Major sports events: Why all the problems
- A Principal-Agent perspective

Harry Arne Solberg
NTNU – Trondheim
Norwegian University of Science and Technology
Legacy of Rio Olympics So Far Is Series of Unkept Promises

Less than six months after the Games ended, many sites have been abandoned, despite government promises to leave “no white elephants” behind.

By ANNA JEAN KAISER   FEB. 15, 2017
2010 World Cup stadiums becoming white elephants
Deserted and already falling apart: Winter Olympics seem a lifetime ago as photographs reveal £31bn Sochi ghost town

By DANIEL MILLER

The Oxford Olympics Study 2016: Cost and Cost Overrun at the Games

Bent Flyvbjerg†
Alexander Budzier
Allison Stewart

Table 4: The Olympic Games have the largest cost overrun of any type of large-scale project, real terms

<table>
<thead>
<tr>
<th></th>
<th>Roads</th>
<th>Bridges, tunnels</th>
<th>Energy</th>
<th>Rail</th>
<th>Dams</th>
<th>IT</th>
<th>Olympics</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cost overrun</strong></td>
<td>20%</td>
<td>34%</td>
<td>36%</td>
<td>45%</td>
<td>90%</td>
<td>107%</td>
<td>156%</td>
</tr>
<tr>
<td><strong>Frequency of cost overrun</strong></td>
<td>9 of 10</td>
<td>9 of 10</td>
<td>6 of 10</td>
<td>9 of 10</td>
<td>7 of 10</td>
<td>5 of 10</td>
<td>10 of 10</td>
</tr>
<tr>
<td><strong>Schedule overrun</strong></td>
<td>38%</td>
<td>23%</td>
<td>38%</td>
<td>45%</td>
<td>44%</td>
<td>37%</td>
<td>0%</td>
</tr>
<tr>
<td><strong>Schedule length, years</strong></td>
<td>5.5</td>
<td>8.0</td>
<td>5.3</td>
<td>7.8</td>
<td>8.2</td>
<td>3.3</td>
<td>7.0</td>
</tr>
</tbody>
</table>
Summary of the pattern:

- Cost overruns
- White elephants
- Tourism less than predicted
- Monetary benefits not defending the investments

WHY!!!
Principal – Agent theory:

Two alternative situations:

1. Principal hire an agent for a job
   - Employer hiring employees
   - IOC hiring cities to host the Olympics
   - FIFA hiring nations to host the World Cup
   - Organiser hire entrepreneurs to construct venues

2. Agents identifying the objectives of the principal, but without being directly hired to do the job.
A special case of situation 2: National Government = Principal “Others involved” = Agents

• Typical objectives of the principal (government):
  – Stimulating the economy
  – Reducing unemployment
  – Promoting a city, region, nation
  – Improving health condition of residents

• The agents (and benefits):
  – Owners of the events:
    • International sports federations, IOC, ASO
  – National sports federations
  – Local tourism industry
  – Entrepreneurs
  – Local sports clubs
  – Local public sector
  – Consultants
What is the problem?

1. Asymmetric information
   - Hidden information: Agent is better informed than the principal
   - Hidden action (moral hazard): The principal does not have information about the behaviour of the agent

2. Free-riding
   - Agents does not pay for the cost – partly or totally
The optimal Principal-Agent solution

![Graph showing the optimal Principal-Agent solution]

- **Principal’s benefits**
- **Agents’ benefits**

**Optimal level for both**

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Agents giving the principal unrealistic expectations about the benefits
Conclusions

• Conflicting interests between Principals and Agents

• Agents can take advantage of asymmetric information by means opportunistic behaviour
  – Giving the principal misleading information
  – Unmovable deadlines = A special circumstance some agents can benefit from

• Remember: Taxpayers are the “Real Principal”, but do not operate as one unit

• Naive expectations about benefits are common