosts” (Maennig, 2016, p.170), granting some four of five cities/ nations to be host in the near future. Pool members could invest on a secured basis with less time pressure, with the final selection of the host with respect to the current status of preparation within a sufficient time frame. The award of the next two Summer Games to Paris and Los Angeles is going into that direction.
Finally, in the past, campaign leaders have often been selected in an non-transparent manner, with the result that in many cases, these leaders had to be removed due to questionable performance and behavior (Maennig, 2016). In the future, the selection of leaders in the organization of a mega-event needs to be transparent and of greater quality, two issues that might be solved by including public participation. Second, there should be effective incentives for leading persons in the system to behave with integrity. In the past, even failing leaders received a monetary compensation. In the future, leaders could obtain a contract that is dependent on the performance of the event and contingent on the event being corruption-free. Such a contract could even include a well-balanced pension system (Maennig, 2016).

References


LANGER, V. C. E.: Good news about news shocks, 2015.


BISCHOFF, O.: Explaining Regional Variation in Equilibrium Real Estate Prices and Income, 2010.


<table>
<thead>
<tr>
<th>Number</th>
<th>Author(s)</th>
<th>Title</th>
</tr>
</thead>
</table>


AHLFELDT, G.: If Alonso was Right: Accessibility as Determinant for Attractiveness of Urban Location, 2007.


<table>
<thead>
<tr>
<th>Year</th>
<th>Authors</th>
<th>Title</th>
</tr>
</thead>
</table>