

# Costs and Benefits of Major Sports Events

A Case Study of Euro 2000

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Costs and benefits of major sports events

A Case-study of Euro 2000

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*If the theory fails in the test it is normally not the theory that is in danger but the researcher, because in normal scientific practice not the theory but the researcher is tested.*

(After H. Koningsveld 1980)



## Abstract

An academic consensus seems to be that investments in sports events can hardly ever be defended on economic grounds, and that the evidence for their contribution to the promotional objectives of the host cities is not solid. The aim of this thesis is to apply a methodology for evaluating major sports events to the European Football Championship 2000, in short Euro 2000. This event was organized by Belgium and the Netherlands, but this evaluation concerns only the Netherlands. The methodology is a synthesis of economic impact analysis and cost benefit analysis (CBA). The CBA by multiple accounts introduced in this thesis is intended as a structuring device for public discussion.

Data was collected in three different ways: from visitors to this event by face-to-face interviews; from the population in five European countries by telephone interviews before and after the event; and from the Dutch population in the host cities and the rest of the country, also by telephone surveys. The net total sample consisted of 4,000 interviews.

The methodology of multiple accounts establishes an explicit distinction between private and public benefits.

The largest financial profit was made by Uefa, estimated at €81 million.

For the Dutch business community as a whole, the benefits outweighed the costs. Some branches of industry experienced a local decline in demand, but this was probably compensated by other branches or regions. These results confirm the observation in the literature that there are substantial 'crowding-out' effects on visitor patterns in host cities during major sports events. Now, as a result of this present research, it can be added that a substantial part of these effects is on domestic visits and should be discounted as economic impact at the national level. Some branches experienced a boom or decline, which was not

specifically related to hosting Euro 2000, but is rather typical for any international football championship or sports event. The real winners were: the accommodation sector (especially the campsites), and catering (cafés, fast-food) sectors in the host cities. The results for the hotel sector are less unequivocal because of the crowding-out effects of Euro 2000 on foreign tourists.

For the public sector (the aggregated accounts of central and local government), the financial benefits have outweighed the costs. For an evaluation of the public costs and benefits, the external effects are also of relevance. The most frequently-mentioned positive external benefit is the increased awareness of the Netherlands in other countries. Surveys on image and awareness in foreign countries have confirmed these effects, but only to a modest extent. Nevertheless, it was possible to establish a relationship between the effects in specific countries and the performance of their national team.

It seems, therefore, that the earlier conclusions, derived from research on professional team sports in the United States, are sometimes too easily stretched to include major sports events. This misses two points. First, sports events might be undertaken at a low public cost. Such events might be organized using existing venues and thus would involve little public investment. Second, international sports events, by their very nature, bring additional expenditures to a city and country, whereas in the case of a sports franchise most of the economic effects are mainly of a switching nature.

## Preface

The preparatory work for this research started in 1998, although at the time, I had no idea that it would lead to a Ph. D. thesis. I had just started my own company, MeerWaarde (Value Added), and was happy to receive a call from Henk Polling (Ministry of Health and Sports) asking whether I could explore the economic impact of sports events. It turned out to be a joint project of his Ministry, the Ministry of Economic Affairs and the Netherlands Board for Tourism. In 1999 I finished the report 'Bread and Circuses', introducing the concept of separate accounts. It was just in time for this study to serve as a theoretical framework for the evaluation of Euro 2000.

MeerWaarde was commissioned to undertake this evaluation later in 1999. Financial support was provided by the ministries referred to above, the Ministry of Internal Affairs and the four Dutch host cities: Amsterdam, Rotterdam, Arnhem and Eindhoven. I want to express my gratitude to all those with whom I've worked so pleasantly during this episode, especially Wim Sliepen, Mark van den Heuvel, Janine van Kalmthout, Wil Mom, Gerard Eding, Arno van Rijssen, Hans Zoethoutmaar, Querine Prenger, Herman Bos, Henk Mannen and Henny Smorenborg.

After completion of the Dutch version of the cost-benefit study, Chris Gratton, who had earlier kindly shared his experiences from Euro 1996, gave me the opportunity to re-write the manuscript and turn it into a Ph.D. thesis. Thank you Chris, for your supervision, and also Harry Arne Solberg, Birgitta Schultz and Patricia Ellman, my corrector, for your support, time and constructive criticism. Also I want to thank my parents for buying me some extra months, which helped to complete this research. No matter how much this helped, it would all have been wasted, if over these years I had not had the support of my soulmate, Janiek Hoogerbrugge. I have a special separate account for you.

Gorssel, The Netherlands, December 2005

Egbert Oldenboom



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# 1 Introduction

## 1.1 Background of the research

On 14 July 1995 the European Federation of Football Associations, Uefa, announced an unusual decision concerning the organization of a future European Football (Soccer) Championship. For the first time in history, the organization of a major sports event was in the hands of two countries. From 10 June to 2 July 2000, the Netherlands and Belgium would be the host countries for the final round of the European Football Championship 2000, in short Euro 2000.

This championship is among the largest sports events in the world, with around 1.2 million spectators coming to the matches, and a cumulative TV audience of around 7 billion (Solberg and Gratton 2000).

Although the lobbying behind the scenes was shrouded in secrecy, it is clear that the KNVB and KBVB (respectively, the Dutch and Belgian Football Association) had done some homework beforehand. In 1992 a Dutch research institute, the Netherlands Economic Institute (NEI), had claimed in a report that substantial benefits would flow to the Netherlands from hosting the event. This research had been commissioned by the KNVB to convince the authorities of the benefits of the event. However, a counter study, commissioned by the Ministry of Economic Affairs, challenged NEI's conclusions (NRIT 1992).

This indicates that there was some discussion at policy level on the economic significance, but there had not been much *public* discussion about the consequences of the candidacy. If anything, the press and public opinion were rather critical towards the event, focusing on how much it would cost, and the threat of hooliganism (see Annex E for an overview of media voices). Probably because of this critical attitude, and the potential damage to the image of the Netherlands if things went wrong, the Dutch government and other authorities asked a group of research

institutes to monitor the organizational and financial efforts and consequences of the tournament.<sup>1</sup>

After December 1999, the discussion on social and economic impacts really came to life. The cause was a prognosis based on a different methodology, which resulted in much lower figures than the original 1994 impact study (Meerwaarde 2000). The discussion between the various economic institutes on the economic impact (and costs and benefits) was on the front pages of the newspapers and TV news in early 2000.<sup>2</sup> Suddenly the methodology of economic evaluation seemed to be of more than academic importance.

This course of events is quite typical for a major sports event. Advocates of an event will stress the benefits that it will bring to the host city and the country. This might be in the form of financial benefits, such as the income earned by firms in the catering and accommodation industry, as well as intangible benefits, such as the promotion of the city or country. To prove their point, those in favour of the event will often initiate an economic impact study (EIA). Opponents will stress the nuisance and risks of hooliganism.

From a discussion on benefits and nuisance, it is a small step to a cost-benefit analysis (CBA). The CBA and EIA are thus two kinds of economic research that seem to grow more or less naturally out of the public debate on major events. In itself, a public debate provoking solid argumentation (impact study, cost-benefit) should be welcomed from both a democratic and an academic point of view. Economic research might prove its social value by helping to reveal opportunities and threats and contribute to better-structured and informed debate (Hall 1992). However, the economics discipline has a mixed record in terms of its usefulness as a policy tool. Often different economic researchers come to vastly different conclusions concerning

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<sup>1</sup> The authorities included the Ministries of Economic Affairs, of Health, Welfare and Sports, of Internal Affairs, the four host cities (Amsterdam, Arnhem, Eindhoven and Rotterdam), and the Netherlands Board of Tourism (NBT).

<sup>2</sup> See annex E, table E.1.

the net benefits of public expenditures. This thesis hopes to contribute to a more fruitful discussion by investigating the domains and restrictions of specific economic arguments.

### **The popularity of sports events**

Major sports events like Euro 2000 have become a very valued commodity among larger cities worldwide, leading to fierce bid competitions. This has not always been the case. The Olympic Games of 1972 in Munich and of 1976 in Montreal led to large losses for the public sector. In 1976 the City of Denver withdrew its offer to host the (Winter) Games owing to the lack of support among the residents (Ritchie and Lyons 1987). The turnaround was achieved by the Los Angeles Games in 1984, which were completely privately financed and a financial and commercial success (Preuss 2000).

The success of specific international sports events demonstrated the potential positive impact of an event on the image of a city. Often cited examples, besides Los Angeles in 1984, are Barcelona in 1992 and Sydney in 2000 (Botella 1995, Van den Berg et al. 2000, Gratton and Taylor 2001).<sup>3</sup> Investments in sports stadiums and events have become a part of a long-term re-imaging strategy in Western cities as diverse as Los Angeles, Sydney, Baltimore, Barcelona, Sheffield, Manchester, Rotterdam and Turin (Kotler et al. 1993, Hamilton and Kahn 1997, Dobson 2000, Van den Berg et al. 2000, Hall 2001, Gratton and Taylor 2001). From the 1970s on many of these cities faced a decline of their economic base, as industrial production shifted to lower income countries. A strategy of diversification and reorientation towards other, leisure-oriented, functions is therefore part of an intended 'city renaissance' and place marketing strategy (Kotler et al. 1993). Another common feature of these cities is that they are often 'challengers' to the capital city (Henry and Gratton 2001).

Often industrial cities suffering economic stagnation cannot fall back on a strong culture and arts sector. A historical and attractive city centre might be lacking as

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<sup>3</sup> Smith (2001) also mentions Barcelona as a success story, but only with reference to its football stadium and not to the hosting of the Games.

well, because of the relatively short history of many industrial cities, at least as major cities. An important problem for many industrial cities is their image of places to work, but not to live.

The media play a crucial role in the 'production and distribution' of images (Whannel 2002). The intense media attention for major sports events is no doubt the key factor explaining the bond between sports events and place marketing (Smith 2001). Another contributory factor is the traditional strong presence of popular cultural expressions in industrial cities, like sports and rock music. Moreover the sharp distinction between elite and popular culture seems to be vanishing, thus making sports events more useful for attracting high-income tourists (Smith 2001). This is the fertile soil on which a place marketing strategy based on sports events can grow.

#### **Socio-historical perspective on sports events**

What is the social *raison d'être* of a sports event? Getz (1991) has drawn attention to the most important aspect of events in general: a festival or event is a public celebration. Sports events, like other events, symbolize the common values and the interdependence of social groups and strengthen bonds or relieve tensions (Caillois 1958, Getz 1991). Events might be 'the sparks needed to light the community fire'<sup>4</sup>.

Events and sports events are as old as humanity. Sports events, being public celebrations, were historically linked to religion. The classic example is the ancient Olympic Games, which were first held in 776 B.C. The Olympic Games were not just sports events for public enjoyment, but also a religious celebration (Huizinga 1938, Coakley 2003).

At the beginning of the 20<sup>th</sup> century, a process of international standardization of sports rules and games transformed the existing local games and sports into a worldwide 'sports system'. A characteristic of this global sports system is that different sports are played all over the world, according to the same, standardized

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<sup>4</sup> Bonnemaïson, cited in Hall 1992, p. 14

set of rules. In the process of diffusion, especially those sports originating in economically successful countries became popular. This can be illustrated by the fact that most Olympic sports originate from just a handful of economically strong countries: the United Kingdom, the United States, Japan and Germany. Many authors therefore relate the emergence of the global sports system to the (economic) processes of industrialization and modernization (Elias and Dunning 1986, Van Bottenburg 2001, Guttmann 2002).

The transition from traditional local sports and games to the modern international sports system finds one of its most visible expressions in modern sports events. The reach of international sports events is global, not local, and their financial scale has risen accordingly. The rights to international sports events are literally owned and exploited by the sport federations or the International Olympic Committee (IOC), while for a traditional sports event one cannot really speak of 'ownership of rights'. In contrast with events based on local traditions, international sports events have no self-evident legitimacy in the host city or community, because their location is different every time they are held.

This 'footloose' character of modern sports events may also help to explain the demand for economic research and evaluation studies. On the one hand, sports events promise economic benefits, because of their scale, measured in visitors or media attention. On the other hand, the legitimacy of international sports events for a host city is not as solid as that of traditional local events, because the event is hosted by a different city each year. The need for *ex ante* legitimization is made urgent by the perceived risks involved in hosting sports events. For football events, the fear of hooliganism and its potential for damaging property and image is an important drive for research and evaluation (COT 2001). For the Olympic Games, large-scale public investment in facilities and venues may be required. These may turn out to be a financial burden on the host cities, and thus constitute a financial risk. Economic studies in the field of sports events are, therefore, important tools either to convince public opinion in advance of the need to host the event, or afterwards to defend the decision to be a candidate (Hall 1992, Crompton 1995).

However, as Preuss (2000) has pointed out, it is not just the local politicians who may show interest in the outcome of evaluation studies. Proven concrete benefits to the host cities may also be in the interest of the international sports federation involved. Benefits from past events will encourage more cities and countries to announce their candidacy for hosting in the future. A larger number of potential hosts means a better choice for the sports federation, thus enhancing the prestige of the sport.

There has been no shortage of economic impact studies of major sports events (Dobson et al. 1997, Rönning 1997, Brunet 1995, Gratton et al. 2000), and nor has there been a shortage of publications on the correct methodology for such an analysis (Burns et al. 1986, Crompton 1995 and 1999, Noll and Zimbalist 1997, Dobson 2000). Most of the academic discussion has thus focused upon the methodology for EIA; and many issues have been clarified in this respect. However, the issue of economic evaluation has received considerably less attention than the issue of economic impact measurement. An important issue is the relevance of economic impact studies in an evaluation context. Although some have raised serious doubts about the relevance of EIAs for the evaluation of public expenditures (Van Puffelen 1996, Burgan and Mules 2001), or their use without measuring the costs (Dobson 2000), this issue has not yet been dealt with in a satisfactory manner (Law 1996b).

To summarize, the need for the evaluation of sports events stems from their nature, which promises economic benefits but involves risks as well. Its attractiveness is enhanced by the wish in many (industrial) cities to improve their image. The judgment on their public value needs to be established by the collection and structuring of information and a judgment procedure. This is exactly what an evaluation is. Although there is a solid body of knowledge on the economic impact of events, a theoretically-based approach to the economic evaluation of events is lacking.

## **1.2 Aim and objectives**

The central aim of this research is to find a sound methodology for the economic evaluation of sports events, and to apply this methodology to Euro 2000. This should

provide insight into the social and economic importance of Euro 2000 on a national and local level and help to assess these effects in terms of their relevance for public decision making. The aim of the thesis is to be furthered by the accomplishment of the following objectives:

1. To review the literature on the evaluation of sports events;
2. To construct a solid theoretical foundation of an evaluation approach by means of a critical assessment of the existing evaluation techniques;
3. To draw a conceptual framework and a methodology for assessing the costs and benefits and the economic impact of Euro 2000;
4. To assess the costs and benefits for the Dutch on a national level. The research is concerned with both the tangible (financial) and the intangible effects of the event, for the various sectors of industry, the Dutch population, and the public sector;
5. To assess the costs and benefits on the level of the host cities. The host cities in the Netherlands were Amsterdam, Arnhem, Eindhoven and Rotterdam.

An important limitation of this study is that it focuses on the evaluation of single sports events, and not on sports event policy. A 'sports event' is considered a project and 'sports-event evaluation' is thus a type of project evaluation. Of course, a series of project evaluations might eventually be the basis of an evaluation of sports-events policy. The exact relationship between project and policy evaluation is an interesting research question, but falls outside the scope of this thesis.<sup>5</sup>

### **1.3 Structure of this thesis**

The thesis is structured by the objectives that were described above. Chapter 2 provides a review of the literature on the evaluation of sports events. Different approaches towards impact assessment are discussed and the consistency of economic and social concepts used in the literature on events is examined.

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<sup>5</sup> For approaches to policy evaluation, see Van der Knaap and Schilder (2004).

There are some unresolved questions in the literature, especially concerning the relationship between a CBA and an economic impact study. Therefore, the theoretical aspects of economic impact analysis, CBA and welfare economics are further analysed in Chapter 3. In that chapter the foundations for the approach used in this thesis are laid down. This approach uses a novel concept of CBA, using multiple accounts. This concept helps to overcome some of the theoretical difficulties that were unsolved in the existing literature.

The concept helps in deciding which tools are needed to do the research. In Chapter 4 the tools are created by examining the conceptual and operational consequences of the theoretical approach. The methodology for data collection is the subject of Chapter 5.

In Chapter 6 the results of our research on this football championship are presented, with special reference to its effect on the Dutch economy. It includes data on expenditures by different groups involved in the event. These data are the input for the economic impact calculations and for the cost benefit accounts, which are also discussed in this chapter. The results are then compared with the original prognoses and data from the previous European Football Championship, Euro 1996.

The results are discussed in Chapter 7. That chapter attempts to make an appraisal of the theoretical, methodological and practical results of the research, against the background of the existing body of knowledge. It emphasizes the need for a better theoretical integration of (economic) theories of political processes, on the one hand, and economic tools like CBA, on the other, and also attempts to make a first contribution in this direction.

Finally, Chapter 8 is a summary and a reflection on further research into the evaluation of international sports events.