London 2012: Olympic Risk, Risk Management, and Olymponomics

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London 2012 promises to be, like every preceding Olympics, “the best games ever” — but what political and organizational pitfalls lie ahead for the management of Olympic risk? Within 24 hours of the International Olympic Committee (IOC) vote to award the 2012 games to London, an attack on the London transport system by four suicide bombers provided an unmistakable reminder of the vulnerability of this type of mega-event to external threats and contingencies. For the biggest event in the world, the potential hazards and uncertainties are as pronounced as the prospective rewards. The development of the modern Olympics has produced a global industry of risk assessment and risk management, with planning for London 2012 only the most recent installment.

“Best Games Ever” May Also Be Riskiest

Risk is now ubiquitous both in the selection of host cities and for organization of the Games. However, the criticality of “risk” to the modern Olympic movement must be understood within the context of over a century of Olympic history, through which risk has been discovered and interpreted through the glories or ignominies of past Games. The enormity of modern-day Olympics risk is a consequence of relentless growth in the scale and complexity of the Olympic Leviathan and its global profile, combined with risks affecting the international political economy and the administration of modern sport.

Olympic Risk in Recent History

Even the earliest Olympics of the modern era (e.g., Athens 1896, Paris 1900, and St. Louis 1904) were afflicted by difficulties with organization and worldwide representation. Indeed, London hosted the 1908 Games at late notice, after the eruption of Mount Vesuvius forced Italian organizers to pull out from hosting the Olympics because public funds were diverted to disaster relief and reconstruction. However, a number of seminal events have provided defining images in the emergence of different versions of Olympic risk in recent years.

Geopolitical Risks

The threat of terrorism was notoriously exposed at Munich 1972, when a group of Israeli athletes were kidnapped and murdered by Palestinian terrorists. Throughout history, the Olympic Games have been exposed to geopolitical risk — the Games were interrupted by World Wars in 1916, 1940, and 1944; exploited by Hitler in 1936; and disrupted by anti-apartheid boycotts by African nations in the 1960s and 1970s, and by Cold War boycotts by the United States and the Union of Soviet Socialist Republics (U.S.S.R.) in 1980 and 1984, respectively. Most of the time, the IOC treads a diplomatic tightrope as a symbolic venue for wider geopolitical conflicts.

Financial Risks

Financial risks associated with hosting the games were demonstrated by Montréal 1976. In a moment of hubris, Montréal Mayor Jean Drapeau declared, “The Olympics can no more have a deficit than a man can have a baby.”[1] Montréal proceeded to incur a budget deficit of more than $1 billion. Over the past thirty years, staging costs have varied, but typically, the final figures have far outreached initial estimates. The total cost of Athens 2004 escalated from £3.2bn to £6.3bn, whilst the construction costs of Vancouver 2010 are creeping upwards. At present, the predicted cost of London 2012 has spiraled from £2.4 billion to £9.35 billion, with a £2.7 billion contingency now included in its budget.

Perhaps the nadir of modern Olympic risk was Atlanta 1996. It was overshadowed by the bombing of Centennial Park, which left two dead and over 100 injured; haunted by transport and logistical problems; and tainted by over-commercialization (notably fierce ambush marketing by rival corporations) that provoked the IOC to vow "never again." The collective memory of the Olympic movement, developed through historical experience, now informs a learned and adaptive conception of risk.

Risk as an Organizing Concept

It is, therefore, unsurprising that the rhetoric of risk, and risk management, has become so prevalent in the Olympic industry. For London 2012, risk is already an organizing concept in the practice of Olympic politics and administration, and the IOC selection process was a self-confessed exercise in risk assessment. The IOC's Evaluation Commission described its task as "a technical and fact-finding one: to verify the information stated in the candidature file, to determine whether proposed plans are feasible and to make a qualitative assessment of risk." Indeed, Lord Sebastian Coe's leadership and transformation of the London bid was founded upon communication of the resilience of the bid. The first round IOC Evaluation Report had, in March 2004, described the London transport system as "obsolete" and highlighted doubts over existing levels of public and political support in the UK. The second-round submission, and subsequent lobbying, dispelled perceived risks attached to a London Games. Its victory in the final IOC round of voting owed much to this turnaround of affairs.

The political realities of lobbying and vote-trading mean it is difficult to assess the actual attention to "risk" by IOC delegates in the final vote. Nonetheless, the rhetoric of risk assessment is illustrative of how the notion of risk is pervasive in the modern Olympic movement.

Protection and Promotion of the Olympic Brand

The IOC is driven by protection and promotion of the Olympic brand. Its official symbol, the five Olympic rings, is the most widely recognized image in the world (identified by 90 percent of the world's population, exceeding even mega-brands such as McDonald's or Coca-Cola).[2] The IOC proactively manages its reputational risk through protection of the logo and regulation of commercial use of Olympic words by unaffiliated companies (and requires national governments to enact legislation as a condition of hosting the Games).[3]

Heightened media spectacle and the symbolic status of the Olympic Games means that when everything can go wrong, everything is a reputational risk.

Risk Assessment Is Priority for Candidate Cities

If risk assessment is archetypal of the IOC, it is also a priority for candidate cities. London 2012 is no exception to this generalization. In 2002, a "Stakeholders Group" for London 2012 — consisting of the Government, Mayor of London, and the British Olympic Association (BOA) — commissioned an independent report by ARUP and Insignia Richard Ellis on the practical feasibility of staging the Olympics. The report included a provision in the budget of £109 million for "risk." It is revealing that, in practice, this figure did not represent risk at all, but instead was a straightforward percentage uplift of the cost estimates. The provision for "risk" advanced the conservative projection, "All bidding and staging costs will be 5% higher than estimated and that capital costs will be 30–50% higher than estimated." Other less quantifiable risks identified as inevitable by the report (attached to security, transport, construction, and most other things Olympic) were to inform "the decision whether or not to bid," but were also to be "set against the opportunities to avoid or mitigate risk through management, anticipation, and planning."[4]

Such a general and open-ended qualification suggests that the initial risk assessment performed a primarily symbolic task for the London bid. In fact, this reference to the future "management" of risk appears to be an implicit response to, and admission of, the unquantifiable character of some Olympic risks. This conceptual misunderstanding in the assessment and management of risk has been repeated in use of probabilistic methodologies for cost reviews of the London budget, which simply inflated the existing estimates according to their "risk status," and the expectation of the Department of Culture, Media and Sport that its £2.7 billion contingency would be exhausted in full.[5] By definition, a budget contingency is included to cover the potential for cost overruns or revenue shortfalls. When cost overruns become a near certainty and the contingency becomes a device for budget expansion, risk isn't being managed at all.

Uncertainty Leads to Wider Risk Management

There is evidence that the politics and organization of uncertainty have permeated the Olympic movement in the growth of the practice of Olympic risk management since the 1990s. The reports and public statements of Olympic organizers increasingly make reference to mitigation of operational and organizational risks. The Olympics are not, however, purely victim to a prevailing vogue for "the risk management of everything."[6] In fact, the experience of Olympic "risk" has validated and reinforced global understanding of the core narrative of the wider risk industry, which contends that risk is ubiquitous and demands management.

The Olympic movement has been conscious of "known unknowns" for many years. For London 2012, there are a number of spheres of risk management. The risk industry itself is publicly active in the provision of outside commentary and analysis on Olympic risk. Before Athens 2004, the many prophecies of risk analysts included security and natural disasters. Even ahead of the IOC vote in July 2005, industry reports were promoting risk management of London 2012, warning U.K. firms, "With increased opportunity comes risk."

High Profile Contingencies

Of course, it is not a secret that London 2012 faces a series of high profile contingencies related to security, construction, finance, and infrastructure that invite management. The IOC, London Organizing Committee of the Olympic Games (LOCOG), and the British government are already developing an array of both formal and informal strategies that can be labeled as "risk management." In this, the leading strands are directly informed by experiences from Atlanta 1996, Sydney 2000, and Athens 2004, as well as by the contemporary history of British policy fiascos.

Indeed, there is evidence of the transfer of risk management practices from one Olympics to the next. Because of the exceptional nature of the games, experience, expertise, and capacity for organization of this mega-event is confined to a select number of global firms. The market in Olympic risk is something of a closed shop, with general continuity in association of partner firms and deployment of an elite coterie of IOC approved consultants. For government, the London Olympic Games and Paralympic Games Act 2006[7] presents an initial legislative response to risk through statutory provisions and creation of specific institutional capabilities.

Most Important Risks for London 2012

Which risks are of paramount importance to the organizers of London 2012?

Security and Geopolitics

As the recent furor over China's human rights record during the Olympic torch relay ahead of Beijing 2008 illustrated, hosting the Games can give rise to diplomatic incidents as well as creating potential headaches for organizers. The global recognition of the Olympic brand and a worldwide television audience makes the Games a symbolic venue for international tensions, protests from dissidents, and terrorist threats and attacks. Yet, security and geopolitical risks associated with the Olympics are well established by historical experience (such as boycotts during the apartheid era and the Cold War and terrorist attacks during Munich 1972 and Atlanta 1996).

The risk management of London 2012 is to some extent dependent upon quite unpredictable geopolitical and socio-environmental developments over the next few years. If one week is a long time in politics, four years is an eternity for Olympic organizers. Consider that in the eight years since Sydney 2000, the Olympic movement has been forced to wake up to "new" risks presented by Al-Qaeda, revived instability in the Middle East, increased uncertainty in the international financial markets, the potential threat of an avian flu pandemic, plus anxiety over the reaching of a tipping point in environmental change. For Athens 2004, the IOC purchased $170 million of cancellation insurance for protection against acts of terrorism or natural disaster.

Unlike host cities, the IOC has no sovereign government support to fall back upon. It is likely that insurance will be obtained for London 2012. Jacques Rogge, IOC President, explained, "Taking out a policy to manage the risk associated with one's core business is standard, prudent behavior for any modern organization."[8] Since September 11, costs involved in providing security for the Games appear to have escalated. These were reported as nearly €1 billion for Athens 2004 (five times more than Sydney 2000) and are estimated at £600 million for London 2012. Significantly, the management of security risk is dependent upon the defense capacity of the host nation (although Greece also enlisted support from NATO). In Britain, Olympic security is already under the control of the Olympic Security Committee, a Cabinet committee chaired by the Home Secretary. This increasing securitization of the Games is, therefore, interlinked with the rise of risk management throughout the Olympic movement.

Construction, Transport, and Infrastructure

Established by the London Olympics Act 2005, the Olympic Delivery Authority (ODA) is to coordinate development of venues, land, and transport infrastructure, and also to provide a focus for timely implementation of the London blueprint. The travails of last minute completion threatened by Athens 2004 have caused the IOC to impose a "master schedule," regularly supervised by the IOC Coordination Commission, upon the organizers.

There is support for project risk management within Her Majesty's Treasury from the Office of Government Commerce (OCG). In fact, London has a comparatively low risk exposure in the construction of its venues, since 60 percent of these already exist. There remains a semblance of risk, with the remaining 40 percent of venue construction having staggered start and completion dates. Indeed, work on the £250 million Olympic stadium started in May 2008 and is forecast to be completed in Summer 2011.

The cost overruns and delays experienced in construction of the new £798 million Wembley Stadium (finished two years late in 2007) illustrates the dangers associated with such major infrastructure and construction project. Confronted with a fixed deadline of July 27, 2012, relocation of the opening ceremony to an alternative venue such as the Millennium Stadium in Cardiff, as happened for the F.A. Cup Final in 2006, would be a public relations disaster. There are also cautionary tales to be noted from the substantial literature documenting the uncontrolled cost inflation associated with "mega projects." Yet contrarily, if government decides to aggressively transfer risk to private contractors through penalties and fixed cost ceilings, the completion of projects may be endangered. After all, an expensive stadium is preferable to the London organizers than an unfinished one. Likewise, public-private arrangements might protect against risk (such as the risk-transfer agreements negotiated with venue developers for Vancouver 2010) but at the same time erode revenues to be accrued from post-Games sale of assets.

While the construction schedule for London 2012 might be on track despite cost increases for venues such as the Aquatics Centre, the complex interdependence of the London transport system and its absence of redundant capacity presents perhaps the greatest risk to a successful Games. London's transport infrastructure is both a potential target for terrorists and an operational risk that intersects with this complex and vast metropolis, as millions of residents and workers go about their daily lives during the Games.

Because the blue ribbon events are to be held at the main site in East London, but major transport interchanges such as Heathrow, Gatwick, and national rail stations tend to be accessible through central London, there are risks of bottlenecking as spectators mix with normal passenger flows. The ODA planning is based on the assumption of decreases in normal traffic due to the holiday season and Londoners avoiding central London during the Games. However, assumptions of a population exodus are risky and were described as "highly speculative" by the Select Committee on Transport in 2007. Indeed, this assumption contradicts the findings of the feasibility study commissioned by the British Olympic association in 1997, which noted the high population density of London and absence of a culture of mass vacation in a short time window that is observed in other host cities.

Olymponomics

For the host nation, the final cost of hosting the Games is contested, ambiguous, and uncertain. How much will London 2012 cost the British government and taxpayer? It is conceivable we might never know or, at least, agree.

Financial Risk and the Politics of Accounting

Financial risk and the politics of public accounting are increasingly becoming topics of contention as 2012 approaches. The precise measurement of the cost of London 2012 is an interpretative business. For example, London 2012's original budget of around £2 billion did not include government's capital expenditure on transport infrastructure and venues, estimated at nearly £10 billion. Policy-makers and bid leaders argued that these projects were due to be constructed regardless of the staging of the Games.

Since London won the right to host the Games, some of these costs have been reintegrated into the Olympic budget, though some remain outside. Furthermore, the capital budget does not include the operating costs of the Organizing Committee (LOCOG), which are likely to be offset by ticketing, sponsorship, and broadcast revenues. At the same time, the eventual cost remains contingent upon forecasts of post-Games revenue from the sale of Olympic assets, such as the athletes' accommodations and stadia. As such, some of the increase of the cost of London 2012 is as much about budgeting reclassification as it is about cost underestimation or failures of risk assessment.

Yet, it is impossible to prove which venues, regeneration projects, or transport links would have been constructed and delivered in the absence of the Olympic inducement. Nor does the budget include costs incurred by local authorities, Transport for London, or other government agencies that will nonetheless be forced to expand service provision during London 2012. This question of "additionality" contributes to the politicization of financial risk.

Licensing and Sponsorship

Perhaps the most critical source of Olympic income is that derived from licensing and sponsorship. It is a formal expectation of the IOC that host nations will act to protect the interests of sponsors and licensees. The London Olympics Act 2005 provides a legislative basis for regulation of advertising and trading to prevent ambush marketing. This imitates the strategy of Sydney 2000, itself implemented in response to the problems experienced in Atlanta 1996 and adapted from similar protective measures enacted for the Australian Bicentennial in 1988.

Despite the London Olympics Act 2005, risk is inherent to the operating budget of the Organizing Committee, particularly in regard to the broadcast revenues and domestic sponsorship. Some organizers set aside a contingency in the budget to mitigate this uncertainty.

Risks of Fluctuations in Foreign Exchange Rates

There are also risks associated with revenue shortfalls due to fluctuations in foreign exchange rates. These can be managed through devices such as hedging contracts. The failure of Vancouver 2010 organizers to implement plans for a hedging strategy has resulted in a loss of around $150 million in broadcast and international sponsorship revenues as the strength of the Canadian dollar has declined.[9] However, because either national or local government must be the "backer of last resort" for the Games, there are clear disincentives for organizers to assign resources to the management of risk when someone else has to pick up the bill.

Unquantifiable Economic Benefits

The wider economic benefits of hosting the Olympic Games are perhaps even more contested than the costs and revenues. While there are prestige and reputational effects associated with a successful Olympics, these are, almost by definition, unquantifiable. It is plausible that the Olympics generates an economic boost through some kind of multiplier effect from increases in investment and tourism. However, research suggests that pre-event economic studies often use inflated multiplier effects for analysis of the stimulation of economic growth associated with hosting the Games.[10]

At the same time, post hoc models of economic impacts are problematic, because there is no counterfactual scenario to test against (i.e., the Olympics has already happened). For example, Olympic "crowding out" of investment in other sectors is difficult to measure. So while hosting the Olympics might be associated with an upturn in economic conditions, this might be coincidental (or reflect the skill of the IOC in selecting host cities that are already on an upward economic curve). However, the scale and concentration of public and private sector investment around the area of the main Olympic site does tend to ensure a positive local or regional economic legacy, even if it is difficult to quantify.

Public Opinion and Reputational Risk

Public opinion research is now an important element the IOC bid assessment. Use of this assessment component recognizes the criticality of public support to successful preparation and hosting of the Games. London 2012 was not a frontrunner in this local popularity contest, ahead of only New York in the second stage of the bid evaluation. However, for government and organizers, there remains political risk in the conditionality and contingency of public opinion. In December 2002, when faced with an estimated cost of £1.8 billion, to be recouped by a successful Olympics, some 65 percent of the British public supported the proposition that London 2012 was "worth the financial risk."[11] It remains uncertain, however, precisely how fickle public support could be when the bulldozers move in to the Lea Valley and council tax bills arrive in Londoners' mailboxes.

It is worth noting that in November 1996, opinion research identified public backing for a proposed Millennium Exhibition in Greenwich, only for this *projet de grandeur* to end as the widely maligned Millennium Dome in Greenwich. Because management of Olympic risk is performed in the spotlight of the public eye, sensitivity of organizers to reputational effects is especially acute.

The international furor over the tour of the Olympic torch ahead of Beijing 2008 and the national outcry over the £400,000 logo for London 2012 demonstrate just how vulnerable Olympic organizers are to protests and dissent. Despite eight months of consumer testing by focus groups conducted by brand consultants Wolff Ollins, polling found that almost 70 percent of 11- to 20-year-olds disliked the youth-targeted London logo, and within a couple of days, an online petition had gathered support from 48,000 signatures calling for LOCOG to scrap the logo.[12] And while that negative reaction is no doubt inconsequential for long-term public support for the Games, it has potential to have an impact upon operational risk, with London organizers under pressure to recoup a target of £750 million in revenue from merchandise such as t-shirts. As such, organization of the Olympics is vulnerable to intersection of political and reputational risk with its operational risks.

Conclusion

That this article has made no reference to sport is further evidence of the extent to which risk has permeated the politics and organization of the Olympics. Yet, risk is integral to the design and implementation of doping controls and in the provision of medical facilities for athletes. The ubiquity of Olympic risk is an inevitable symptom of increasing complexity of the physical and organizational architecture of modern Olympic Games. London 2012 is no different in this regard. Risk casts its shadow through the potential contingency of public support and the financial, logistical, political, and reputational risks attached for government and organizers. There is no reason why London 2012 should not be "the best games ever." However, they might also be the riskiest yet.

Endnotes

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