

Major sports events: Why all the problems

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A Principal-Agent perspective

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The New York Times

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.

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By ANNA JEAN KAISER FEB. 15, 2017

2010 World Cup stadiums becoming white elephants

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Deserted and already falling apart: Winter Olympics seem a lifetime ago as photographs reveal £31bn Sochi ghost town

By [DANIEL MILLER](#)

PUBLISHED: 20:12 GMT, 25 March 2014 | **UPDATED:** 08:33 GMT, 26 March 2014

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

	Roads	Bridges, tunnels	Energy	Rail	Dams	IT	Olympics
Cost overrun	20%	34%	36%	45%	90%	107%	156%
Frequency of cost overrun	9 of 10	9 of 10	6 of 10	9 of 10	7 of 10	5 of 10	10 of 10
Schedule overrun	38%	23%	38%	45%	44%	37%	0%
Schedule length, years	5.5	8.0	5.3	7.8	8.2	3.3	7.0

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?

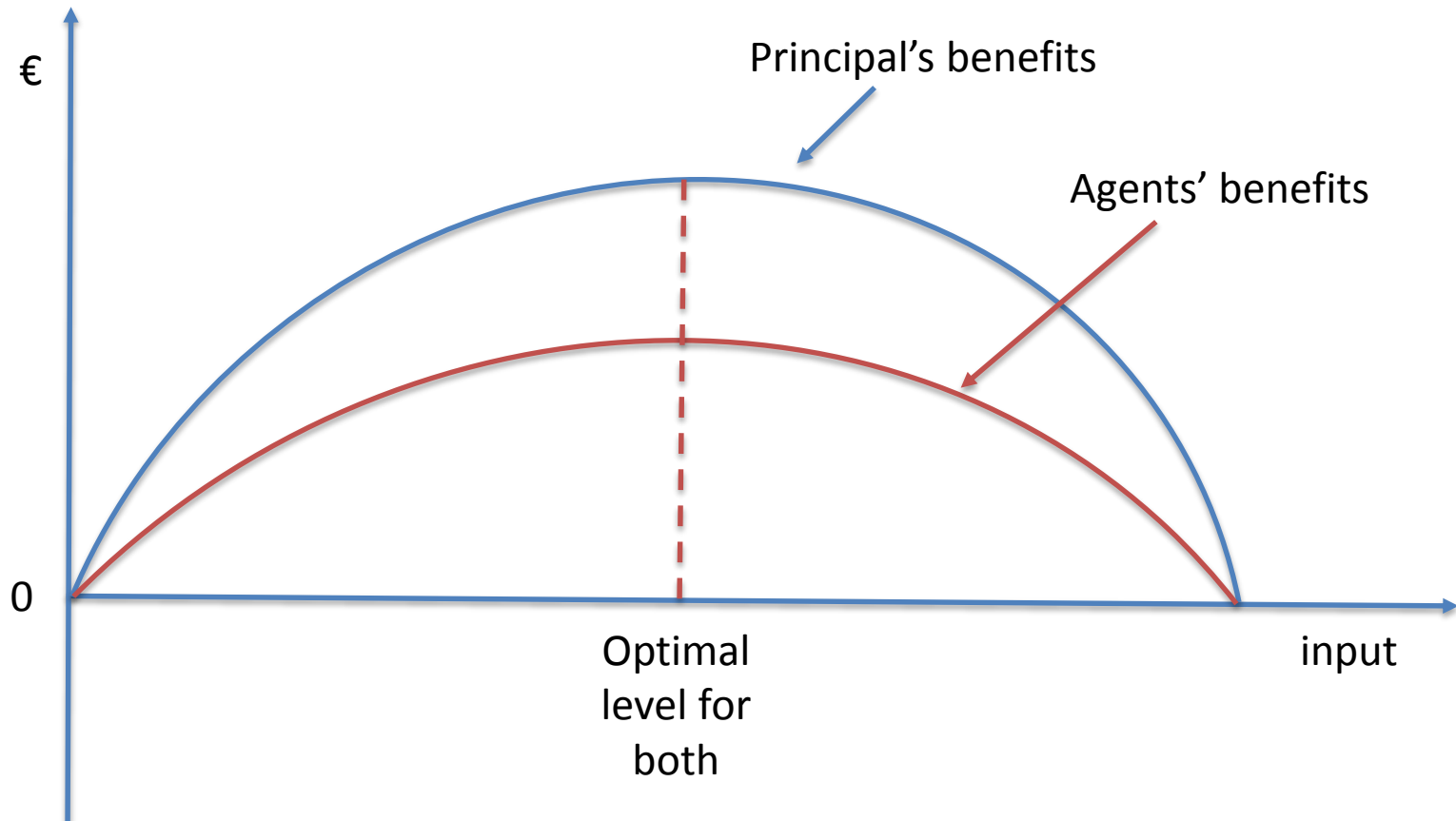
1. Asymmetric information

- 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

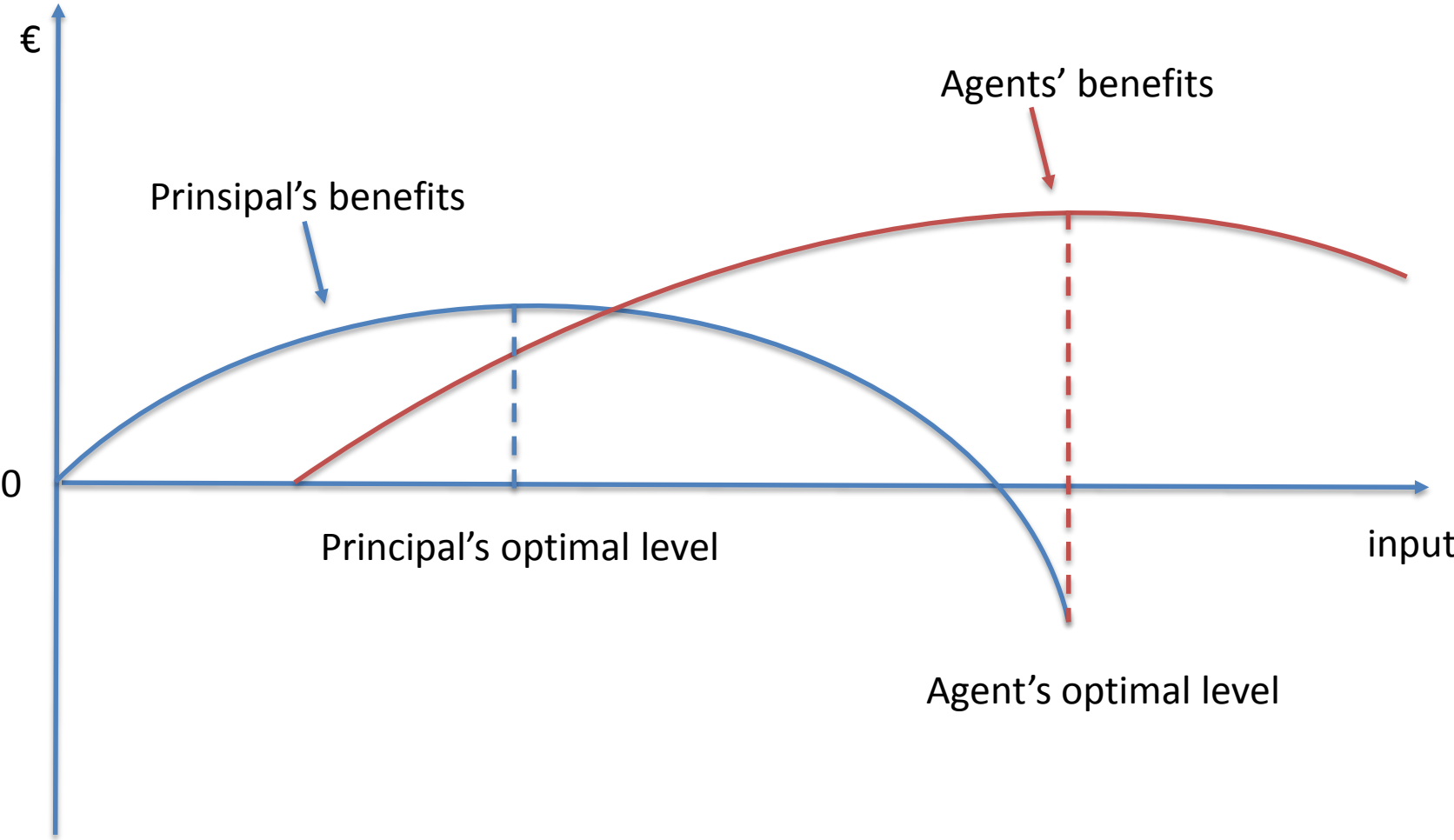
2. Free-riding

- Agents does not pay for the cost – partly or totally

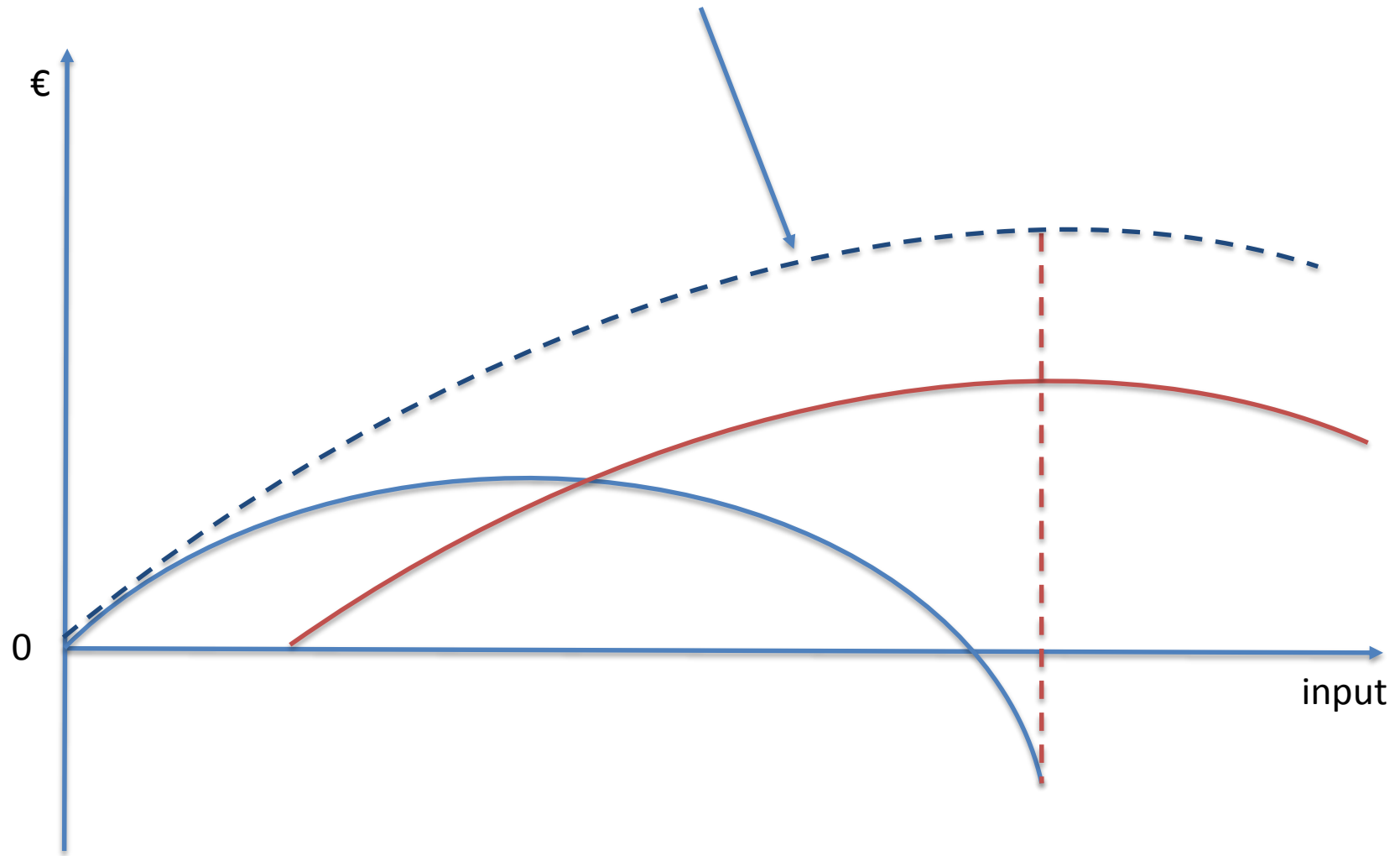
The optimal Principal-Agent solution



Agent's optimal level at a post-optimal for the Principal



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