Governing the Games: the Olympics and risk

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“Security and risk management are part of the Olympic package – as well as for almost every national and international gathering today.”
(Richard Pound)
The management of risk structures both organisation and operation of each Games as well as the public experience and historical verdicts on its success.
>Outline

1. Research context
   – Risk and modernity.
   – The risk management of everything: the rise of formal control mechanisms in government and the private sector.

2. The Olympics and risk

3. Governing the Games: organisational responses to risk.
Definitions & Debates

- Risk: the probability of occurrence of an event multiplied by losses associated with it.

  \[ \text{Risk} = (\text{probability of event}) \times (\text{impact of event}) \]

- Risk management: process consisting of goal-setting, information-gathering and behaviour-modification.
Risk and Modernity


>Context

• Discovery of probability (Hacking), rise of quantification (Porter), professionalization of risk analysis as a generic practice since the 1960s (Hacking), emergence as “a new religion” (Bernstein).

• Environmentalism and the precautionary principle (e.g. BSE), corporate scandals (e.g. Enron), terrorism (e.g. 9/11), effects on organisation’s reputation (e.g. Shell and Brent Spar, Toyota brakes defect).
The Risk Management of Everything

- Risk has increasingly been integrated into organisation in both the public and private sectors.
- In fields such as: counter-terrorism, energy, financial markets, transport and public health.
Is risk just everything that can go wrong?
‘the world’s largest peacetime event’

• The Beijing 2008 Olympics:
  – 28 sports, 302 events, 37 competition venues, 16 days of competition, 204 NOCs, 11,000 athletes, 5,500 officials and coaches, 2,500 referees and judges, 20,500 media, 70,000 volunteers, 4 million spectators, estimated global television audience of 4.7 billion.

• Risks include: infrastructure, finance, health and safety, operations, security, environment, power supplies, legacy, transport, revenue.
### Some Examples of Olympic Risk

<table>
<thead>
<tr>
<th>City</th>
<th>Issue</th>
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<tbody>
<tr>
<td>London 1908</td>
<td>Natural disaster (eruption of Mount Vesuvius).</td>
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<tr>
<td>Munich 1972</td>
<td>International terrorism (Munich Massacre).</td>
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<td>Montreal 1976</td>
<td>Public debt ($1 billion deficit).</td>
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<td>Seoul 1988</td>
<td>Doping (Ben Johnson scandal).</td>
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<td>Atlanta 1996</td>
<td>Transport and logistical problems.</td>
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<td>Sydney 2000 &amp; Salt Lake City 2002</td>
<td>Gift-giving and corruption scandals.</td>
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The Myth of Olympic Exceptionalism

• The myth of Olympic ‘exceptionalism’ – the idea that each Games is unique.

“Many suggestions have been made for providing the large sum of money necessary to carry out adequately any celebration of the Olympic Games in modern times. If the question of finance has proved difficult in the past, that difficulty is not likely to diminish in the future, for Olympic balance-sheets, like other budgets, are in the habit of proving their healthy existence by a vigorous growth.”

(Official Olympic Report, London 1908)
>Decision-Making Biases

- Optimism bias concerning risks and benefits: bid documents “the most beautiful fiction”.
- Risk discounting: difficulty of predicting future outcomes over 15-20 year project timeline.
- Risk aversion: zero tolerance to reputational risk (IOC) and security threats (governments).
- ‘Normal accidents’: unexpected interaction of complex systems, cascades, chain reactions.
Organisational Responses to Risk

• Since the 1970s, a number of distinct trends have influenced Olympic governance of risk:
  – Economic evaluation and transfer of risk to the market (commercialisation, contracting out).
  – Regulation, audit and risk management in government and business.
  – Transnational networks of regulation and risk management.
  – Securitization and state interventionism.
>Insurance

- A long-established tool of risk management at the Games (e.g. London 1908, Berlin 1936).
- Broadcasters (e.g. NBC cover with Lloyds of London after US boycott of Moscow 1980).
- Organizing Committees (e.g. Salt Lake City 2002 purchased cover from Lloyds).
- IOC now purchases insurance against natural disaster or terrorism (e.g. $6.8m premium for Athens 2004, $9.4m for Beijing 2008).
Risk Assessment

• IOC Candidature Questionnaire and Procedure—and Evaluation Commission—task is “to make a qualitative assessment of risk” (IOC 2004).
• Regular monitoring and evaluation of progress by the IOC Coordination Commission.
• Probabilistic methodologies (e.g. evaluation of the London 2012 budget by PwC in 2003).
• Risk assessments now widespread in planning (e.g. environment, security, health & safety).
Public/Private Risk Transfer

- State-owned enterprises (e.g. Barcelona 1992: HOLSA, Beijing 2008: CITIC/BSAM) or private sector delivery partners (London 2012: CLM).
- Hedging against foreign currency revenues (e.g. LOCOG) and risk transfer agreements with venue developers (e.g. Vancouver 2010).
- Transfer to the market can bring risk (e.g. the shortfall in private financing of London 2012’s Olympic Village).
Olympic Risk Management

• Increasing use of risk management in Olympic governance and organisation of the Games:
Olympic Risk Management

• Increasing use of risk management in Olympic governance and organisation of the Games:
  – Salt Lake City 2002: ‘risk assessment approach’ to security.
  – Vancouver 2010: comprehensive implementation of Enterprise Risk Management (ERM) by VANOC.
  – London 2012: risk management prevalent across the whole Olympic programme – strategy (GOE, Cabinet Office), delivery (ODA), security (Home Office), operations (LOCOG).
Limits of Risk-Based Organisation

- Formal risk management does not account for reputational risk in all cases.
  “... the Atlanta experience showed the media can play an important role in defining the perception of the success or otherwise of the Games” (Luckes 1997)

- Risk assessments are not always consistent: i.e. differences due to functional priorities (e.g. ‘acceptable risk’ is different for security compared to construction) or time scale.
Conclusions & Future Questions

• The management of risk structures both the organisation and operation of each Games as well as the public experience and historical verdicts on its success.

• Are trends in the Olympic management of risk predictable and exogenous? Does risk-based thinking lead organisation to be turned ‘inside out’ in over-sensitivity to reputational failure?

• At what point do the costs of risk mitigation outstrip their economic benefits? What price an Olympic ‘no risk policy’?
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