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## Working Paper

# First step developing a early-warning system against corruption for sports associations

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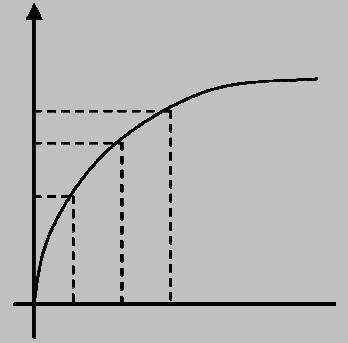
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## **First Step Developing A Early-Warning System Against Corruption For Sports Associations**

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# First Step Developing A Early-Warning System Against Corruption For Sports Associations

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## ***Abstract:***

The business model of sports is based on trust, reputation and fairness. In recent years sports associations have often engaged in crime, corruption and non-compliance, which has damaged the reputation of sports. A professional compliance tool to counteract the loss of trust is still missing, an early-warning system for sports organisations could provide a solution. It simulates how they react to non-tolerable instances of corruption, doping or violations of competitive integrity. The aim of this article is to present the first step developing an early-warning system for sports associations. The approach of New Institutional Economics was chosen to be the theoretical framework to understand the characteristics of corrupt deals and from that identify indicators that uncover corruption at an early stage. To support the normative process of indicator finding a literature research and a case study were carried out. The results indicate that corrupt deals involve three phases and that the relationship between the corrupt partners is central. Regarding to the strong bonds in corrupt relationships a lack of term limitations, no rotation in leadership positions, missing systems of whistleblowing or insufficient transparency could be possible indicators for corruption and non-compliance in sports associations.

## ***Keywords:***

early-warning system; corruption; sports associations; non-compliance; New Institutional Economics

## **Introduction**

Since the 1950s, corruption has been seen mainly as a problem for developing countries (see Alatas, 1990; Heberer, 1991; Theobald, 1990; Pritzl, 1997). Clientelism and patronage have been analysed only in certain developed countries such as Italy (Boissevain, 1966, for machine politics in the US Benson, Maaranen & Heslop, 1978). National and international corruption scandals changed the perception of corruption as a social problem. The Watergate and Lockheed scandals in the US or the Flick affair in Germany (Rügemer 1996; Jacoby, Nehemkis & Eells, 1977) were milestones in changing people's perceptions of corruption and shattering their trust in many organisations, including government ones.

So, corruption has become more and more obvious because information about scandals can be easily obtained, distributed and reproduced regardless of location and at marginal cost by mass media and social media. Corruption also has a negative impact on GDP growth (Mauro, 1995) and is at least to a certain extent costly and damaging to economic development (Shleifer & Vishny, 1993; Mauro, 1995; Nye, 1967). Reviews of economic research on corruption have highlighted the influencing factors and causes of corruption in different countries (Ades & Di Tella, 1999; Treisman, 2007), but have not really shed light on the underlying practices of corruption.

In recent years, sports associations have also engaged in crime and corruption, which has damaged their reputations and made them less trustworthy. Professional sports have come to be characterised as susceptible to fraud, bribery and felonies due to corrupt officials and inefficient institutional rules; for example, take the vote buying for the Olympic Games or the soccer world championship events, and the many doping scandals (Kihl, Skinner & Engelberg, 2016; Maennig, 2004; Emrich, Pierdzioch & Pitsch, 2015). The International Football Association (FIFA) has even been classified by the US Department of Justice as a

RICO organisation (Department of Justice, 2015) under the Racketeer Influenced and Corrupt Organisations Act (RICO Act). Recent examples are the ‘football leaks’ or the scandals involving international umbrella organisations such as FIFA, the Union of European Football Associations UEFA, the International Association of Athletics Associations (IAAF) or the International Olympic Committee (IOC), which are regularly accused of behaving improperly. In fact, some officials of sports associations have acted not only illegitimately but also illegally, provoking concrete legal consequences including interventions by US criminal prosecution authorities. As such, there is a call for an early-warning system, effective counter mechanisms and crime-dampening regulatory regimes (Gardiner, Parry & Robinson, 2016) in politics, economic and sports.

This paper is organised as follows: First, after a short introduction, we analyse the necessity of trust in regards to the business model of professional sport and discuss how this business model is threatened by corruption. Then, we define corruption by combining economic and sociological approaches to analyse the underlying structure of corrupt behaviour. Next, to work towards developing an early-warning system for corruption in sports associations, we identify indicators of corruption. Finally, through a case study on the IAAF, we test the usability of the indicators before we conclude.

### ***The trust-based business model of sport and the threat of corruption***

Sports associations represent so-called ‘social enterprises’ (Rasche & Tiberius, 2016), and they are threatened with destruction by illegitimate and illegal behaviour. The business model of sports associations is based on trust, reputation and fairness; there must be a high level of pre-sale confidence in the integrity of sports competitions so that spectators will buy tickets to the events (Emrich & Pierdzioch, 2015; Jacopin, Kase & Urrutia, 2010). Trust will only exist in the long run if sports associations set rules, behave seriously, and show a high degree

of legal and moral compliance to the rules. Both athletes (Olympic oath) and sports association officials (Code of ethics) are asked to comply with legal and moral standards for the sake of safeguarding reputations and trust. Trust as an added value of all intangible assets of associations entails safeguarding the rules, integrity of executive board members, integrity of competition quality, safety of the processes, sustainability of events, etc.; trust influences the demand for sports (Emrich, Pierdzioch & Pitsch, 2014; Gürtler & Grund, 2006; Büchel, Emrich & Pohlkamp, 2016).

Without trust, an emotionless business model culminating in a multi-billion-dollar jackpot cannot endure. Greed, a zest for deal making and selfish agents are the ingredients for an ‘unhealthy’ business cocktail. In one specific case, this led to a reduced appetite for the Olympic Games and damaged the value of the games. If trust is destroyed by opportunism and selfishness, the collective value of sports will be diminished, and finally the demand for large-scale sports events like the Olympics will decrease (Kulczycki & Koenigstorfer, 2016). To build and protect trust, sports associations need a special institutional framework. In recent years, national and international sports associations have increasingly worked to establish codes of conduct (e.g. the FIFA Code of Ethics) and to monitor them (Gardiner et al., 2016) in order to protect trust, preserve the integrity of sports and combat corruption. In addition, reform strategies have been initiated, education programmes set up and regulations tightened (Kihl et al., 2016; Mason et al., 2006). These approaches usually take up only individual components of integrity. Reported violations of rules (Pound, McLaren & Younger, 2016) cast doubt on the effectiveness and reliability of such measures (Gardiner et al., 2016), as corruption is not contained. Either the reforms do not fit the structure of the individual organisations (Pielke, 2013), or there is no will to bring about serious change. Noticeable parallels with profit-maximising companies can be drawn when scrutinising the flurry of past scandals involving ‘regular’ businesses in the commercial sphere. The banking

crisis in the financial sector or the current emissions scandals in the automotive industry show that non-compliance not only causes financial damage but also irreversibly destroys trust in brands and organisations (Rhodes, 2016). Only in a trustworthy atmosphere can the benefits of cooperation be enjoyed.

A loss of trust and reputation can lead to a decreased demand for sports<sup>1</sup>, especially Olympic sports (Büchel et al., 2016), and this cannot be fixed using propaganda for a long time (Emrich et al., 2014). If sponsors, investors and spectators cannot count on positive image transfer and a system of altruistic values, economic agents cannot capitalise on the invisible assets inherent to sports institutions (Kulczycki & Koenigstorfer, 2016; Roberts, Chadwick & Anagnostopoulos, 2017).

Indicators such as transparency, democracy, social responsibility, mutual control, equal treatment and diversity are used (Geeraert, 2016) to assess and compare the governance of sports associations and to protect trust (Henry & Lee, 2004; Houlihan & Lindsey, 2008). Other research approaches question the decision-making processes of sports clubs and the possible discretionary scope of the allocation of funding (Emrich, Pierdzioch & Rullang, 2013; Hämmerle, Emrich & Pierdzioch, 2018). It has become evident that trust and a sense of community are conditions for the financial decision-making scope of sports clubs (Rullang et al., 2016; Hämmerle et al., 2018), which can be argued for sports associations, too.

In addition, initiatives dealing with ethical issues in sport and monitoring the development of sports associations are already in progress. Past failures in the leadership of sports associations resulted in research into the concepts of good governance, corporate governance and corporate social responsibility (Breitbarth, Walzel, Anagnostopoulos & van Eekeren, 2015) with the goal of examining the transfer of problem-solving from the 'real economy' to

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<sup>1</sup> Anti-corruption is even important for the stock price of football clubs as it can be observed in Turkish football. After the reported allegations about match-fixing the stock price of the Turkish football club Fenerbahçe dropped down.



sport. Good sports governance (Geeraert, 2016; Shilbury & Ferkins, 2011) can be defined as ‘a set of policies and practices that outline the responsibilities of the various governance elements, and the processes used to carry out the governance function’ (Hoye et al., 2006, 170) which should help to prevent officials and management ‘[seeking] to deliver outcomes for the benefit of the organisation’ (177).

### ***Defining corruption***

Senturia (1931) distinguishes between private and public corruption. Much later, Pinto, Leana, and Pil (2008) differentiated organisations with corrupt individuals from corrupt organisations. In the first case, the individual focuses on his own benefit and thereby harms the organisation, and in the second case, a coordinated form of corruption delegated from the top prevails, and it is intended to help the organisation (Svensson, 2005).

In the case of private corruption, a private position in an organisation is used for private purposes; in the case of public corruption, a public position (usually gained via election) is used for private purposes. If a position in an organisation is used for private benefits, the separation between office and person as a condition of effective bureaucracy is not realised (Weber, 1980). The person’s decision enables her to benefit from the position to which she is elected. If this can be observed, trust in the decisions made by officials is reduced. The ‘normality’ of private and public corruption in such organisations is reinforced by the processes of institutionalisation, rationalisation and socialisation (Ashforth & Anand, 2003). The individual can, therefore, be active as a partner or preparer, or passive as a silent observer and tolerate the corrupt practices of the organisation. The presentation of corruption as a way of competing in the market seems to cloud the perceptions of those involved (Campbell and Göritz, 2014). So, corruption can generally be understood as ‘the abuse of

entrusted power for private gain' (Transparency International, 2018); it is a specific form of illegitimate and often illegal exchange.

Corruption as a specific form of deviant behaviour in sports is not a new phenomenon (Emrich, Papathanassiou, Pitsch & Altmeyer, 1992; Emrich, Papathanassiou & Pitsch, 1999; Emrich & Papathanassiou, 2003; Maennig, 2005; Forrest, McHale & McAuley, 2008; Weiler, 2014). Corruption in sports is differentiated according to whether it takes place inside or outside of sporting competitions (Khil et al., 2016; Emrich & Pierdzioch, 2015b; Maennig, 2004). Irregularities in the selection of the venues for major international sporting events (for example, the votes of those entitled to make decisions being purchased) are one example of corruption outside of competition (Mason, Thibault & Misener, 2006), as well as bribery payments in the allocation of TV rights in connection with major sporting events or corruption in the filling of important association positions (German Bundestag, 2014). Within sporting competitions, match-fixing is associated with corrupt actions (Pitsch, Emrich & Pierdzioch, 2015; Kihl et al., 2016; Rullang et al., 2016), which are often closely linked to betting fraud.

The increasing commercialisation of sports and the associated increase in income and profit opportunities are seen as increasing the corruption problem (Chadwick, 2014; Frenger, Pitsch & Emrich, 2012).<sup>2</sup>

### ***The underlying principles of corrupt transactions***

To understand the underlying principles of corrupt transactions, we chose the New Institutional Economics (NIE) approach, which links the moral sentiments, underlying social

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<sup>2</sup> When fraudulent activities in sports associations such as doping are detected, customers decide either to continue the relationship with this sports association or boycott it. Following common sense about reacting to scandals by boycott, the sports association and its products should be expected to reduce the extent of their fraudulent activities. Büchelet al. (2016) showed using a game theoretical model that the expected effect might just go in the opposite direction: customers who boycott after a scandal unintendedly trigger fraudulent activities.

patterns and necessity of trusted partners in the analysis of corrupt exchanges (Lambsdorff, Taube & Schramm, 2004; Richter & Furubotn, 2010). In the NIE view, corrupt behaviour can be defined as the departure from formal rules; it is part of a broad system of unethical informal institutions (Volejnikova, 2009). The central element of NIE is the cost-benefit principle for the individual, which takes preferences and restrictions into account. Concerning research on corruption, the actions of the individuals involved can be considered with regards to the principal-agent theory, since due to restrictions (asymmetric knowledge of information) tasks are assigned to an agent and the delegation is connected to transaction costs (Erlei, Leschke & Sauerland, 2007). Instead of focusing on the legal institutions and their potential to contain corruption, the NIE allows examinations of the inside of corrupt relationships (Lambsdorff et al., 2004), and the principal-agent theory is often used to explain the underlying behaviour (Emrich, 2006; Groenendijk, 1997; Lambsdorff, 2008; Shleifer & Vishny 1993). In cases of corruption, agents act opportunistically and take bribes from private individuals who are interested in some government-produced goods (Bardhan, 1997; Shleifer & Vishny, 1993) or in influencing certain decisions in sports associations.

The illegal and illegitimate transactions between the involved parties comes with high transaction costs, since a trustworthy partner must be found, the agreement must be secured or monitored, and the aftermath of corruption for all parties must be taken into account (Emrich, 2006; Lambsdorff, 2008). In addition, there are victim costs and costs of avoiding corruption (Maennig, 2004). Jain (2001) states that three elements are crucial in corruption:

- 1) discretionary powers are necessary,
- 2) economic purposes must be linked to the discretionary powers and
- 3) the probability of detection must be relatively low.

Therefore, an agency model can provide the best explanation of corruption (Jain, 2001; Shleifer and Vishny, 1993).

Perceptions of corrupt behaviour are influenced by moral sentiments and cultural norms; they are also embedded in the principle of reciprocity. In every culture, the group of permissible exchange objects is normatively limited (Emrich, 2006). Corrupt deals are based on specific norms and informal rules and are embedded in a reliable network which is stabilised by divided secrets and a common history (Lambsdorff et al., 2004). Those who manipulate decisions by paying money or buying votes in committees, or athletes who compromise the fair and open nature of competitions for financial rewards, violate these institutionally anchored social norms (Emrich, 2006; Emrich & Pierdzioch, 2015) and destroy trust in both sports associations and their decisions.

Referring to game theory, short-term and myopic single-stage wins may allow selfish agents to win the fight but lose the war, because opportunistic deal making does not pay off in the long run due to different cultural norms and stronger punishments for bribers than recipients (Engel, Goerg & Yu, 2013). 'Tit-for-tat' approaches make systems escalate towards severe retaliation and counter strikes, as seen in professional football or cycling, because political bodies impose sanctions, regulations and strict regimes of control on formerly independent sports institutions. In the UK, US, Germany and France, bribers and recipients face equally tough criminal sanctions, while China, Russia and Japan treat the bribers more mildly. Engel et al. (2013) have shown by using a simple bribery game and by conducting identical behavioural experiments while controlling for different cultural norms in Bonn (Germany) and Shanghai that independent of cultural norms and legal origins, asymmetric punishment between bribers and recipients gives bribers a behaviourally credible way to enforce corrupt deals.

To broaden the consideration of the social relations inside corrupt networks, the term ‘roped party’, meaning a special form of closed social relationship, was created. Emrich, Papathanassiou & Pitsch (1996) used the term in connection with sports associations. It symbolises a social relationship that is closed to persons from the outside (very often an old boy’s network), where the members pursue the same goals and acknowledge a strict hierarchical structure. This term comes from alpinism, where the leader of a ‘roped party’ is central. He is the one who takes precedence, enters new and unsafe terrain, and thus carries a relatively high risk. The remaining members owe gratitude to the leader for preventing a possible collapse. Thus, ‘roped parties’ are systems of transaction in which resources are exchanged, information is transmitted and strong, even emotional, ties are created for the purpose of social advancement or power gains (Ziegler, 1984). Such structures can very often be found in mafia-like organisations and organisations that emphasise comradeship. Interrelated social bonding combined with a system of unspoken codes of conduct incorporating intimidation, punishment and incentives can be deemed a core ingredient of clan-like associations. While the Rotary or Lions Clubs claim to employ social bonding as a means of achieving altruistic goals (in addition to social attention and reputation), gangs explicitly capitalise on social bonds for criminal actions.

Following the findings of Bardhan (1997), Emrich et al. (1996), Emrich (2006), Groenenkijk (1997), Jain (2001), Lambsdorff (2007), Mason et al. (2006), and Shleifer and Vishny (1993), making corrupt deals is a three-phase process:

- (1) First, you have to find a partner and negotiate the contract conditions.
- (2) Second, contract enforcement and monitoring are crucial.
- (3) Finally, the contract’s consequences must be considered.

Choosing the right partner is the most important part of the process of making corrupt deals (Emrich et al., 1996). Trust and reliability are of central importance in corrupt relationships, and thus, one has to find a trustworthy partner who is willing to sell information, provide a service or do a favour (Shleifer & Vishny, 1993). A direct inquiry could be dangerous because the briber fears denunciation. The person who is to be bribed only has the chance to say 'no' without higher exit costs at the beginning of the deal (Emrich, 2006). A direct advertisement is not possible either; therefore, a middleman is commonly used to establish a corrupt relationship (Lambsdorff, 2007). Another possibility is to use existing legal relationships to build up corrupt deals on a legal foundation or embed such deals in an existing social relationship between two agents. At the beginning of the trust-building process, there can also be probation testing, which constructs situations in which trust has to be proven (Emrich, 2006). As one can see, a trustworthy relationship comes with high transaction costs of checking, choosing and controlling the right partner by means of collusive actions (Groenenkijk, 1997). Moreover, it is necessary to determine the contract conditions. Corrupt deals are mostly associated with bribes (Mason et al., 2006), but instead of kickback money, one could also use gifts as a reward for favours because they are more difficult to detect and they maintain the fiction that the bribed person is morally irreproachable (Emrich, 2006). At this point, the risk of denunciation must be weighed against the risk of paying more than necessary for the requested service (Lambsdorff, 2007). Crime prevention often hinges on a mix of deterrence—zero tolerance steps, such as symbolic sanctions, and tight regimes of behaviour control—to make sure that rule breakers are detected and held responsible for their non-compliance.

The second phase entails monitoring and enforcement of the contract to ensure the delivery of what was negotiated (Groenenkijk, 1997; Jain, 2001). A unique aspect of corrupt deals is that it is not possible to officially demand that bribes be returned if the results are not delivered,

because they operate outside the cultural barter norms and usually have no written contracts. For this reason, legal enforcement is not an option to secure corrupt agreements (Bardhan, 1997). To minimise the risk of rejection, corrupt deals are often linked to legal partnerships (Lambsdorff, 2007); the advantage is that there is already information about the reliability of the partner, and legal transactions can be used as a safeguard against opportunism. To build up and consolidate the relationship, small gifts are used to establish a feeling of gratitude in the partner, increasing their obligation and securing the contract (Emrich, 2006). The alternating exchange of gifts creates a bond between the actors that guarantees the realisation of transactions even where legal enforcement is impossible. A strong relationship and the repetition of corrupt deals will lower transaction costs, help with monitoring and ensure the enforcement of the contract, since it can be assumed that the partner does not want to lose the opportunity for future deals (Lambsdorff, 2007). To cover up the bribes and maintain the facade of a legal business relationship, the contract is embedded in the structure of pertinent consultancy contracts. In other words, there is a silent agreement which is actually exchanged behind the scenes. Mutual hostage positions and co-investments in criminal actions make sure that no party can step out and leave the system without having to bear exit costs. Honour, fear and dependence place a heavy burden on those members who are willing to change sides. Finally, it should be noted that monitoring and enforcement of corrupt deals are associated with high transaction costs (Groenenkijk, 1997), and fear of denunciation is ubiquitous here, too.

Last but not least, the consequences of the contract must be considered. Once the transaction has been finalised, both parties possess confidential information, and there are multiple situations that might result in denunciation. In this context, we can speak of a locked-in situation (Lambsdorff, 2007); these parties may not be able to work with each other at some point in the future, but they will always be connected to each other. So-called traitors or

apostates must fear the consequences of retaliation by criminal organisations that are inclined to make examples of them (Groenenkijk, 1997). Corrupt transactions do not occur in an anonymous marketplace, so they are vulnerable to opportunism. Corrupt partners work in a long-term relationship (Emrich et al., 1996), and corrupt deals often arise as a by-product of a legal partnership (Lambsdorff, 2007). Here, the focus lies on transaction costs that are associated with searching for partners, determining the contract conditions, and enforcing and monitoring the agreement (Groenenkijk, 1997). Partners in a corrupt agreement are ‘locked-in’ with each other because of confidential information and the threat of denunciation. Corrupt relationships therefore require either specific trust with an emphasis on the aspects of honour or illegal means of enforcement or both.

### **Developing an early-warning system for corruption in sports associations**

In financial terminology, stress testing is designed to determine the ability of a certain financial instrument or institution to address an exogenous economic crisis (Kirchbaum & Weiß, 2010). Sports associations need a kind of early-warning system to detect non-tolerable instances of corruption, doping and/or violations of competitive integrity. If these different forms of deviance are detected, observed, communicated and exaggerated by the mass media—and especially if these different deviations occur together—the gap between the functions of legitimisation and production becomes obvious, trust and reputation are damaged, and the legitimacy of sports associations is threatened. This gap often results in a decoupling of (cheap) talk and action to meet social requirements (Brunsson, 1989) and can lead to a crisis for sports associations involving the loss of public legitimacy. The question remains: For how long will it be sufficient for a benefit-maximising actor to invest in fake honesty instead of implementing effective measures (Emrich & Pierdzioch, 2015a)? However, it should be kept in mind that there are structural differences between general



economics and the economy of sports. Sports economy has specific characteristics, such as institutional arrangements and inconsistency or variability in user expectations (Daumann & Langer, 2005). Compared to other companies, sports associations are non-profit organisations which aim to organise their sport in accordance with their statutes and produce a benefit for their members. Sports associations have a natural monopoly over their sports (Neale, 1964), and membership in an association is indispensable for those who want to participate in related competitions (Emrich, 2008). A territorial distinction is made between local, regional, central and international associations (Bennike & Ottesen, 2016; Emrich, 2008). Sports associations must solve the problem of distributing justice in the long term, since each individual member would like to see his or her interests represented in the association (Emrich, 2008). Research indicates that actors on different association levels (local, regional or central) operate in respect of their routines, goals and interests, whereby policies cannot be implemented without complications (Bennike & Ottesen, 2016).

Although there are some structural differences, those involved in sport can learn from other companies due to the increasing professionalisation. There is a need for an effective regime of provisions, stipulations and sanctions constituting an early-warning system for even slight signs of non-compliance. We cannot expect such a system to be introduced voluntarily by the sports associations (Mason et al., 2006). Public and legal pressure is required to implement such a system. Even if sports associations are autonomous in many Western countries and act as non-profit organisations, a tool that can uncover corruption at an early stage would increase the pressure for reforms.

Therefore, this research aims to design measures for sports associations to decrease corruption, counteract the loss of trust in the leadership of such associations, and preserve the integrity of sports. The first step is the design of a holistic system to identify indicators of

corruption at an early stage to prevent potential stress constellations. The IOC and FIFA set up ethics commissions and established departments to try to detect and punish fraud, corruption and unethical behaviour, but it is doubtful that they will truly fulfil their role in a professional and rigorous manner. Moreover, a short-sighted greenwashing strategy is all-pervading, because recurring scandals show that a professional compliance approach is still missing. In a nutshell, many international sports bodies resist a fundamental shift towards sustainable governance and compliance regimes that incorporate moral values.

The selection of indicators is a normative process, but it requires a profound theoretical basis to derive indicators from theory. Therefore, we conducted a review of the current economic and sociological literature. This was done using the online databases of the Web-of-Science. The search terms were ‘corruption’ (17.150 findings), in connection with ‘sport’ (147 findings) and ‘New Institutional Economics’ (37 findings). A keyword search was performed without any filters. A decisive criterion in the selection of articles was the content’s consistency with the research topic; also, the citation frequency was used to identify which articles were the most popular. Articles related to sport were only included if they were related to corruption outside of sporting competitions. The exclusion of articles on doping and match-fixing reduced the number of articles significantly. The literature review was extended to cover a number of preliminary works in the subject area of the research group; also, a search was conducted in a university library using the same keywords. The identified indicators were verified using cases of non-compliance from the past.

A precise empirical analysis and the instruments derived from it can also prevent the expansion and cyclical ‘overheating’ of a sports-related control market. The analysis and instruments avoid overestimation and overshooting effects that arise in every media-induced

corruption event and counteract the inefficient expansion of a market for supervision

(Anthonj, Emrich & Pierdzioch, 2015).

Table 1 List of articles used to build a theoretical basis

Topic	Article	Content	Indicators
Corruption	Ades and Di Tella, 1999	<ul style="list-style-type: none"> <li>Factors and causes of corruption in different countries</li> </ul>	
	Alatas, 1990	<ul style="list-style-type: none"> <li>The nature of corruption</li> </ul>	
	Ashforth and Anand, 2003	<ul style="list-style-type: none"> <li>Examining how corruption becomes normalised in organisations</li> </ul>	
	Bardhan, 1997	<ul style="list-style-type: none"> <li>Corruption and principal-agent theory</li> </ul>	<ul style="list-style-type: none"> <li>Transaction costs → long-term relationships → term limits/rotating positions</li> </ul>
	Benson, Maaranen and Heslop, 1978	<ul style="list-style-type: none"> <li>Corruption and politics in America</li> </ul>	
	Emrich, 2006	<ul style="list-style-type: none"> <li>Relationships within corruption</li> </ul>	<ul style="list-style-type: none"> <li>Positions held</li> <li>Transparency</li> <li>Term limits</li> </ul>
	Emrich, Papathanassiou and Pitsch, 1996	<ul style="list-style-type: none"> <li>Roped parties as long-term relationships</li> </ul>	<ul style="list-style-type: none"> <li>Term limits</li> </ul>
	Förster, 2016	<ul style="list-style-type: none"> <li>Corruption and economics</li> </ul>	
	Gardiner, 1993	<ul style="list-style-type: none"> <li>Definition of corruption</li> </ul>	
	Groenendijk, 1997	<ul style="list-style-type: none"> <li>Principal-agent model of corruption</li> </ul>	<ul style="list-style-type: none"> <li>Transaction costs → long-term relationships → term limits/rotating positions</li> </ul>
	Heberer, 1991	<ul style="list-style-type: none"> <li>Corruption in China</li> </ul>	
	Jain, 2001	<ul style="list-style-type: none"> <li>Review of corruption</li> </ul>	<ul style="list-style-type: none"> <li>Discretionary powers → trust → long-term relationships → term limits</li> </ul>
	Lambsdorff, Taube and Schramm, 2004	<ul style="list-style-type: none"> <li>Corrupt contracting</li> </ul>	<ul style="list-style-type: none"> <li>Whistleblowing</li> </ul>
	Lambsdorff, 2007	<ul style="list-style-type: none"> <li>Institutional economics of corruption</li> </ul>	<ul style="list-style-type: none"> <li>Whistleblowing</li> <li>Positions held</li> <li>Transparency</li> <li>Third-party involvement</li> </ul>
	Mauro, 1995	<ul style="list-style-type: none"> <li>Corruption and growth</li> </ul>	
	Nye, 1967	<ul style="list-style-type: none"> <li>Corruption and cost-benefit analysis</li> </ul>	
	Pena López and Sánchez Santos, 2014	<ul style="list-style-type: none"> <li>Corruption and the role of culture and social capital</li> </ul>	<ul style="list-style-type: none"> <li>Countries vulnerable to corruption</li> <li>Positions held</li> <li>Trust → term limits</li> </ul>
	Pinto, Leana and Pil, 2008	<ul style="list-style-type: none"> <li>Corruption in organisations</li> </ul>	

	Pritzl, 1997	<ul style="list-style-type: none"> <li>• Corruption and rent seeking</li> </ul>	
	Rügemer, 1996	<ul style="list-style-type: none"> <li>• Corruption and economics</li> </ul>	
	Senturia, 1931	<ul style="list-style-type: none"> <li>• Corruption and politics</li> </ul>	
	Shleifer and Vishny, 1993	<ul style="list-style-type: none"> <li>• Structure of government institutions</li> <li>• Illegality of corruption</li> <li>• Principal-agent theory</li> </ul>	<ul style="list-style-type: none"> <li>• Whistleblowing</li> <li>• Trust → term limits</li> </ul>
	Svensson, 2005	<ul style="list-style-type: none"> <li>• Public corruption</li> </ul>	
	Treisman, 2007	<ul style="list-style-type: none"> <li>• Factors and causes of corruption in different countries</li> </ul>	
	Theobald, 1990	<ul style="list-style-type: none"> <li>• Corruption and development</li> </ul>	
	Volejnikova, 2009	<ul style="list-style-type: none"> <li>• Corruption and economic theories</li> </ul>	
<b>Corruption and sport</b>	Chadwick, 2014	<ul style="list-style-type: none"> <li>• Corruption and challenges for sport business</li> </ul>	
	Emrich, Pierdzioch and Pitsch, 2015	<ul style="list-style-type: none"> <li>• Relationship within corruption</li> </ul>	
	Gardiner, Parry and Robinson, 2017	<ul style="list-style-type: none"> <li>• Integrity and corruption in sport</li> </ul>	
	Kihl, Skinner and Engelberg, 2016	<ul style="list-style-type: none"> <li>• Complexity of corruption in sport</li> </ul>	
	Kulczycki and Koenigstorfer, 2016	<ul style="list-style-type: none"> <li>• Sponsors and corruption in sport</li> </ul>	
	Maennig, 2004	<ul style="list-style-type: none"> <li>• Corruption in sport from an economic point of view</li> </ul>	
	Mason, Thibault and Misener, 2006	<ul style="list-style-type: none"> <li>• Corruption in sport</li> <li>• Agency theory perspective</li> </ul>	<ul style="list-style-type: none"> <li>• Bribes → transparency</li> </ul>
	Roberts, Chadwick and Anagnostopoulos, 2017	<ul style="list-style-type: none"> <li>• Sponsors' responses to corruption in sport</li> </ul>	
<b>Governance and sport</b>	Geeraert, 2016	<ul style="list-style-type: none"> <li>• Indicator and benchmarking tools for sports governance</li> </ul>	<ul style="list-style-type: none"> <li>• Term limits</li> <li>• Transparency</li> </ul>
	Henry and Lee, 2004	<ul style="list-style-type: none"> <li>• Governance and ethics in sport</li> </ul>	
	Pielke, 2013	<ul style="list-style-type: none"> <li>• Governance reforms in international associations</li> </ul>	
	Shilbury and Ferkins, 2011	<ul style="list-style-type: none"> <li>• Professionalisation in sport governance</li> </ul>	
<b>Compliance</b>	Moismayer, 2015	<ul style="list-style-type: none"> <li>• Compliance guidelines for companies</li> </ul>	<ul style="list-style-type: none"> <li>• Transparency</li> <li>• Monopoly</li> <li>• Third-party involvement</li> <li>• Countries vulnerable to corruption</li> </ul>
	Umnuß, 2017	<ul style="list-style-type: none"> <li>• Corporate compliance</li> </ul>	<ul style="list-style-type: none"> <li>• Monopoly</li> <li>• Countries vulnerable to corruption</li> </ul>

The literature review indicated that it is possible to identify indicators that can uncover potential corruption in sports associations. The first indicator is whether a sports association has a functioning system of whistleblowing. Whistleblowing can help to fight corruption because it encourages betrayal among corrupt parties and destabilises their agreements. The fear of denunciation and opportunism make corrupt relationships fragile and are most likely the best means for fighting corruption (Lambsdorff et al., 2004). The likelihood of corruption being detected is much lower if there is no incentive to inform about the corruption or if a serious punishment is possible for the whistle-blower (Shleifer & Vishny, 1993). It might be expedient to design certain ways out of locked-in corrupt relationships to encourage opportunism and whistleblowing. One way could be to accept the imperfections of human behaviour and try to utilise this behaviour to obtain confidential information and get the bigger fish (Lambsdorff, 2007). With regard to reported cases of corruption in sports associations (e.g. doping in Russia; Rodschenkow and Stepanowa), it can be observed that it was usually not until the persons involved provided information that the dirty practices came to light.

Another possible indicator could be a lack of term limitations and rotation in leadership positions in sports associations (Geeraert, 2017; Michels, 1911). If the positions change constantly, it is difficult for people to build up long-term relationships. Close relationships between partners which have developed over many years could be prevented through structural changes in the management of institutions. Obviously, rotation within a closed circuit will not solve the problem. Various stakeholders should be involved in this process, and women should be given the opportunity to hold leadership positions, too. Additionally, it is unclear whether monitoring occurs when a newly elected president takes office, similar to the US presidency.

Furthermore, multiple positions in national and international associations could open up opportunities for corruption and illegitimate governance structures. The number of occupied positions should be made transparent, as well as the number of years that executive board members have spent together in other offices. There should be no prejudgement, but research results have showed that corrupt deals are often built on strong and long-term social relationships (Emrich, 2006; Lambsdorff, 2007). An adjuvant measure against corruption and crime can be seen in the establishment of strong regimes of outside control by official legal bodies, since internal initiatives are susceptible to becoming absorbed and assimilated by the rotten cores of organisations.

Another indicator that uncovers corruption within sports associations could be missing transparency data. Transparency has a high potential to reduce corruption (Geeraert, 2017), but it is not necessary to be completely transparent (Lambsdorff, 2007; Emrich, 2006). A special focus should be directed to controlling the payment activities of organisations (Moosmayer, 2015). Companies are subject to accounting rules, and therefore, all stakeholders receive information on corporate development; such information should also be available through sports associations. A comprehensive and independent information system which provides key data to the stakeholders could be used to fight corruption in sports associations.

Further indicators of corruption which are often used in economics include an existing monopoly and activities in countries that are particularly susceptible to corruption (Moosmayer, 2015; Umnuß, 2017). All national and international sports associations are natural monopolies with respect to their sports disciplines. Therefore, the risk of corruption increases solely due to this specific business situation. In addition, various cultures work together in international sports associations, and their members come from all around the

world and thus have different cultural and social norms. Pena López and Sánchez Santos (2014) have shown how culture and social capital relate to corruption.

Last but not least, the involvement of third parties in the initiation, conclusion or settlement of transactions is an indicator of or risk factor for corruption (Moosmayer, 2015). Consulting contracts with companies or individuals help to conceal corrupt deals and bribes.

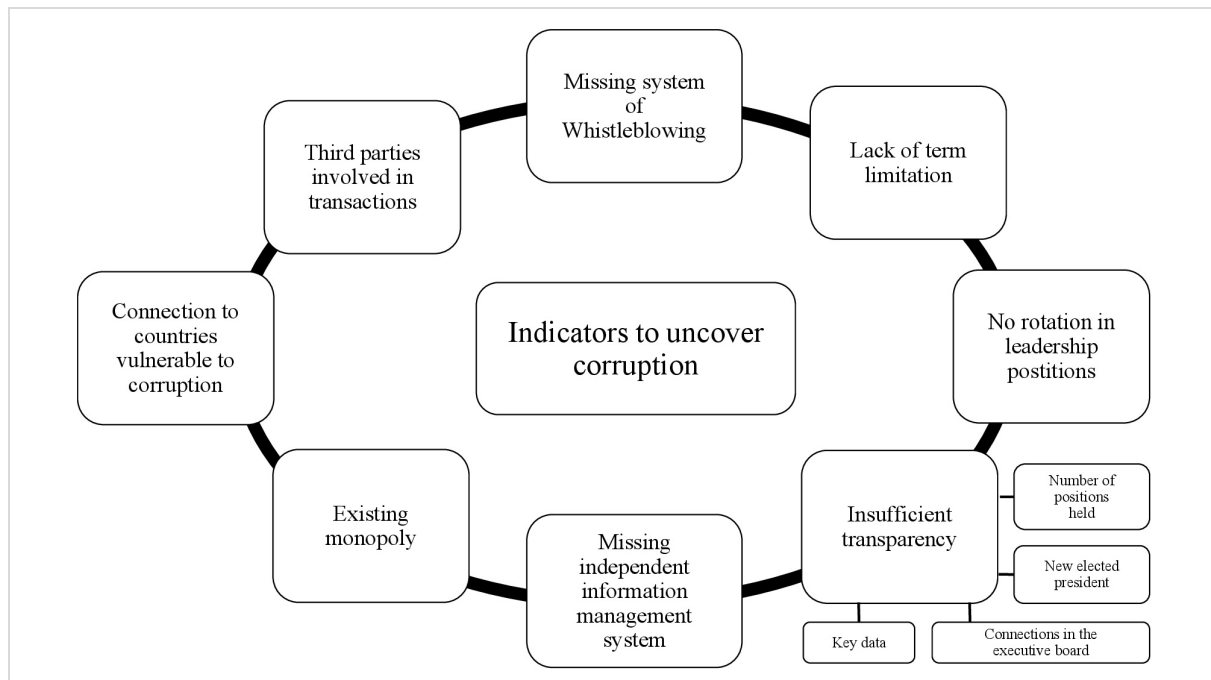


Figure 1 Identified indicators for uncovering corruption in sports associations

### The usability of the indicators: A case study

To verify the usability of the indicators identified through the literature review, analyse the relevance of the early-warning system and elucidate the signs of illegitimate behaviour (Förster, 2016), a case study using a certain sports association was conducted. The method of collecting traces of behaviour is regarded as a non-reactive form of data collection; it has the advantage of documents giving an unbiased view of processes and structures, since they were not created for the study (Diekmann, 2017). The use of case studies as a research technique

was adopted from political science, since case studies make it possible to systematically describe phenomena such as corruption, draw comparisons, and identify causal conditions and different mechanisms (Blatter, Langer & Wagemann, 2018). Based on the theoretical framework, we examined a case of non-compliance and corruption in the chosen sports association; we reflected on the countermeasures used by establishing how specific forms of corruption interrupt social order by setting up new rules. So, we tried to transfer the theoretical principles described above to sports associations.

We chose the case of Lamine Diack and the IAAF, because this case makes the inner workings of corrupt relationships very clear and shows how a certain group of people acted outside of the formal rules. The facts of this case come from the official reports of the World Anti-Doping Agency (Pound, McLaren & Younger, 2016) and the IAAF Ethics Commission (2016). Lamine Diack took over as acting president of the IAAF in 1999 and was in office until 2015, when he stepped down (IAAF, 2017). He had to resign because of an investigation by French police concerning corruption and money laundering in connection with covering up positive doping tests, buying votes, making sponsorship deals and marketing agreements (Gibson, 2016). As the president of the association, Lamine Diack had a major influence on the recruitment of staff and assignment of responsibility, without any real opposition. He used his sons<sup>3</sup> as external consultants and created the position of presidential legal adviser (filled by Habib Cissé). This position created a close inner circle at the top level of the IAAF consisting of closely related persons, operating outside of the formal IAAF governance structure. Thus, a closed network (an old boy's network) with an intimate, familial core came into existence and had extremely stable relationships (Michels, 1911). To cover up the doping cases, the involvement of Dr. Gabriel Dollé (former director of the IAAF Medical and Anti-Doping Department) was necessary. To keep him and other

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<sup>3</sup> Papa Massata Diack (marketing consultant) and Khalil Diack (independent consultant).



antagonistic staff members quiet, ‘Papa’ Massata Diack supplied them with money so that they would not act in opposition. Special responsibility for doping cases connected to Russian athletes was given to Habib Cissé; as he was the legal adviser, this proceeding did not attract much attention inside the IAAF Anti-Doping Department. His task was to obtain highly sensitive information about possible positive doping tests of Russian athletes and to discuss arrangements with Russian officials. This task could be considered the ‘fundamental building block for the corruption’ (Pound et al., 2016). He acted as the conduit between Lamine Diack (IAAF) and Valentin Balakhnichev (National Athletics Association in Russia, or ARAF), the trustworthy counterpart on the Russian side. At this time, he was not only the IAAF’s treasurer but also the president of the National Athletics Association in Russia (ARAF). The consultants (Lamine Diack’s sons) helped transfer the kickback money for covering up the doping cases, which was not conspicuous since they could ‘conceal their clandestine corruption within their general consultant activities’ (Pound et al., 2016).

Within these events, it should also be noted that political ties cannot be ruled out, as the World Championships in Athletics were held in Moscow in 2013, and Lamine Diack is said to have had friendly relations with the Russian president. The case of the IAAF demonstrates that corruption is a phenomenon that also takes place in international sports associations, evolving into patronage clanships under a regime of elite criminal minds.

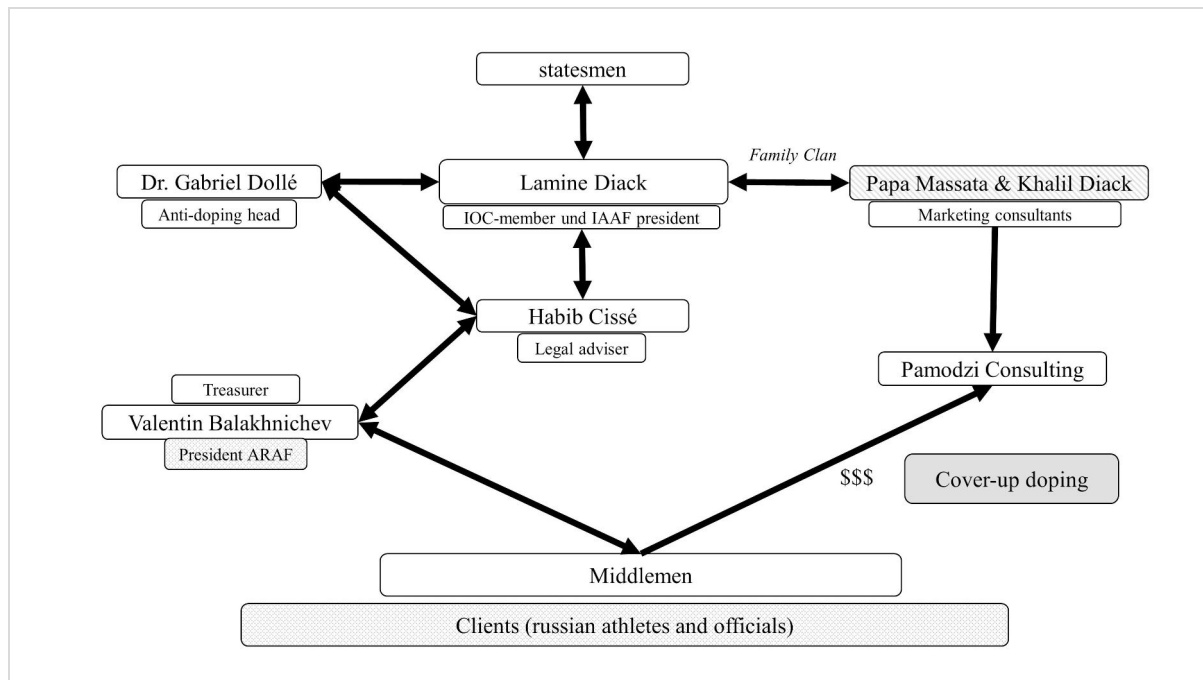


Figure 2 Interconnection of the actors in the IAAF case based on the investigations of Pound et al. (2016) and the IAAF Ethics Commission (2016)

Diack and the members of this network used corruption as a specific form of dishonesty to produce illicit benefits allocated by Lamine Diack; we can also consider his activities, including bribery and embezzlement, as maybe being considered legitimate in his home country. Special relationships with Russian officials did not lead to those officials acting for personal gain, as instead they used their official function and their relationship with Lamine Diack for public gain by improving the Russian medal table. In conclusion, Lamine Diack had built up an ‘informal illegitimate governance structure outside of the formal IAAF governance structure’ (Pound et al., 2016, p. 4) with partners that he trusted due to family ties or long-time business relationships based on shared secrets that increased the exit costs. In the bureaucratic rationality sense (Weber, 1980), the separation of office and person did not work, as Diack misused his elected office for private gains. The illegal and illegitimate transactions with family members and ‘special friends’ were the key element in gaining private income from his office. To mask the illegal and illegitimate transactions, consultant

activities were established to conceal the real transactions, and there was a commitment to gratitude between Diack and the corrupt officials who were caught in locked-in situations while taking bribes to keep quiet.

The parallels with the theoretical understanding of corrupt relationships are obvious and the indicators such as the involvement of third parties, no rotation in leadership positions, multiple positions in different associations, the lack of a whistleblowing system, and the lack of transparency and control in financing make the presence of corruption very clear<sup>4</sup>.

### **Conclusion**

Corruption scandals have changed the perception of sports organisations, whose business model is based on trust and compliance to the rules. As a first step in establishing an early-warning system in sports associations, the New Institutional Economics approach was utilised as a theoretical framework to identify indicators of corruption. To understand corrupt transactions, we examined corrupt deals, taking into consideration the principal-agent theory and the social and cultural embeddedness of illegal and illegitimate exchanges. Making corrupt deals involves finding a partner, negotiating the contract conditions, enforcing and monitoring the contract, and considering the consequences of the contract, including moral hazards. Corruption comes with high transaction costs, caused by an extensive search for a trustworthy partner, the fear of denunciation at any time and the stabilisation of social relationships by investing time to build social capital. Taking this theoretical consideration and the examples of corruption and non-compliance from sports associations together, indicators can be identified to help uncover corruption at an early stage. A system of whistleblowing, rotating positions, term limits, transparent data, independent information systems and no third-party involvement could be requirements that sports associations would

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<sup>4</sup> Another indicator could be a special form of political corruption, which, as happened in Russia, considers the winning of medals more important than the idea of fair play.

have to fulfil to fight corruption. If new policies are to be implemented, the multilevel structure of sport associations should be taken into account, as past projects have shown the difficulties of interorganisational implementation (Bennike and Ottesen, 2016).

To incorporate the indicators into a potential early-warning system, further research needs to be done. Finally, we want to make the point that anti-corruption actions in sports challenge the entrenched legal wisdom that law enactment and law enforcement alone are sufficient to reach compliance goals. Moreover, digital control systems, professional leadership and effective governance regimes are needed to gain insight into how professional sports could experience moral and economic downturns, as demonstrated by the resistance towards the orchestration of sportive mega-events.

The next step in developing an early-warning system for sport associations would be a sensitivity analyse of the risk factors (Gundlach, 2006) to simulate how sports associations react to specific events in connection to corruption. Using a historical database, crises (cases of corruption and non-compliance) from the past could be reconstructed as historical scenarios (Gundlach, 2006) in order to show how sports associations and spectators would react to such events. In the last step, the scenarios must be converted into parameters (see Wagatha, 2010) to provide a result that displays the risk level and can be compared with other associations as the basis for a benchmark.

This study has certain limitations that future research projects on corruption and non-compliance in sports associations could address. More information about the structure of corruption is needed, and more case studies should be conducted to analyse the specific conditions of corruption in different sports associations in different nations. Anonymous interviews with whistle-blowers could help to improve and adjust our early-warning system.

Moreover, researchers should analyse how spectators of sport events actually react to cases of corruption and non-compliance, and whether there are differences between sports.

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