The Olympics, Risk and Governance

Will Jennings, University of Manchester
Martin Lodge, London School of Economics and Political Science

The collapsed bridge at the Jawaharlal Nehru stadium for the Delhi 2010 Commonwealth Games


The iconic image from the 1972 Munich Massacre

The design image for the London 2012 Olympic Stadium in the Lower Lea Valley.
Outline

1. Mega-events, the Olympics, governance and risk: ‘the fundamentals’ (scale and scope) and normal accidents (organisational complexity).

2. Decision-making under conditions of uncertainty: the twin paradox of optimism bias and risk aversion – psychological and organisational models.

3. Three rival modes of risk governance: transfer-mechanisms, anticipation and resilience.

4. The Olympics and risk governance: brief evidence on organisational responses to risk.
Mega-Events, The Olympics and Risk

• ‘Mega-events’: occasional or one-off occurrences with a high level of dependence upon infrastructure and event facilities.
  – Large scale event operation combined with multiple mega-projects concerning infrastructure, stadia and facilities.
  – Require escalation of normal levels of public and private sector operations (e.g. commercial air travel, rail services, policing and emergency services).
  – Symbolic and high profile events: subject to media, public and political attention.
  – Rotation of locations and organizers.

• The Olympics: mega-risks of finance, security and reputation.
  – The world’s most recognised brand and its ‘largest peacetime event’ (multi-stadia, multi-site event).
  – Large worldwide television audience.
  – Suspension of ‘business as usual’, disruption to daily services (e.g. public transport, emergency services).
  – High levels of public investment.
  – High commercial revenues from broadcast rights, sponsorship, licensing and ticket sales.
  – Global profile makes it a target for nationalism, protests, lone attackers and terrorism.
Organisational Complexity

• The Olympics are vulnerable to unpredictable interactions between multiple failures and incidents – consistent with Perrow’s (1984; 1999) theory of ‘normal accidents’ (complex system, interdependent, non-linear, ‘tight coupling’, operator error) – so it is difficult to manage risk.
  – Multiple threats and hazards, multi-venue and multi-site event.
  – Scale and complex interdependence of Olympic infrastructure (e.g. transport networks, venues, water and electricity supplies, accommodation and media facilities) and operations (e.g. ticket barriers, policing, traffic management, catering, first aid).
  – Rigid time dependence of planning and organisation (i.e. fixed deadline and timetable), limited opportunities for ‘bouncing back’.
Decision-Making Under Uncertainty

• Psychological models (High Politics)
  – Optimism bias in Olympic bidding is consistent with evidence from mega-project planning (e.g. Merrow 1988; Flyvbjerg et al 2003) and elite/political taste for iconic events, monuments and ‘legacies’ (e.g. Moran 2001; Flyvbjerg 2002) as well as belief in planning and control (Kahneman and Tversky 1979b).
  – Risk aversion (Kahneman and Tversky 1979b): at the same time, a zero-tolerance attitude towards potential threats and hazards, for example in processes of securitization, concern with reputation, and strong emphasis on verification of risk in Olympic planning and technical solutions.

• Organisational models (Technocratic Politics)
  – Optimism bias in trust in technical methodologies such as economic impact analysis, budget forecasting and risk management (e.g. PwC probabilistic assessment of the London 2012 budget). Danger of groupthink in the ‘small world’ of Olympic experts and consultant firms (monopolistic communities of practice and knowledge).
  – Risk aversion: organisations under high strain tend to resist information, primarily oriented towards blame avoidance and procedural compliance reporting.
London 2012: PwC probability assessment of bid budget
Three Modes of Risk Governance

• **Transfer-based mechanisms** – insurance (Bernstein 1996, pp. 88-95), contracting out of risk (e.g. Hood 1991; Osborne and Gaebler 1992) and transfer to the market.

• **Anticipation** – internal organizational control (e.g. Power 1997; 2004; 2007) and in regimes for regulating hazards and threats (e.g. Breyer 1993; Hood et al. 2001; O’Malley 2004).

• **Resilience** – the amount of extrinsic force that a system or organization can tolerate before it enters a new state, its capacity for innovation and self-organization in response to shocks, and capability for learning and adaption. Redundancy, leadership and capacity to ‘bounce back’ (Wildavsky 1988; Comfort 1994; Comfort et al. 2010).
Transfer-Based Mechanisms

• Contracting-out of service and delivery functions in fields as diverse as catering and security.
  » State-owned enterprises were responsible for construction of facilities used at the Barcelona 1992 and Beijing 2008 Olympics.
  » Lend Lease, the private developer of the London 2012 Olympic Village, was unable to raise £650 million private equity for the project because of the Global Financial Crisis.

• Longstanding use of insurance policies to cover competitor and spectator safety – has widened since the 1970s in response both to commercial growth and external threats.
  » Olympic broadcaster NBC’s insurance protected it from cancellation of its coverage of the Moscow 1980 Olympics due to the US-led boycott.
  » The Salt Lake City 2002 Organizing Committee took out cancellation coverage with Lloyds of London.
  » After the events of 9/11, the IOC purchased cancellation insurance for the first time for the 2004 Athens Olympics.

• Recent use of hedging instruments to manage risk to revenue streams of exchange rate fluctuations.
Anticipation

• Historical trend of increased oversight of Olympic bids and host preparations and the use of formal risk management practices in organising the Games.
  » Standardised candidature procedure and monitoring now conducted by the IOC and its Evaluation and Coordination Commissions.
  » ‘Risk Management’ first introduced as formal practice at the Calgary 1988 Winter Olympics.
  » The Atlanta 1996 Summer Olympics is considered ‘the first games built with a risk management infrastructure’ and the Vancouver 2010 Winter Olympics was the first to implement the industry-standard ‘Enterprise Risk Management’ (ERM).
  » Preparations for the London 2012 Olympics are notable for their ‘whole-of-Games’ approach to management of risk across the Olympic programme.
Resilience

- Resilience can be hardwired through system design, response systems, emergency and contingency planning (e.g. mass fatality plans) and rehearsals.
  » For example, flaws in a police dispatch system led to significant delays to the response to a 30-minute warning of the bombing of Centennial Park at the Atlanta 1996 Olympics.
- Growing emphasis in Olympic governance on inter-Games learning.
  » The IOC and Sydney Organizing Committee for the Olympic Games (SOCOG) established the ‘Transfer of Knowledge Programme’ in preparations for the Sydney 2000 Olympics.
  » IOC promotion of learning has been expanded through expansion of ‘Olympic Games Knowledge management’ (OGKM) – through vehicles such as its observer and secondee programmes, workshops, technical manuals and IOC debriefs.
- Importance of organisational leadership and innovation both in Olympic bids and preparations.
## Doctrines and Implications

<table>
<thead>
<tr>
<th>Mechanism</th>
<th>Example of Tools</th>
<th>Administrative Doctrine and Observable Implication</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk Transfer</td>
<td>Contracting Out</td>
<td>‘Risk is insurable, let the market decide’ Message and transfers risk, designed to decentralise project risks such as procurement and cost control, but does not change core organisational priorities or behaviour.</td>
</tr>
<tr>
<td></td>
<td>Insurance</td>
<td></td>
</tr>
<tr>
<td>Risk Anticipation</td>
<td>Internal Controls</td>
<td>‘Risk is manageable’ Message modifies organisational culture, awareness and behaviour, but cannot eradicate risk entirely (also can induce risks of risk management, in focus upon procedures rather than first principles and innovation).</td>
</tr>
<tr>
<td></td>
<td>Formal Risk Management</td>
<td></td>
</tr>
<tr>
<td>Risk Resilience</td>
<td>Redundancy</td>
<td>‘Risk cannot be perfectly anticipated, be ready to adapt as best you can’ Message encourages spare capacity, innovation, leadership, and preparation.</td>
</tr>
<tr>
<td></td>
<td>Learning &amp; Leadership</td>
<td></td>
</tr>
</tbody>
</table>
Reflections and Future Questions

• The governance of risk at the Olympics is subject to inherent difficulties, due to its scale, complexity and decision-making processes. Why stage the Games at all?!

• Does the twin paradox of optimism bias and risk aversion in psychological and organisational models explain the recurrent problems of governance of risk in mega-events? Or is there a case for claims of ‘strategic misrepresentation’?

• Do technical methodologies offer a solution, or are they just part of the problem, and should decision-makers look to more deliberative processes and/or outside knowledge?

• Are resilience-based approaches preferable to anticipation or are these inseparable, since without risk diagnosis resilience cannot be hardwired.
The End

will.jennings@manchester.ac.uk