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A benchmark analysis for the local organising committee budgets

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ABSTRACT

There is a lack of research on the budgeting of mega events, especially on long-term budget forecasts in the bidding stage. It is difficult to learn from budgets of past mega events in order to preparing reliable data for bidding committees and decision makers. This becomes even more difficult when considering the strategic rationality behind these budgets. We provide an overall budget forecast for staging a FIFA World Cup finals competition based on benchmark analysis, whilst identifying the different challenges that emerge in the budgeting process. In the discussion, we focus on the political constraints bidding committees face when forecasting their LOC budget. Based on both games theory and institutional economics we contribute information and rationales of great relevance to practitioners preparing to budget the next World Cup. In addition, we shed light on the financial dimensions the FIFA World Cup has reached today for the Local Organising Committees.

HIGHLIGHTS

- Understanding of LOC budgets to stage a FIFA World Cup
- Local price levels, geographical conditions and special strategic concepts as crucial points for LOC budgeting
- Importance of benchmarking different LOC budgets in bid stage
- Institutional economic discussion of the financing of a World Cup
- Games theoretical explanation of bid committees being in a prisoner's dilemma when setting up an LOC budget during the bid stage
- Overall meaning of the LOC budget in the bidding process

KEY WORDS

- FIFA World Cup, Benchmark Analysis, long-term budget planning, LOC budget, financing mega events, games theory, institutional economic

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Introduction and Task

Since Uruguay hosted the first football World Cup in 1930, the Fédération Internationale de Football Association (FIFA) has been awarding the World Cup every four years and has since developed it into the most popular team sport tournament worldwide. The bidding and staging of a World Cup finals competition is a costly and highly complex venture. During the bidding process, FIFA requires detailed information on planned capital investments and expenditure forecast of the Local Organising Committees (LOC). While the capital investments, in particular stadia, differ strongly from host to host and will have to be financed by the host nation it is different for the budget of the LOC. This is partly be covered by FIFA and therefore becomes an important tool in the bidding process. FIFA requires in its Hosting Agreement that the bidding committees shall, "on the date of execution of the FIFA Hosting Agreement, deliver to FIFA an initial expenditure budget for the FIFA World Cup and the FIFA Confederations Cup" (FIFA Hosting Agreement, 2009: 28). This budget has to be divided into at least 20 cost areas and differing time periods which cover the organisation, and hosting of the FIFA Football World Cup and FIFA Confederations Cup (FIFA Budgeting Guidance notes, 2009).

Until today, no scholarly research has been conducted into LOC budgeting and its meaning in the bidding process. Knowledge about this is of particular interest to future bidding committees because they have to forecast the LOC budget up to 12 years in advance. In contrast to the required capital investments this forecast is politically important because most of the LOC budget will be founded by FIFA (FIFA Hosting Agreement, 2009: clause 4.3: 29; Schmidt, 2012). In return, FIFA collects almost all revenues from the World Cup. As a result, announcing the LOC budget during the bidding process places the bidding committees in a dilemma (Schmidt, 2012). On the one hand, a low budget forecast is strategically beneficial because FIFA can expect a greater profit from a lower cost World Cup. On the other hand, a high budget forecast is beneficial because cost overruns are minimized which in turn save taxpayers' money because the cost overrun has to be covered by the government.

Overall, there is great competition between cities and countries to stage mega sports events but only a few federations are in a position to offer such events. This seller's market paves the way for strategic behaviour among federations such as FIFA, who have monopolistic rights when awarding their event. Therefore, regardless of the economic intentions and expectations involved when entering the bidding process for a World Cup, FIFA's standards concerning financial planning have to be met (Jordaan, 2011).

The bidding for and hosting of a FIFA football World Cup involves raising and investing large amounts of money, which is why sound budgeting is essential and why hosting such an event is often perceived as a general public investment. While the investments in infrastructure may have a provable legacy, the money invested in the LOC is limited to the stating of the World Cup. The lack of research on LOC budgeting has prompted us to contribute information and strategic rationales on this topic which will be of great relevance for practitioners preparing to budget for the World Cups following Qatar 2022.

The decision making process for hosting a mega sports events is very complex and the main costs are related to providing the necessary infrastructure. Nevertheless preparing a realistic LOC budget during the bid stage is not only crucial for planning the mega event and managing expectations of stakeholders, but also important for the event rights holder showing that the bidder has understood the dimension of such events (Müller, 2011). On top of this the creation of the budget plays a strategic role in the bidding process. Therefore this paper will provide an overall budget forecast for staging a FIFA World Cup based on benchmark analysis. We likewise shed light on the cost dimensions the FIFA World Cup has reached today. In addition, we examine some methodological aspects that have to be considered when forecasting budgets for ten or more years in advance. In the discussion, we address the political constraints bidding committees face when forecasting the LOC budget. We will provide insights into how FIFA is gradually taking over financial responsibility for the World Cup whilst still subjecting the bidding nations to considerable pressure to offer a great, yet cost-effective World Cup final.

1. Literature Review

In the 1980s, mega and other large-scale events started to evolve as a research topic, especially in the field of tourism and leisure research (Getz, 1991; Burns, Hatch & Mules, 1986). Research on the economic impacts of mega events regularly includes the economic activities of Organising Committees (Preuss, 2009; Matheson, 2009; Baade & Matheson, 2004; Késenne, 1999; Crompton, 1995; Getz, 1994). There is often debate over the forecasts of economic effects, in particular when studies are commissioned by event organisers in an attempt to justify the use of taxpayers' money for the bidding process, the organisation of the event or capital investments (Kurscheidt, 2006; Preuss, 2004; Fanelsa, 2003; Jeanrenaud, 1999; Preuss, 1999; Rahmann 1998; Maennig, 1998; Burgan & Mules 1992, Burns, Hatch & Mules, 1986; Davidson & Schaffer, 1980). Given the general economic importance of the sports sector to national economies, many practitioners believe that the staging of the FIFA World Cup also has the potential to boost an economy. However, scholars have proven that this is not the case, although World Cups generally do have a positive economic impact (Preuss, Kurscheidt & Schütte, 2009; Heyne, Maennig & Süssmuth, 2009; Kurscheidt, 2006; Lee & Taylor, 2005; Horne & Manzenreiter, 2004; Rahman, 1998). Accordingly, research indicates that the 2010 World Cup had a positive economic effect on South Africa's GDP (Polity, 2010; Du Plessis & Venter, 2010:20; Swinnen & Vandemoortele, 2008:4; Saayman & Rossouw, 2008:8). Other analyses on the economic impact of FIFA World Cups struggle to find a correlation between the event and a rise in a nation's GDP (Leeds, Mirikitani & Tang, 2009; Sterken, 2007; Szymanski, 2002; Baade & Matheson, 2000, 2001 and 2002; Porter, 1999). However, almost all scholars agree that the World Cup events create many intangible effects, such as most prominently, the improvement in the event host's image in terms of place marketing (Preuss, 2007; Ritchie & Smith, 1991) and the non-use values such as the populations' happiness and national pride (Barget & Gouguet, 2008; Bruni & Porta, 2007). These factors greatly contribute to the politicians' willingness to enter into the highly competitive bidding contests which can be reflected by an on-going interest in hosting the FIFA World Cup finals (Fig. 1).

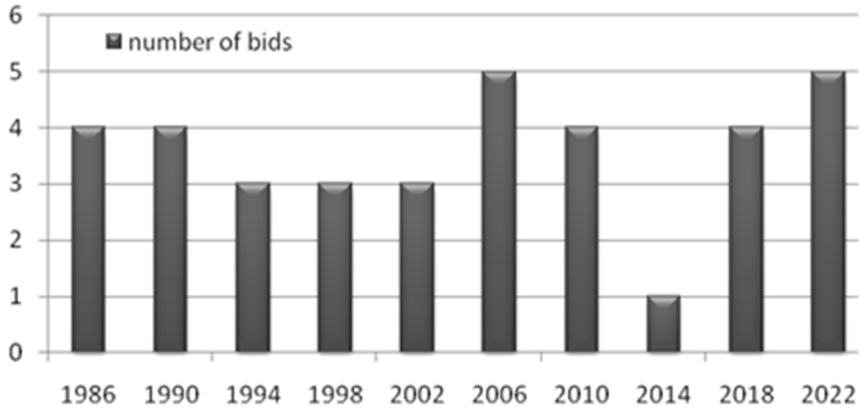

Fig. 1: number of bid nations for the respective FIFA World Cup
Source: FIFA Fact Sheet FS-201 (2010)

For many years, bidding for the World Cup was a competition. The low number of bid nations in 2010 and 2014 can be explained by FIFA's decision to allow only African nations to bid for 2010 and only South American nations to bid for 2014. This most recent bidding process for 2018/2022 started with eleven bid nations. Two of them dropped out before the final decisions were made (cf. FIFA circular, 2009) and the FIFA Executive Committee decided to allow Russia to host the World Cup in 2018 and Qatar in 2022.

The lack of research on the budgeting of mega events as well as the need to adjust the data due to the long periods between the past and the next event which, to make matters all the more complicated, are staged in different macro economies with different political systems and stadium infrastructures makes it necessary to analyse economic data and learn from changes over time. "It would be a big mistake to not look at solutions of past World Cups and to use them as an orientation. But different cultures and environment have to be considered." (Schmidt, 2012)

Analyses of organising committee budgets for the Olympic Games as conducted by Toohey & Veal (2000), Landry & Yerlès (1996), Brunet (1993), Hall (1992) and Lee (1989) mainly only compare revenues and expenditures, as stated in the official reports. While the data were converted into one currency no further interpretations on how inflation was considered was provided. These investigations are, therefore, very superficial and fuel the above-mentioned concerns regarding studies that are not based on sound methodology (Preuss, 2009; Matheson, 2009; Baade & Matheson, 2004; Késenne, 1999; Crompton, 1995; Getz, 1994). To avoid shortcomings in comparing LOC budgets from different FIFA World Cups, the methodology applied by Preuss (2004 and 2000) was used.

Gathering information on the budgets of past FIFA World Cups is difficult. Ex-ante the LOC budget is often not properly published while ex-post official reports are not publically available – and if they are, financial data are not included in any detail. Until the bidding procedure for the 2010 FIFA World Cup, the official bid books did not contain any estimations of the LOC budget. During our research, it became clear that all financial data concerning the LOC are highly sensitive and therefore most difficult to gather. The data mining for this benchmark analysis was concentrated on the 2002 to 2010 FIFA World Cups and the UEFA EURO 2008. The EURO 2008 data were available in great detail such that it was possible to use it in many areas to benchmark the World Cup (UEFA EURO 2008).

As for the data from the FIFA World Cup in Korea/Japan 2002, we learnt that

> *"unlike other countries where most government or semi-government employees stay at their jobs for a long term for consistency, most of the Korean people switch jobs (especially those in high positions) with the changing administration or sometimes after 6 months or so, so it is very difficult to keep track of people" (Park, 2009)*

It is, therefore, difficult to find the people who were in charge of the FIFA World Cup in 2002 and had an insight into the financial figures. In Japan, no LOC expenditure budget was available among sport economics and sport management scholars, nor could data be found on the Japanese internet. However, we managed to obtain a financial report on the data for the LOC in Korea after the World Cup 2002.

It was also difficult to gather data for the FIFA World Cup 2006. Official reports, such as from the government (BMI, 2006), do not include any LOC budgets, but only figures about capital investments. However, we managed to obtain reliable figures from former LOC representatives.

For 2010, FIFA requested an LOC budget from all bid committees for the first time. However, the data provided were strongly criticised by the FIFA inspection committee for being "not sufficient". Even worse, the inspection committee frequently did not know how the LOC budget was calculated. Overall, the figures from the 2010 bid committees vary quite considerably. This benchmark analysis will only consider the data from Morocco because they seem the most reliable. For South Africa, we have included the estimation of the LOC budget as provided in the official bid book. However, the LOC president Jordaan stted that they got the budget from Germany 2006 from FIFA and they just told them to add 10% and

that would be their budget (Jordaan 2012). Therefore, we better were using more recent figures, given by the LOC in South Africa. An official budget was not available until today.

Concerning the data on the LOC budget for Brazil 2014, it is symptomatic to see how sensitive these data are. The Brazilian sport management scholars not only had no access to the bid book but FIFA itself refused to provide information from this semi-official report. In answer to our request for information, a FIFA administrator stated, *"FIFA does not publicize documents and information but […] internal consultation is needed before meeting your demands"* (Avellar, 2009). Another attempt was to directly ask the senate in Brasilia in 2011. This failed due to only the FIFA inspection report was available to present to us (Linhares, 2011). We additionally gained some insights from sources not publicly available, such as a FIFA inspection report (FIFA Inspection report, 2004) for Africa 2010 and other internal information as well as from the expert interviews.

2. Methodological Background

We are using benchmarking and semi-structured interview techniques for this paper. To control data and to prove political interpretations we conducted six semi-structured expert interviews with high officials of past FIFA World Cups.

This technique is used to collect qualitative data by interviews and allows a respondent the time and scope to talk about their memories and insights on the budgeting and bidding process of their particular World Cup. The focus of the interview is the LOC budget as well as the strategic considerations behind budgeting during the bidding process. The objective is to understand the respondent's point of view as the interviewees are experts. It uses open-ended questions, and some arise naturally during the interview. Questions are asked when the interviewer feels it is appropriate to ask them. They were prepared questions and questions that occur to the researcher during the interview. The wording of questions was not the same for all respondents.

Tab.1: Semi-structured Expert Interviews

Interview partner	Position of interviewee	Interview date / Interviewer
Jürgen Müller	Head of Event Management Department of the UEFA EURO 2008™ at the UEFA EURO 2008 SA; Head of FIFA delegation for World Cup 2018	6.7.2011 / Martin Schnitzer
Horst R. Schmidt	Vice President FIFA World Cup 2006	13.3.2012 / Holger Preuß
Danny Jordaan	President FIFA World Cup South Africa 2010™	7.3.2012 / Dean Allen
Alan Rothenberg	President FIFA World Cup USA 1994™	21.3.2012 / Holger Preuß (by e-mail)
Heinz Palme	Chief Coordinator of the FIFA World Cup Germany 2006™, Chief Coordinator of the UEFA EURO 2008™ of the Austrian Government and Senior Consultant of the FIFA World Cup South Africa 2010™	13.11.2009 / Holger Preuß & Martin Schnitzer 18.7.2011 / Martin Schnitzer

To get light into LOC budgeting we had to conduct a benchmark analysis. Benchmarking is a method of comparing processes and products amongst different references of internal or external units, organisation or competitors in order to learn and perform better, using them as a pattern (Siebert, 2002: 16). It can be used to improve the development of products, processes, strategies, or competitors (cf. Siebert, 2002, 18-44). As Dattakumar & Jagadeesh (2003) point out, decision makers often turn to benchmarking as an effective tool for improving professional practice. The data gathered about past mega football events are used to carry out a sound benchmark analysis. Thus, this goes some way not only to answering the research question but also to bridging the gap between academics and practitioners in their use of the benchmark technique (Mehregan, Nyeri & Ghezavati, 2010).

The aim of the benchmark analysis in this paper is to provide an overview of the LOC budget for an "average" FIFA World Cup. Average means that all specific conditions of a World Cup are removed. The information available for benchmarking consists of figures based on former FIFA World Cups or projected expenditures for future World Cups. However, the latter must be interpreted with great care due to the strategic bidding interests reflected in the budgets.

Chronologically changes of LOC expenditures can be expected in both, the planning and realisation phase and therefore make it difficult to predict the true LOC budget:

1. the planning phase:
    a) Errors with respect In to analysing the situation (technical equipment at the stadiums; transport infrastructure and parking areas; FIFA's requirements; personnel and administration requirements etc.).
    b) Errors of prognosis (expectations of governmental or sponsor support; changes in the currency value, interest rates and inflation; effect of marketing campaigns; hosting the football family; reactions of stakeholders; changes in technological developments).
    c) Errors due to lack of information (insufficient experience in hosting certain types of events in certain areas leads to incorrect estimations).
2. In the realisation phase:
    a) Internal aspects (late founding of or too small an LOC; long decision-making processes; difficulties in completing negotiations (partners speculate and use time pressure); difficulties in recruiting skilled personnel; exorbitant personnel costs due to long working hours, problems with internal communication; suboptimal contracting; bad task control)
    b) Governmental support (indecision and inability to give guarantees; political instability; changed decision competencies; time pressure; avoidance of responsibility; communication problems (lack of information transparency); conflict of interests; difficulties in defining responsibilities and competencies; lacking flexibility)
    c) Wanted Mistakes (showing a weak financial situation in order to signal the need for financial support)
    d) External aspects (contractors' problems handling the size of the project (e.g. the architect leaves etc.), sudden increase in security levels; illness (epidemic); weather conditions (e.g. when the construction timetable is under pressure); rain and wet ground; strikes; oil / steel / financial crises; inflation or interest rate changes).

The available LOC budgets needed to be adjusted before they could be compared and used as a benchmark. The comparability of the LOC budgets is limited by four aspects. The budgets have different formats; they are in different geographic locations and therefore

have different currencies; they are from different times and therefore are influenced by inflation and finally the events considered change over time in terms of security requirements and size. Tab. 2 shows the steps necessary to conduct a benchmark analysis.

Tab. 2: Procedure to benchmark the expenditures of the FIFA World Cup

Step		Data transformation	Data basement
1	Transformation of size	Transformation from UEFA EURO to FIFA World Cup level	UEFA EURO 2008 Austria/ Switzerland
2		Transformation from co-hosting to single staging FIFA World Cup level	FIFA WC 2002 (Korea)
3			FIFA WC 2006 (Germany) FIFA WC Bid 2010 (South Africa) FIFA WC Bid 2010 (Morocco)
4	Homogenization	Homogenization by time Homogenization by space	OECD data on PPP International Financial Statistics on GDP deflator

The excellent availability of financial data on the UEFA EURO 2008 prompted us to include these figures in the benchmark analysis. Step 1 transforms the LOC budget of the UEFA EURO 2008 which was staged in the two countries Austria and Switzerland. Compared to the FIFA World Cup in Germany, the UEFA EURO had only 50% of the FIFA matches, 50% of teams, 66% of stadiums and approx. 40% of tickets (cf. UEFA EURO 2008, 2008: 173; FIFA WM 2006, 2006: 146). All this reduces the LOC budget. On the other hand, co-hosting an event creates additional costs, for example, with regard to government relations and guarantees. Therefore, the adjustment of the expenditures is different for each item on the expenditure template. Tab. 3 displays the multipliers used to transform the LOC budget for the UEFA EURO 2008 into a source which can be used for benchmarking a FIFA World Cup.
Our adjustments shown in Tab. 3 are rough and can be superficial; the multipliers are based on data given by official reports (so far they were available) and on our estimation based on information from expert interviews.

Tab. 3: Adjustments into an “average” FIFA World Cup

FIFA Hosting Agreement Template No. 19 Description		multiplier	UEFA EURO 2008 Comments to explain the multiplier	multiplier	FIFA World Cup 2002 Korea Comments to explain the multiplier
3	LOC Appointment, Compliance & Structure	n/a		1.7	certain similarities with Japan, half of volunteers, not double due to 20 stadiums managed, moderately more insurance
4	Finance & Insurance	n/a		n/a	
5	Government Matters	n/a		n/a	
6	Corporate Social Responsibility	n/a		n/a	
7	Competitions	2.0	double number of matches	n/a	
8	Host Cities	1.3	1/3 more host cities; most costs are fixed costs	n/a	
9	Stadiums	1.6	1/3 more stadiums and stadium size is larger at FIFA World Cups	1.7	12 stadiums at FIFA World Cup but more matches (more variable costs) – World Cup needs 32 (64) trainings sites (twice as many as Korea)
10	Training Sites	2.0	double number of teams and training sites	n/a	
11	Accreditation	1.7	fixed costs of centres remain similar but many more accreditations especially media and member associations from all over the world, more service providers, volunteers etc.	n/a	
12	Transportation and Parking	1.7	1/3 more stadiums, larger stadiums, more officials, VIPs and guests	n/a	
13	Safety and Security	2.0	250% more tickets, double training sites, more international arrival, more venue sites	n/a	

14	Media Requirements and Facilities	3.0	FIFA requests much bigger space for IBC plus stadium media centres, media tribunes, larger world wide interest, more media	1.6	FIFA size existent due to opening match and semi-final but only for 50% of the matches in use
15	IT Solution	n/a		n/a	
16	Ticketing	1.8	250% more tickets, but ticketing system is largely fixed costs	n/a	
17	Hospitality	2.0	twice as many matches, more international VVIP (member associations) but proportionally less fixed costs due to only 30% more stadiums	1.9	basically half of the FIFA in Korea, but 10 stadiums means more transportation and accommodation due to more venues than at "average" FIFA World Cup
18	Accommodation	1.5	more guests, more referees, 25% longer competition period	n/a	
19	Commercial Rights	n/a		n/a	
20	Communication and Public Relations	1.2	more (worldwide) communication activities, events, print material	1.4	more print material, more promotion
21	Medical Services and Doping Control	n/a		n/a	
22	Competition-related Events	3.0	more extra events, FIFA Confederations Cup as major difference obligatory	3.0	half of obligatory events, FIFA Confederations Cup not included
23	Miscellaneous	2.0	weighted average from above	2.0	includes ticket sales (2.0), average from above due to Korea basically staging half the World Cup

Sources: UEFA EURO 2008 (2008); FIFA WM 2006 (2006); Park (2009), own calculations

Step 2 contains data from the FIFA World Cup in Korea 2002. These figures were adjusted by considering that Korea used 10 stadiums but hosted only half the number of matches. This also means that only half the teams stayed in Korea etc.

Step 3 contains data from the FIFA World Cup 2006 and projected data for South Africa 2010 and Morocco 2010. These data do not have to be adjusted.

In step 4 all data had to be homogenized by time and space. The base year for this benchmark is 2008 and the base currency is American Dollars (US$). When comparing expenditure data for the FIFA World Cups since Korea/Japan 2002, two basic problems arise: Firstly, the FIFA World Cups have been staged in different countries and consequently in different macro economies (space) and, secondly, they have taken place in different years (time). By using a conversion factor, all LOC expenditures in the benchmark tables can be expressed in US$ based on prices in 2008. Thus data from different FIFA World Cups can be compared realistically.

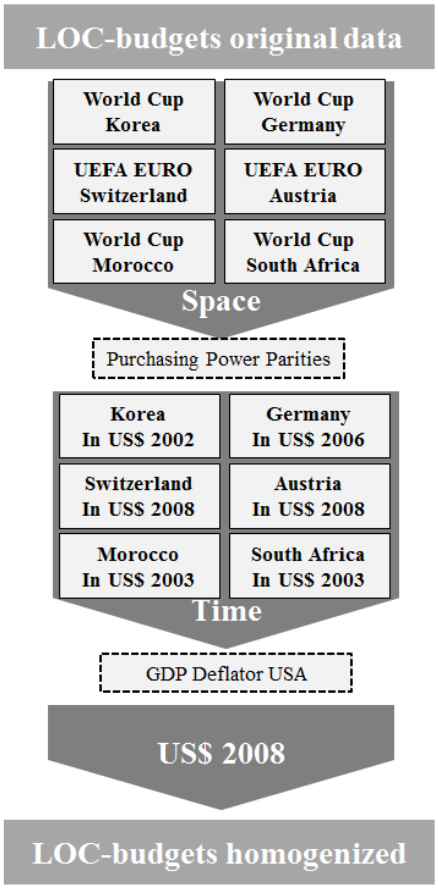

Fig. 2: Methodology of data homogenization

The data homogenization was administered in two steps. Firstly, all data were transferred into US$ by using the purchasing power parities (PPP(c/o); where c=currency and o=event year date) of the particular year the event was staged. For 2003, the PPP for Morocco and South Africa were not available. In these cases, the average annual exchange rate was used.

In a second step, the original LOC budget data (A(c/o); where A=original expenditure) were transformed into the base year 2008 by using the US-GDP deflator. PPP and the GDP deflator create the conversion factor (see also Preuss, 2000 & 2004). Each original item in the LOC budget unit A was multiplied by the conversion factor µ (if based on PPP) or ß (if based on exchange rate) to eliminate distortions of territory and time and was expressed by a uniform value in US$ for the base year 2008. In other words, all data for this benchmark analysis were adjusted to appear as if the events had taken place in the USA in 2008.

Tab. 4: Data for calculating the conversion factor µ and ß

	A(c/o)	I(x) (2008)	exchange rate (c/o)	PPP (c/o)	µ (based on PPP)	ß (based on exchange rate)
South Korea	A(KRW/2002)	1.1502	---	0.000799	0.000919	---
Germany	A(EURO/2006)	1.0269	---	1.165	1.196	---
Austria	A(EURO/2008)	1.0	---	1.12	1.12	---
Switzerland	A(CHF/2008)	1.0	---	0.6135	0.6135	---
South Africa	A(RAND/2003)	1.126	8.6246	n/a	---	9.7113
Morocco	A(DH/2003)	1.126	9.5744	n/a	---	10.7808

A = original expenditure; N = newly calculated expenditure; I = inflation; PPP = purchasing power parity; x = US inflation; c = currency; o = event year

Sources: OECD data (2011); IMF (2009); x-rates.com (2003); Economic Statistics of Morocco (2004).

The USA was chosen as the base country because many LOC budget items are balanced in US$ which means that they need only be adjusted to allow for inflation rather than be converted by currency. Apart from that, data on the US-GDP deflator were available and FIFA expects the template to be made in compliance with the US$ Budgeting Guidance notes (2009: 1). The GDP deflator is a measure of the level of prices for all new, domestically produced, final goods and services in an economy. Unlike some price indexes, the GDP deflator is not based on a fixed basket of goods and services. The basket is allowed to change with common consumption and investment patterns.

The fact that the LOC has expenditure over a period of many years is ignored for this benchmark study because the chronological distribution of payments is expected to be similar for all LOCs. This inaccuracy would only affect the total amounts as a result of

ignoring the inflation rate and therefore does not distort a general comparison of the FIFA World Cups.

3. Results

Based on the methodology explained above, a preliminary summary of the transformed and homogenized LOC budgets can be made. In order to calculate the projection of an "average" LOC budget, we ignored all specific conditions:

- specific reductions in LOC expenditures due to a special staging concept are not considered. An example is the Qatar 2022 World Cup where basically no transportation costs will occur since almost all stadiums will be located in Doha.
- specific optional LOC expenditures based on strategic considerations are excluded from the average budget such as, for example, a large-scale environmental or CSR program.
- specific additional LOC expenditure due to a particular geographical location is not considered. For example, the special stadium cooling systems in Qatar 2022 and the huge travel costs for Russia 2018.
- major developments in technology and their influence on IT expenditure are not considered, although the normal development of IT costs is.

We noticed that there is not much consistency in the budget items provided by past LOCs and Bidding Committees, particularly in relation to the different combination of items. Therefore, the benchmarking process requires several items to be bundled to make them more comparable. For this procedure, it is very important to fully understand the content of each item which was done by both authors individually to test for inter-reliability. As a result, we adjusted the 21 items on the FIFA template into six broader budget items.

1 "General Organisation" includes all matters related to finance, insurance, workforce, general administration, governmental matters and corporate social responsibility.

2 “Venues” include fees and rent for stadiums, temporary works, training sites, host city activities (from an LOC perspective), the preparation and operation of facilities and activities for media.

3 “Operations” include all “back-of-the-house activities” such as issues related to safety and security, accreditation, IT solutions, health issues and anti-doping activities.

4 “Services” include all “front-of-the-house activities” such as transportation, parking, ticketing, all hospitality activities and accommodation.

5 “Marketing and Events” include all issues related to commercial rights, communication, PR, and events related to the World Cup such as ceremonies, banquets, pre- and post-tournaments and the Confederations Cup.

6 “Miscellaneous” includes all items not included anywhere else (others), costs that the LOC wanted to reveal to the public and contingencies.

Tab. 5 shows the transformed, homogenized and aggregated budget items for the different events. The overall LOC budget was between US$ 455m and US$ 555m. Even though the absolute difference is around 20%, an average overall budget of US$ 500m seems to have been the expenditure required to organise an “average” FIFA World Cup in the years between 2002 and 2010.

Tab. 5: Benchmark of different FIFA WC and UEFA EURO with aggregated budget positions in million US$ 2008

Budget position	South Korea	Germany	Austria/ Switzerland	Morocco	South Africa
General Organisation	146.1	146.7	110.3	109.3	54.0
Venues	80.0	136.8	77.3	127.4	235.9
Operations	69.6	40.9	37.4	87.7	50.2
Services	65.6	40.9	171.4	65.4	71.6
Marketing and Events	77.6	44.3	54.7	61.7	14.8
Miscellaneous	116.7	102.9	3.1	45.1	30.1
Total	555.6	512.5	454.3	496.6	456.6

When comparing the different LOC budget items some explanations are needed to understand the differences. The huge differences in "General Organisation" costs can partly be explained by the fact that South Africa 2010 budgeted workforce in a separate item. The "Venues" item is comparable in almost all World Cups under consideration. In the South African case, the figure is high because the LOC had to pay for the stadiums to be upgraded (overlay and temporary facilities) as well as for the "venue theming" and "bannering". The UEFA EURO 2008 figure is low because the governments provided much support with the capital costs on venues. The items "Operations", "Services" and "Marketing/Events" can be compared quite well between the different FIFA World Cups. Only the UEFA EURO 2008 case shows a huge difference in "Services". We presume that this is caused by the large hospitality programme and the fact that UEFA, as organisers, assumed full accountability, whereas the LOCs of the FIFA World Cups are solely responsible for providing (V)VIP hospitality services.

The exact figures from the FIFA World Cups 2002 and 2006 as well as those from the UEFA EURO 2008 are known because the LOCs have been wound up. The items that were estimated by the bidding committees from Morocco 2010 and South Africa 2010 appear to be relatively low. This indicates the bidding strategies of those competitors as will be explained in detail below.

Based on the information available, a benchmark template can be constructed for an "average" FIFA World Cup.

Tab. 6: Base case of a FIFA World Cups following 2022 in million US$ 2008

Hosting Agreement Section Template No. 19 Description	million US$ 2008
3 LOC Appointment, Compliance and Structure	100.0
4 Finance & Insurance	5.0
5 Government Matters	5.0
6 Corporate Social Responsibility	2.5
7 Competitions	3.6
8 Host Cities	18.0
9 Stadiums	90.0
10 Training Sites	18.0
11 Accreditation	5.0
12 Transportation and Parking	40.0
13 Safety and Security	50.0

14	Media Requirements and Facilities	5.0
15	IT Solution	10.0
16	Ticketing	7.0
17	Hospitality	60.0
18	Accommodation	20.0
19	Commercial Rights	10.0
20	Communication and Public Relations	5.0
21	Medical Services and Doping Control	4.0
22	Competition-related Events	50.0
23	Miscellaneous	50.0
	Total	558.6

The single items of the "base case" budget have been developed out of the benchmarking data and by calculating bottom-up the LOC expenditures for each item. No strategic or geographical specification of a hosting nation has been taken into consideration. Most figures displayed in Tab. 6 are bottom-up calculated lump sums, for example, expenditure for competition is based on 12 stadiums, expenditure for training is based on 36 training sites etc.

4. Institutional Economic Discussion on Changes to Financing a World Cup

During our research into the LOC budgets, it became obvious that FIFA is a learning organisation which is professionalising its hosting requirements from World Cup to World Cup (Müller, 2011). By comparing past FIFA Hosting Agreements, many changes become obvious particularly with respect to the more precise definition of FIFA's requirements. However, it also becomes clear that FIFA is increasing its financial control over the LOCs (Schmidt, 2012). To do so, FIFA uses the power vacuum between two bidding processes to change the organisational requirements (e.g. the FIFA Hosting Agreement).

We have conducted several expert interviews with former LOC representatives and FIFA officials to better understand the role of the LOC budgets in the bidding process.

The president of the LOC of the FIFA World Cup USA 1994, Alan Rothenberg, said that FIFA "had exercised no control over the LOC budget and finances", however even then "FIFA

received all of the proceeds from the sale of TV rights and top level of sponsorships" (Rotheberg, 2012). Palme (2011), for example, points out that the LOC revenues have dramatically increased over the past World Cups. For example, the LOC in France in 1998 relied on 33 sponsors while the German LOC 2006 limited their number to just six national sponsors. The FIFA 2010 World Cup was a little more complicated because FIFA itself covered many exclusive rights in different sectors for their sponsors. "It is a fact that today an LOC has fewer possibilities contracting a World Cup sponsor as FIFA has already sold the exclusivity of rights to their partner" (Palme, 2011). FIFA has changed its marketing structure in the past ten years. Similar to the IOC (see Preuss, 2004), FIFA has also shifted from complete outsourcing (ISL Marketing) to having its own FIFA Marketing GmbH (limited liability company) until 2006. Finally, FIFA has taken full control of its property rights by completely in-sourcing the sale of the rights from TV broadcast, online media, sponsoring, licensing, merchandising and hospitality. Even ticketing, which was previously managed by the LOCs, is increasingly being controlled by FIFA (Palme, 2011). From Qatar 2022 and onwards, FIFA has the full property rights on ticket revenues. The "LOC agrees and acknowledges that FIFA exclusively retains [...] all revenues derived from the sales of any tickets" (FIFA Hosting Agreement 2009, clause 16.1: 116). Similar clauses can be found as regards hospitality rights where "FIFA exclusively retain[s] all revenues from the exploitation of the Hospitality Programme" (FIFA Hosting Agreement 2009, clause 17.2: 124). The overall marketing rights are also with FIFA, because it "shall have the sole right to determine the definition, structure, strategy, and concept for the exploitation, use, implementation and activation of the marketing rights" (FIFA Hosting Agreement 2009, clause 19.3: 149). FIFA is even extending its financial control by retaining "all revenues derived from the sales and management of any accommodation" (FIFA Hosting Agreement 2009, clause 18.1: 125).

According to property rights theory, FIFA can "make use of the commercial rights", can "earn income from it" and can "manage the good and transfer control of it to another party" (Groenewegen et al., 2010: 93; Picot, Dietl & Franck, 2005: 46). This bundle of property rights makes FIFA the holder (i.e. owner) of all commercial and financial rights for the World Cup. Very few of these rights are transferred temporarily to the LOC. For this reason, FIFA does not ask the bidding committees for any revenue projections. In return, the LOC receives a flexible guaranteed operating budget from FIFA. In order to calculate FIFA's contribution, an LOC budget is requested with all expenditures from the bidding committee.

For a bidding committee, it is extremely difficult to compose the LOC budget because many of the requirements are not precisely defined and the FIFA World Cup changes after every World Cup. For example, the Fan Fests became a new add-on after the World Cup 2006, the technical requirements change dramatically every four years, the Confederations Cup has become a popular event and even the final draw has been turned into an internationally broadcast pre-event in itself. That is why Clause 4.3 (i) of the FIFA Hosting Agreement only formulates that

> *"FIFA and the LOC will agree at a later stage on the amount of subsidies or contributions to be provided by FIFA to the LOC to cover its costs […] subsidies for LOC depend[s] on the income generated by FIFA from, and the success of, the sale of tickets as well as further local Marketing Rights"* (FIFA Hosting Agreement, 2009: 29).

For the bidding committees, this clause means it is rational to offer a low LOC budget and signal great potential for FIFA to generate income. However, this open clause can cause problems as in South Africa 2010, where the cities were still waiting for € 51m from FIFA in October 2010 (sid, 2010). The fact that the LOC is not responsible for the revenues and has lost all commercial property rights has an advantage and a disadvantage.

The advantage is that the LOC can fully concentrate on delivering the best possible event (Schmidt, 2012). This was different in 1994, when there was no direct subvention and the LOC needed in the early stages a line of credit. This was arranged by FIFA from its Swiss bank (Rothenberg, 2012). The German LOC, for example, was also happy to agree with FIFA on receiving funding in the first years of preparation, because revenues from national sponsors and ticketing were limited and were therefore insufficient to cover the costs (Palme, 2011). The LOCs (Japan / South Korea) for the FIFA World Cup 2002 received a total of US$ 200m quite early on and the German LOC was given CHF 250m in several tranches. Without this support, it would have been very difficult for the LOCs to provide liquidity in the early stages of preparation (Palme, 2011; Rothenberg, 2012).

The disadvantage is that, following agency theory, FIFA (being the principal) has to choose a candidate who is able to deliver a great World Cup whilst maximising revenues for FIFA. This principal-agent relationship faces a problem if the principal FIFA and the agent LOC have partly conflicting interests and there is asymmetric information. Both conditions are given and this causes ex-ante and ex-post opportunism (see Milgrome & Roberts, 1992).

The ex-ante opportunism can be found within all bidding committees and causes the so-called “adverse selection” problem. The agent (bidding committee) conceals certain facts (which are the real cost of staging the World Cup) from FIFA until after the contract has been signed. It strategically underestimates its LOC budget and may face financial problems in the preparation phase and after the World Cup. This was, for example, the case in South Africa 2010. For many requirements, FIFA precisely defines the level of service in the FIFA Hosting Agreement. After having been awarded the World Cup, the LOC can come up and claim additional money from FIFA for services not contracted in the LOC budget. FIFA tries to solve this problem by “self-selection” in that the bidding committees have the freedom to decide which additional services and incentives (CSR programs, fancy opening ceremonies, great environmental programs etc.) they want to include in their LOC budgets. Knowing that a larger LOC budget is not what FIFA wants, the decision to take on additional expenditures indicates how the bidding committee intends to stage the World Cup. However, it must be borne in mind that the bidding committees are in a prisoner’s dilemma.

One conclusion of this paper can be expressed by the existence of a "Prisoner's Dilemma"-like gaming situation between two bidding committees competing to get the World Cup awarded to them. In it important to point out here that the LOC budget is only one part of deliveries a bidding committee provides to FIFA. This paper focusses only on this part.

In order to display the situation into operative game models, we need to be more detailed regarding the situation. To bring the situation to the point some oversimplifying must be done. This simplification is to bring the issue to point and does not mean that the awarding of a World Cup is limited to the LOC budget only. Schmidt (2012) supports this argumentation by saying that “Bidding committees face a dilemma because they have to offer FIFA a good (often too low) LOC budget in order to look more attractive than the other competitors”. The notations made are:

BC_i: Bidding Committee i, $i \in \{1, 2\}$

P: The benefit to get the World Cup awarded - the legacy, equal for all bid nations

H_i: The “high” LOC budget which bidding committee i can offer, $i \in \{1, 2\}$

L_i: The “low” LOC budget which bidding committee i can offer, $i \in \{1, 2\}$

μ_i: The tax payers’ burden to take over the gap of using a lower budget as opposed to a higher budget for bidding committee i

Some stricter assumptions are necessary to complete the model. We assume in addition to the inherent assumptions.

i) Both bidding committees are equally good (e.g. in lobbying, infrastructure and have the same realistic "average" LOC budget).

ii) $H_1 = H_2$ and $L_1 = L_2$ and $L_i >> H_i \; \forall \; i$

The assumptions i) and ii) basically mean that if both bidding committees offer either a high or both of them a low LOC budget they are equally good. If their decisions split, the committee offering a lower budget gets a so much better position that the FIFA will award the World Cup to that nation. Obviously a fairly unrealistic assumption but from the point of bidding strategy it is the case that the better LOC budget increases the opportunity to win.

Another important assumption may be formulated as:

iii) $P >> \mu_i \; \forall \; i$

This is a realistic assumption. Offering a lower LOC budget is probably a lot less costly than the value (legacy) that can be gained from staging the World Cup. Given the above assumptions, the two-bid committees simultaneous game of complete information can be defined as indicated by fig 3.

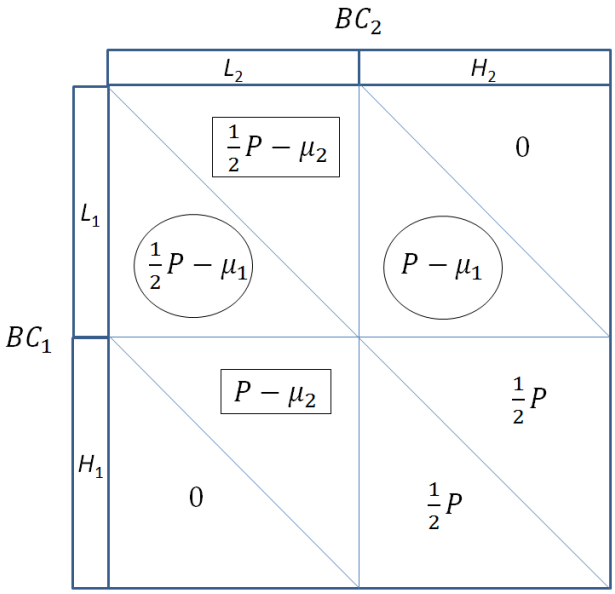

Fig. 3: A simple game with best replies

Here, bidding committee 1 (BC_1) chooses between H_1, L_1 while bidding committee 2 (BC_2) chooses between H_2, L_2 with pay-offs notated at south-west for BC_1 and north-east for BC_2.
To find the Nash equilibrium of this game requires the use of assumption iii). Given that P is much larger than $\mu_i \; \forall \; i$, it is straightforward to deduce:

$$P >> \mu_i \Rightarrow \frac{P}{2} > \mu_i \forall i \qquad (1)$$

Given equation (1), the best-reply functions for each of the bidding committees (circled for BC_1 and squared for BC_2 in figure 1) are easily derived. As a consequence, the only unique Nash equilibrium of the game is (L_1, L_2). That is, both bidding committees offer a low LOC budget.
This is perhaps not a very sensational finding but the Nash equilibrium is of Prisoner's Dilemma type. Both committees "earn" so much on winning the bid competition as opposed to not staging the World Cup that they are game-theoretically forced to make the choice of offering a low budget. Due to both end up doing so, the end situation is worse than if both choose a high LOC budget that represents their real costs and does not require tax payers' support.
It is important to note that the above result is independent with the choice of offering a low budget or not. The result is obtained due to the fact that we have exaggerated the quality difference between low and high budgets. Or to be more precise: we have shown that given the competitive bidding structure defined above, both committees are forced to offer a low budget - even though both bidding committees would prefer to do the opposite. The reason why the bidding committees choose the low budget is simply caused by our assumption of FIFA's preference to maximise its revenues from the World Cup.
Another important point should also be stressed. The model above contains no cost dimensions. However, the factor μ contains the extra expenditures involved in offering a too low LOC budget. After all, the model set-up indicates more than significant performance differentials between a low budget and a high budget. As a consequence, by having a significantly larger μ_i the actual Nash equilibrium is worse in the sense that the difference between ½P and ½P- μ_i increases. So to say the game forces the bidding committees to offer ever lower and therefore for the tax payer more costly LOC budgets while they would be

more than happy settling with a higher (and realistic) budget. In this case, the Nash-equilibrium turns out to be beneficial for FIFA, while the bidding committees are in a non-optimal position. Their dominant strategy is to offer FIFA a low budget instead of trying to make it entirely realistic. However, the bidding committee must be careful with its projection, because if it is too low FIFA is given the impression that the committee is not planning the event well enough and FIFA has to consider the consequence of non-realistic LOC budgets which leads to ex-post opportunism.

Ex-post opportunism is a problem for FIFA as the principal in regards to "moral hazard". The LOC may not do what is expected of it after the World Cup is awarded, without this being disclosed to FIFA. FIFA cannot entirely control the work of the LOC (Jordaan, 2012). FIFA's staff is rather knowledgeable in general matters and competition management and can only use financial benchmarks from previous World Cups to control the LOC's finances (Palme, 2011). In other words, FIFA and the LOC have an information asymmetry. The LOC (agent) intends to maximise its welfare by keeping its LOC budget positive, particularly in view of its obligations towards its stakeholders (e.g. tax payers, local politicians). Because the LOC's actions may go unnoticed, the agent might avoid being punished by FIFA. This opportunistic behaviour ("moral hazard") leads to efficiency losses or so-called agency costs (Jensen & Meckling, 1976: 308). FIFA tries to solve this problem by "monitoring" the agent. This is why FIFA is increasingly trying to accumulate knowledge on organising a World Cup (Müller, 2011). Since 2010, FIFA has set up its own offices in the host country to provide the LOC with better support whilst also taking greater control of the overall preparation and running of the event (Schmidt, 2012). Additionally, FIFA and the LOC have the same interest which is a so-called "self-enforcing" agreement. This means that both parties want to avoid losing their good reputation and have a mutual commitment (football development) (see Groenewegen et al., 2010: 115f). For the future, there are signs that FIFA will even attempt to implement the strongest form of protection against ex-post opportunism, which is the vertical integration of the LOC into FIFA. It appears that FIFA is planning to provide ever more staff to the LOC in order to organise the World Cup directly. This will provide continuity in its format and financial control (Schmidt, 2012). However, FIFA realises that an independent LOC is also important in solving the many local political matters that arise (Jordaan, 2011) as well as to give each World Cup an individual profile (Schmidt, 2012).

5. Conclusion and Practical Implementation

The above discussion went beyond the simple benchmarking of an LOC budget. It provided many arguments explaining why a budget is also set up politically. The LOC budget is nowadays a fairly important factor for a decision where to stage the FIFA World Cup (Schmidt, 2012). However, a major role of the budget is to indicate to FIFA how well informed the bidding committees are as regards its obligations for staging a World Cup and a Confederations Cup (Müller, 2011). This paper constitutes a first step towards providing a thorough understanding of LOC expenditures.

For practical implementation, the "average" LOC budget has to be adjusted to local price levels, the geographical conditions of the bidding country and the special strategic concepts. Furthermore, the benchmark data have to be inflated to the time when the World Cup is to be staged. Inflation remains an uncertain factor, as does the economic development which affects exchange rates. It generally has to be borne in mind that budget projections are conducted many years before the event takes place. Thus, the potential risk of changes to the LOC budget has to be considered. Therefore, even budgets from past World Cups cannot prevent false budget predictions. Furthermore the bid committees LOC budget projections have to be politically adjusted before publication in the bid book which makes them risky to be considered as benchmarks.

This paper is a step in a continuous process of examining a topic that is of high academic and practical relevance. We are aware of the limitations to projecting an "average" LOC budget. This budget helps towards developing an understanding of the costs of a World Cup, which is becoming ever more professionalised and commercialised and therefore requires additional resources. Thus, it is most likely that future World Cups will even be more expensive than the past.

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