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Why are major sports events trapped in the winner's curse? A case study of the 2017 World Road Cycling Championship

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Introduction

Popular sports events are often allocated by auction, with cities – often in collaboration with national sports federations – operating as bidders and international federations as auctioneers. There are many examples of major sports events that have not been financially beneficial for the host destinations. Andreff (2012, 2015) called such cases examples of “The Winner’s Curse”, meaning that the winner paid more than the actual value of the event.

Local hosts may have to spend time and money to upgrade venues and infrastructure, as well as on operational costs. The extent of such efforts depends on the size and character of the event, as well as requirements. Road cycling races avoid massive investments in venues because races often take place on existing streets and roads. However, as this paper will illustrate, the costs of hosting a World Championship in cycling can nevertheless be massive for the organiser, the host city, and other stakeholders in the public sector. The empirical data in this study were obtained from the 2017 World Road Cycling Championship, hosted in the city of Bergen, Norway, and three neighbouring municipalities between September 16 and 24. The event led to a folk festival in the city but was a financial disaster. The organiser went bankrupt with a deficit of NOK 54.7 million (€9.3 million). It also became a financial burden for the public sector, which had direct costs that amounted to NOK 250 million (€26.8 million). These costs, which included both financial support for the organiser and costs the agents in the public sector had to cover themselves, were significantly higher than budgeted. The event thus had many of the hallmarks of the winner’s curse. This research analysed the reasons for these financial problems. Why did the organiser underestimate the costs and overestimate the revenues? Why did the championship end up being costlier than planned for the public sector? What can future hosts learn from these experiences?

The paper is structured as follows. The next section presents a literature review, which includes a discussion of theoretical perspectives with a particular emphasis on the phenomenon of the winner’s

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3 course. In the section that follows, an overview of the data collection will be offered. The subsequent
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5 section evaluates the degree to which the criteria for the winner's curse were met at the event. Next,
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7 we discuss the reasons for the problems described in the former section, guided by relevant
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9 theoretical perspectives. The final section concludes the paper.
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13 Literature review—theoretical perspectives 14

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16 The hosting of major sports events can lead to folk festivals, and a successful event can make residents
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18 proud of themselves and the city. Additionally, many host cities expect to benefit in economic terms,
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20 directly or indirectly (Preuss, 2005; Solberg 2017). Therefore, the auctioning of events has the
21
22 character of *common-value auctions*, meaning that the bidders perceive the event as a commercial
23
24 activity (Milgrom and Weber, 1982). However, academic research has shown that the commercial
25
26 revenues are often significantly lower than expected (de Nooij and van den Berg, 2018; Zimbalist,
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28 2015).
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33 Mega events such as the Olympics, FIFA World Cup, and UEFA Euro have struggled with cost
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35 overruns and venues that are underused after the event (Alm *et al.*, 2014; Andreff, 2012, 2015;
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37 Bondarick *et. al.*, 2020; Drummond and Cronje, 2019; Flyvbjerg *et al.*, 2016; Molloy and Chetty, 2015;
38
39 Müller, 2015; Preuss, *et al.*, 2018; Zimbalist, 2015). Such problems also occur for events of a more
40
41 moderate size. The organiser of the 1995 IAAF Athletic championship almost went bankrupt, but was
42
43 saved by the Swedish Athletic association, which feared that a bankruptcy would reduce Stockholm's
44
45 chances to be awarded the 2004 Olympics (Hultkrantz, 1998). The 2011 World Skiing championship in
46
47 Oslo had a surplus of NOK 69 million, but upgrading the venue had a cost overrun 17 times the original
48
49 budget (Solberg and Preuss, 2015). The problematic list includes cycling championships. The 1993
50
51 World Road Cycling Championship in Oslo in 1993 ended with a financial deficit of NOK 12 million,
52
53 while the 2014 World Off-Road Championship in the village of Hafjell had a deficit close to NOK 9
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55 million (Solberg *et al.*, 2018). The 2014 World Road Championship in Ponferrada (Spain) experienced
56
57 ticket sales that fell far short of expectations and few sponsors signed up. The hosts of the 2015 World
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3 Road Cycling Championship in Richmond and the 2019 Championship in Yorkshire also faced financial
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5 problems (Maxwell, 2020).
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8 The costs of hosting events involve bidding and hosting fees for the events owner. Some owners
9
10 orchestrate bidding wars to increase fees even further (Solberg and Olderøien, 2018). There have also
11
12 been cases in which applicants paid bribes (Andreff, 2019). Organisers often have to invest heavily in
13
14 upgrading sports venues and transportation infrastructure, which in many cases is expensive. Events
15
16 that attract many visitors also have high daily operation costs for local stakeholders (e.g., for policing).
17
18 Although organisers of road cycling races do not have to build venues, they may need to adapt roads.
19
20 This can include, for example, the removal and reinstallation of speed bumps and roundabouts, new
21
22 traffic signs, and regulating ordinary traffic during the races. In some cases, it may also be necessary
23
24 to reroute ordinary traffic, which can be expensive for the organiser and other stakeholders. All of
25
26 these costs tend to be more expensive in the down-town areas of highly populated cities than in rural
27
28 areas.
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33 The winner's curse hypothesis was first advanced to explain the low returns on investments in
34
35 competitive bidding for oil and gas leases (Capen et al., 1971; Gilley et al., 1986). However, it can occur
36
37 in any auction-type setting in which the value of the auctioned object is uncertain (Sandy *et al.*, 2004).
38
39 This refers to common value auctions where the item is acquired for some forms of commercial
40
41 purposes. The item has a single objective value for all bidders, but where the true value is unknown.
42
43 Each bidder must guess the item's true value when bidding on basis of the information that is available
44
45 without knowing the rival's guesses. Thus, there may be an adverse selection in this outcome, and the
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47 bidding process may result in wins that produce below normal or even negative returns, contrary to
48
49 rational investment decision (Andreff, 2015). A bidder who overestimates the value of the object is
50
51 likely to outbid competitors and win the contest. The more bidders, the more aggressive the winner
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53 will have to be. Hence, the presence of many bidders, combined with the asymmetric information that
54
55 exists across bidders, can lead to an extreme form of the winner's curse (Thaler, 1994).
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3 When considering whether an event suffers from the winner's curse, it is necessary to keep in
4
5 mind that the organisers' account does not provide the complete picture. The revenues and costs of
6
7 others that are affected by or contribute to the hosting should also be considered. The key question
8
9 is whether the total revenues balance the total costs for all stakeholders.
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13 Major events such as world championships are important international showcases that
14
15 contribute to the popularity of a sport. Positive TV images of scenic landscapes or modern stadiums
16
17 are therefore important. The fact that these events are financed by local organisers, often in
18
19 combination with the public sector, allows event owners (e.g., international sports federations) to add
20
21 requirements without having to worry about the costs (Baade and Matheson, 2016). The fiercer the
22
23 competition, the easier it is to add requirements. Although local event organisers can benefit from
24
25 these efforts, the size and distribution of the net values are often subject to great uncertainty. For
26
27 sports events, no one a priori knows the real value of hosting them. All else being equal, adverse
28
29 selection will allocate the event to the city that applies with the most expensive project. The more the
30
31 bidder has underestimated the costs of the efforts, the more likely it is that the winner's curse will
32
33 materialise, and the more likely that the owner will receive a magnificent project without paying its
34
35 full cost (Andreff, 2012).
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41 Some of those involved in hosting can have conflicting interests. The outcome of these conflicts
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43 may depend on the distribution of power. This can involve situations that have a character of urgency,
44
45 which can arise when the matter is subject to time pressure and is of great importance to involved
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47 participants. See Mitchell *et al.* (1997) for more details. Preparations for a sport event exhibit these
48
49 two characteristics. The events come with a strict deadline that is almost never postponed, except in
50
51 times of pandemics and wars. The importance of hosting the event is often built up during the early
52
53 stages of the preparations because the organiser and the political authorities have already committed
54
55 themselves to the public. The cancellation of an event can cause a loss of prestige and reputation. In
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3 such situations, local stakeholders can be forced to accept costs they otherwise would not have
4
5 accepted, including costs others should have paid.
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8 Some of relationships between the contributors have the character of principal-agent
9
10 relationships. This can involve situations of asymmetric information, which can allow agents to take
11
12 advantage of being better informed than the principal or vice versa (for more details see e.g., Douma
13
14 and Schreuder, 2002; Geereart, 2015). How far the stakeholders are willing to go to use the situation
15
16 can depend on the culture in which they operate. Some may be willing to be unethical and adjust
17
18 moral acceptance to the situation (Gauthier, 1990). Furthermore, it cannot be taken for granted that
19
20 all stakeholders are rational. A one-off event is a first-time ever experience for many organisers. This
21
22 increases the chances of making mistakes and reduces the ability to fully make use of one's
23
24 advantages. It can also allow experienced stakeholders to benefit by behaving opportunistically
25
26 towards those less experienced.
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31 Unlike auctions in which the bidders operate only on their own behalf, major sports events
32
33 involve and affect many stakeholders other than the organiser. The hosting process requires
34
35 contributions from several contributors, many of whom operate independently of each other. This
36
37 can make it difficult to coordinate the process. The decisions of some contributors may have unwanted
38
39 impacts on others. Efficient adaptations require efficient internal communication among contributors.
40
41 It is also important that each and every contributor has accurate information about financial figures,
42
43 regarding both costs and revenues. If expenditures are underestimated and benefits overstated,
44
45 candidates are likely to suffer the winner's curse (Andreff, 2012).
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50 The owners of events have traditionally used a combination of English auctions (ascending),
51
52 Dutch auctions (descending) and first price sealed-bid auctions when auctioning their events (for more
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54 details on procedures, see Milgrom and Weber, 1982). The findings section will analyse to what degree
55
56 the host of the 2017 World Road Cycling Championship suffered the winner's curse. The analyses are
57
58 based on the criteria below, which were adapted from Andreff (2012):
59
60

- Lower economic impact for local stakeholders than expected;
- Cost overruns and loss/lack of revenues;
- Ex post revisions in the project;
- Delays in the planning process;
- Additional public subsidies/financing beyond what was initially granted;
- Host city fiscal deficit and debt; and
- A disappointing number of visitors from outside the host city or region.

Unlike Andreff (2012), we have also included the revenues of the organiser as relevant in indicator (2) because cost overruns may not become a problem if they are sufficiently compensated by revenue.

Data collection—methods

Case study context

The 2017 World Road Cycling Championship was hosted by the city of Bergen and three neighbouring municipalities between September 16 and 24. It gathered 1,257 participants from 77 nations and was estimated to attract more than 700,000 spectators. The hosting municipalities also organised cultural events that gathered approximately 51,000 participants. More than 2,000 volunteers from 80 nations were involved in the Championship. The Championship was considered a big success with respect to spectatorship, and it created a festive atmosphere in the city. A post-survey revealed that the vast majority of the residents experienced the Championship as a positive event and as something to be proud of (Solberg *et al.*, 2018). The cycling media also embraced the Championship. After the time trial, *Velonews* wrote: “Bergen delivers something rare: a time trial worth watching. Wednesday’s men’s elite World Time Trial Championship will rank among the best and most exciting races against the clock we’ll likely ever see.”¹

¹ <https://www.velonews.com/news/road/bergen-delivers-something-rare-time-trial-worth-watching/>

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3 Financially, the Championship was another story. In the spring of 2018, the organiser was declared
4 bankrupt, with revenues of NOK 130.3 million (€13.5 million) and costs of NOK 185 million (€19.2
5 million). Ahead of the Championship, the public sector (Ministry of Culture and Ministry of Trade and
6 Fishery, Bergen neighbouring municipalities, and Hordaland County Council) had granted NOK 103.9
7 million (€10.8 million), meaning that the organiser received 80% of its revenues from the public sector.
8
9 Additionally, the Championship put expenses on other agents in the public sector that amounted to
10 NOK 146.1 million (€15.1 million), which they had to cover themselves. Hence, the aggregate
11 Championship costs for the public sector amounted to NOK 300 million, or €31 million).
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21 *Methodology*

22 The study relies on two data sources, which are described in more detail below.
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24

25 *Document analysis*

26 The document analysis included contracts, agreements, budgets, applications, tourism statistics,
27 minutes of meetings and digital and non-digital correspondence (e-mails, letters) provided by the
28 Union Cyclist Internationale (UCI), NCF, the Norwegian government, and Bergen Municipality. These
29 data served three purposes. First, documents were analysed to explore indicators of the winner's
30 course. For this purpose, accounting information, tourism statistics and minutes of meetings were vital.
31
32 Second, documents – in particular minutes of meetings, e-mails and letters – were used to identify
33 decisions and incidents that could have impacted the financial results. Finally, information from the
34 documents was used to prepare the interview guides (see below), and, in certain cases, respondents
35 were asked to elaborate on specific topics that were identified during the document analysis. In this
36 way, the documents and the interviews complement each other.
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54 *Qualitative interviews*

55 The second data source consisted of 47 in-depth interviews with 51 individuals representing various
56 private and public organisations involved in the implementation of the UCI 2017 Road Cycling World
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1
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3 Championship. The organisations, their responsibilities, and the number of interviews conducted
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5 within each organisation are shown in Table 1. The number of interviews reflects the operational
6
7 responsibilities for implementing the Championship.
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10 The majority of the respondents were identified prior to the data collection, while others were
11
12 recruited during the process. The first group included managers and key personnel in Bergen 2017
13
14 Ltd. (the company that was legally responsible for organising the Championship, hereafter called
15
16 Bergen 2017), The Norwegian Cycling Federation, Bergen Municipality and Hordaland County Council
17
18 who were interviewed in the first stage. The emerging insights provided in these interviews, together
19
20 with information from the document analysis, were used to identify other important organisations
21
22 and personnel involved in the implementation of the event. In this respect, the data collection
23
24 parallels snowball sampling in which information and understanding from one study participant are
25
26 used to recruit future respondents.
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31 The interviews lasted between 43 and 162 minutes and took place in the period between October 30,
32
33 2017, and September 19, 2018. Forty-three interviews were conducted face-to-face and eight via
34
35 Skype. Respondents were free to choose the location of the face-to-face interviews. Four respondents
36
37 were re-interviewed once whereas one respondent was reinterviewed twice to clarify issues that
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39 emerged from respondents interviewed later in the process.
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45 **Insert Table 1 here**
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51 A semi-structured interview guide was used to define key problem areas from the document analysis,
52
53 previous research, and information from pre-project meetings. The semi-structured approach allowed
54
55 respondents to reflect without restrictions about their roles, how they perceived their participation,
56
57 and how they perceived the relationships between the various actors. The questions and issues in the
58
59 interviews depended on the tasks and positions of the respondent. Special attention was given on the
60

1
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3 challenges they experienced, both for themselves and others that were involved in hosting the
4
5 championship. How and why did the respective challenges appear, how were they tried to be solved,
6
7 and which factors that influenced the outcome of these processes. All interviews were recorded and
8
9
10 later transcribed by a transcription agency.

11
12 Information from the interviews was used to elaborate data from the document analyses and to create
13
14 a deeper understanding of the decision processes, incidents, and organisational matters that may
15
16 have contributed to the bankruptcy of Bergen 2017 and the cost overruns for other stakeholders that
17
18 contributed to the hosting. The analyses involved a reflective process where each respondent's
19
20 narrative was investigated to identify critical events and experiences, as well as explanations and
21
22 justifications for the actions taken. Analyses were done individually for the respective respondents
23
24 and as part of a collective set of meanings at the organisational level.
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29 **Results—findings**

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32 This section will discuss the degree to which the relevant indicators of the winner's curse, as described
33
34 above, were identified with respect to the 2017 World Road Cycling Championship.
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38 *Economic impact for local stakeholders / External visitors*

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41 According to the respondents who were responsible for booking accommodations, the Championship
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43 attracted fewer visitors than expected. The occupancy rate in the hotels was at the same level as in
44
45 the same period the previous year (Menon Economics, 2018). The organiser expected that the
46
47 Championship would generate 50,000 hotel-guest nights, while the actual number ended up being
48
49 19,000. The figures would have been even lower without the 700 police officers who were called in
50
51 from other police districts. 1,000 rooms had been booked for sponsors, but only 200 were necessary.
52
53
54 The administration in Bergen Municipality anticipated that 5,000 RVs would come to the city, but only
55
56 245 appeared. A respondent who was involved in booking accommodation explained:
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- 1
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3 - *Almost all the spectators were locals. Many rooms were booked for the entire period of 10*
4 *days, but it was mainly the last weekend that attracted visitors. The turnout for the hotels in*
5 *September was not higher than usual. The tour operator who operated on behalf of the*
6 *organiser had booked 75% of the accommodation capacity in Bergen and up to 60–70*
7 *kilometres outside the city. This was way too much.*

14
15 Many cycling reservations were withdrawn the weeks before the championship and the
16 accommodation industry did not benefit as was expected. Several hotels had rejected inquiries about
17 hosting conferences and congresses, which was commented on by the same respondent, who also
18 reflected that there would have been fewer problems had they received more information from the
19 UCI prior to the Championship:

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27 - *We could have been informed, for example how many rooms were sold at the 2016 and 2015*
28 *Championships in Doha and Richmond. The same applied to the demand patterns. We asked*
29 *Bergen 2017 for such information but were told that it did not exist. I realize now that we*
30 *should have been more active, for example by asking the UCI or others.*

36 *Organiser's costs and revenues / Planning process*

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38
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40 When NCF chose Bergen as the Norwegian candidate in 2011, the budget was approximately NOK 85
41 million. When the application for governmental funding was submitted in 2013, the break-even
42 budget, which is presented in the left column in Table 2, had increased to NOK 156.4 million. The next
43 column presents the final forecast, from three months after the Championship, which predicted a
44 deficit of NOK 54.7 million. In March 2018, Bergen 2017 was declared bankrupt.

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55 **Insert Table 2 here**

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2
3 The organiser operated with three levels of sponsors, and the job of recruiting the top two levels
4 was outsourced, and Bergen 2017 worked with local sponsors (i.e., the lowest level). However, to be
5 allowed to recruit sponsorship agreements, Bergen 2017 had to purchase marketing rights from UCI
6 at a price of €4 million (NOK 32.6 million). Therefore, the sponsorship agreement was a loss project of
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12 NOK 8.8 million.
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15 When assessing the sponsorship figures, it is important to keep in mind that revenues also have a
16 cost side, which refers to the provision to the company who recruited sponsors and organising the
17 activities for sponsor guests. The gross value of the support from the general sponsor amounted to
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22 NOK 16.3 million. However, after withdrawing the provision and activating costs, the net value was
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the process:

- *It would not look good if they gave Bergen 2017 10 million shortly after having sacked hundreds of employees.*

This view, however, was contradicted by a representative of the oil company, who claimed that they had never considered sponsoring the cycling championship. As for the sponsors at the next level, the aim was to achieve NOK 8 million from each of the three. This plan also failed, and the total value amounted to NOK 5.6 million –23% of what was expected.

Bergen 2017 brought in NOK 3.6 million from local sponsors, but they had expected NOK 1 million. The reason this did not work out as planned was the small staff size, which also lacked competence in such matters. Several respondents reported that potential local sponsors had a negative impression of Bergen 2017:

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2
3 - Many told me that they were approached too late, and that it was not explained what they
4 were to buy. Some said they were willing to support and contacted Bergen 2017, but did not
5 receive any response...
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10 The organiser tried to recruit more local sponsors by hiring an additional employee, but these efforts
11 did not pay off, as illustrated by one respondent:
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- 13
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16 - ...when we failed to recruit the oil company as sponsor, we did not have a plan B, [...] then we
17 employed Mr X to work on recruiting local sponsors ...this was an ad hoc solution that was
18 done too late, far too late [...] companies do not decide their sponsorship budgets a few weeks
19 before the World Cycling Championship [...] employing him to recruit local sponsors was a
20 desperate attempt to get money. It didn't work.
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27 Another reason for the sponsorship loss was the depreciation of the NOK relative to the Euro,
28 combined with the fact that NCF did not buy exchange rate insurance. When Bergen was awarded the
29 championship in September 2014, the exchange rate for one Euro was NOK 8.14². Three years later,
30 when the championship started, the price of one Euro had increased to NOK 9.33³. The depreciation
31 of the NOK made the aggregate fee (including marketing rights) to the UCI more expensive. This loss
32 could have been reduced had exchange rate insurance been purchased. A respondent who was
33 involved in the early preparations admitted that this had not been seriously considered:
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- 44 - Signing exchange rate insurance was not an issue at one single board meeting in the cycling
45 federation. Someone had chatted informally about it with an employee in DNB⁴ over a cup of
46 coffee, and concluded that both alternatives could be ok, i.e., signing up for insurance and not
47 signing up for insurance. No formal request, where we asked for a professional advice, was
48 made to the bank.
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58 ² <https://www.norges-bank.no/Statistikk/Valutakurser/>

59 ³ <https://www.norges-bank.no/Statistikk/Valutakurser/>

60 ⁴ The UCI's bank connection

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3 The fee to the UCI could have been worse had the competition to get the Championship been fiercer.
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5 Initially, Bergen competed with the cities of Bogotá (Columbia), Innsbruck (Austria), and Melbourne
6
7 (Australia). The UCI initially required a fee of €10 million, which was the price that Qatar paid for the
8
9 2016 World Championship. However, none of the bidders accepted this price. The UCI was therefore
10
11 forced to operate according to the principles of a Dutch auction (Milgrom and Weber, 1982) by
12
13 reducing the fee to €7 million, which was the amount previous hosts had paid before the 2016 Qatar
14
15 Championship. Although Qatar was the only bidder for the 2016 Championship, potential rivals may
16
17 have backed off because Qatar is one of the wealthiest nations in the world.⁵
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22 The cost overruns on *trails and rides* were due to traffic alterations shortly before the
23
24 Championship, combined with delays in planning. Several streets had to be closed for bus traffic and
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26 for a longer period than first planned. Such mistakes were admitted by a respondent who was
27
28 indirectly involved in the processes:
29
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- 31 - *One month before the event, we discovered that traffic signs had not been ordered. This could*
32
33 *have been ordered three years earlier without any risk. You know that you need the signs. You*
34
35 *only have to figure out where to put them up. This mistake had a cost at 3–4 million. Sloppy*
36
37 *planning...*
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41 The deviations in the revenues from *Hospitality/VIPs, kickbacks from accommodation and serving of*
42
43 *food and drink* and *ticket sales* were both due to fewer visitors than expected and prices that were
44
45 too high. The demand for tickets was very moderate for the first days, and only two of the eight days
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47 sold out, a pattern that is common to previous World Championships. The aim was to sell 15,000
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49 tickets, whereas only 9,000–10,000 were sold.
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59 ⁵ <https://www.worldometers.info/gdp/gdp-per-capita/>
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3 The reduction in the revenues and costs related to the media rights are connected. In 2014, the
4
5 NCF hosted the World Off-Road Championship, an event that is also owned by the UCI. This
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7 Championship was of limited commercial value and no broadcasters were willing to spend time or
8
9 money on it. The UCI wanted it shown on TV, but the NCF could not afford the production costs of
10
11 NOK 3 million. The problem was solved when a Norwegian commercial broadcaster took on the
12
13 assignment. In return, the organiser promised a corresponding discount on the media rights for the
14
15 2017 World Championship. However, the premise of this solution fell away when the UCI later decided
16
17 to take over the sale of media rights for the Road Championship itself. A consequence of this was that
18
19 the NCF no longer had anything to sell. In the new deal, the UCI kept the entire international media
20
21 rights and NCF was given 50% of the domestic rights. This made it impossible to get rid of the NOK 3
22
23 million owed for the production costs for the 2014 World Championship. Instead, it was transferred
24
25 as a claim to Bergen 2017. At this stage, the NCF hoped that the 2017 World Championship would
26
27 yield enough profit to cover the deficit from the 2014 World Championships. On the bright side, UCI's
28
29 takeover of the sales procedure reduced the production costs of Bergen 2017.
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34 35 *Ex post revisions in the project / Host fiscal deficit*

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38 The Championship led to substantial expenses on several stakeholders in the public sector. The
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40 administration in Bergen Municipality first estimated an expenditure of approximately NOK 15–20
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42 million, but this did not include costs associated with the restructuring of traffic and municipal health
43
44 services, the use and safeguarding of municipal properties and urban areas, emergency services and
45
46 emergency response actors. Gradually, the costs increased to NOK 74 million. Additionally,
47
48 administrative leaders in Bergen Municipality estimated the indirect costs associated with planning
49
50 and preparation to be approximately NOK 25 million. The Championship ultimately became more than
51
52 five times more expensive than was expected for the municipality.
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57 Many cost overruns were related to tasks that had not been considered in the planning phase.
58
59 Those involved in the early preparations focused primarily on maximising the chances of being
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1
2
3 awarded the Championship, not on the financial consequences. Great emphasis was placed on factors
4 that would tilt the decision in favour of Bergen. Therefore, trails were chosen that could create good
5 TV images. Such priorities were clearly revealed by a respondent who was involved in the early
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9
10 preparations:

- 11
12
13 - *Bergen was to get the event: it would be a folk fest and promote Bergen and Western Norway*
14
15 *– that was the most important thing. Therefore, we gave the cycling people too much power...*
16
17 *when the racetracks were chosen, we only had one thought: Bergen should win over the*
18
19 *others... we planned a bike ride that you had never seen before [...] it was a sport to have the*
20
21 *toughest, coolest routes.*
22
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24
25 The trail plan was submitted to the municipality administration before the submission of the
26
27 application, but it was only after the award that the organiser understood the consequences, and then
28
29 it was too late to change. The racetrack was spectacular, but set the scene for a cost picture that lit
30
31 warning lights (too late) among those who were responsible for social security and the economy,
32
33 according to a respondent in the municipality administration:

- 34
35
36 - *We took on a greater responsibility than we dreamed about when we started [...] later we*
37
38 *realized that we had got many zones in our city that were blocked off for traffic [...] parts of*
39
40 *the city where we have home nursing, kindergartens, schools, private businesses, and where*
41
42 *you just shut down the road network. From these red zones you could not exit... so, you could*
43
44 *just forget using the car that week, [...] or you have students who have a wheelchair and are*
45
46 *dependent on transportation. And how in the world to solve this?*
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50
51 The original plan was to host the Championship when schools were on autumn break, but this was
52
53 changed due to fear that people would go on holiday abroad instead of following the championship.
54
55 Therefore, the local bus company, which was owned by Hordaland municipality county, had to hire
56
57 many buses outside the region. After postponing autumn break, these costs increased by NOK 12
58
59 million. It also became necessary to adjust and upgrade the quality of the streets to make them more
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3 bicycle friendly, for example by replacing cobblestone and holes with asphalt and removing speed
4
5 bumps. These tasks also included the reversal of the streets to the original standard. These tasks were
6
7 insufficiently considered in the initial budget.
8
9

10
11 The police initially budgeted their costs at NOK 3.2 million, but this did not include guardianship
12
13 at ceremonies, concerts, securing the media house and so forth. When the budget was constructed,
14
15 the police lacked information on the scope of such activities. The NCF was made aware of this when
16
17 the police objected to the first budget of NOK 3.2 million, according to one respondent. Later, these
18
19 costs were calculated at NOK 10 million. The job of upholding general security in the city also required
20
21 additional resources due to the visitors, but these costs were covered by the police itself. Five months
22
23 before the Championship, the Police Security Service (PST) increased the likelihood for a terrorist
24
25 attack in Norway.⁶ The police called in 700 officers from other police districts, which in turn increased
26
27 the costs both for the police and Bergen 2017. The total cost for the police efforts for the World
28
29 Championship amounted to NOK 68.8 million.
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34 When Bergen 2017 received the invoice for the additional NOK 10 million, however, the managing
35
36 director admitted they were unable to cover these costs. A similar situation applied to the additional
37
38 costs for public transport, which Bergen 2017 was also responsible for covering. The Championship
39
40 could not be hosted unless these changes were made. At this stage, the process had come so far that
41
42 a cancellation would have cost too much in terms of lost prestige. Bergen 2017 took advantage of this
43
44 situation when pushing the process to continue, although everybody understood that they were
45
46 unable to cover the costs. This was illustrated by several respondents who were involved in these
47
48 preparations:
49
50

- 51
52 - *All of us who were sitting around the table and felt that the process had come too far to be*
53
54 *stopped [...] the bus company reported that we moved far beyond the budgeted cost frame of*
55

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59 ⁶ <https://www.aftenposten.no/100Sport/sykkel/Politiets-utgifter-til-Sykkel-VM-ble-doblet-260953b.html>
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3 *NOK 8.5 million [...] We did not want headlines in the media like: The Championship is cancelled*
4 *because the police or the bus company insisted on being refunded. That was our dilemma. It*
5 *would have damaged our reputation.*
6
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10 The Championship also implemented expenses on the two local hospitals, both of which were in the
11 “red zone” where ordinary traffic was severely restricted, and they were virtually blocked during the
12 entire Championship period. The largest of them had approximately 2,000 daily visits from patients.
13 About 150 were hospitalised as needing immediate help and more than half of these arrived by private
14 shuttle or by taxi. In addition, 4,800 employees had to commute daily to and from the hospital. In
15 summary, the Championship resulted in an extra cost for the hospitals, amounting to NOK 15 million.
16 The administration of the hospitals had not been involved in the planning process and the additional
17 costs came as a surprise, as one respondent explains:
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- 29 - *We did not participate this in the application process, and we had no idea about the*
30 *consequences. We expected the Championship would be some races back and forth between*
31 *Bergen and a neighbouring city. Two years before the event we were invited to a meeting*
32 *where we got some information. However, we still did not understand it would affect us over*
33 *a period of nine days.*
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41 *Extra public subsidy/finances*

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44 At the turn of 2016/17, it became clear that additional action was necessary for public transport and
45 adjustments of streets and roads. Without these extra steps, it would have been impossible to host
46 the Championship. In March 2017, Bergen 2017 and Hordaland County Council applied for an
47 additional funding of NOK 20.8 million from the Ministry of Culture, of which they were granted NOK
48 7.5 million (see Table 2). Bergen Municipality and Hordaland County Council had originally guaranteed
49 Bergen 2017 uncertainty provisions of NOK 5.2 million. Of this, 60% was earmarked for Hordaland
50 County Council because they were responsible for transport service and additional road repair
51 measures. However, the entire amount was paid to the organiser. After being informed about the
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3 financial problems, Bergen Municipality decided to activate their guarantee, whereas Hordaland
4
5 County Council refrained due to disagreements regarding the additional funding from the Ministry of
6
7 Culture.
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10
11 In summary, this section revealed many indications of the winner's curse. For the organiser, the
12
13 revenues were lower than budgeted, while the costs were higher. Many others who contributed to
14
15 the hosting had substantial cost overruns. The next section will discuss the reasons for this, as well as
16
17 the consequences.
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19

20 21 Discussion—analysis

22 23 *Lack of experience and information transfer*

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26
27 The awarding of the 2017 World Road Championship to Bergen and Norway created substantial
28
29 optimism in the host city regarding the benefits for the city. This was illustrated in a media interview
30
31 with the mayor immediately afterwards:
32
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- 34
35 - *We cannot imagine what this means. When someone asks if we can afford it, I reply “we*
36
37 *cannot afford not do it. This is an investment in the future. Bergen will benefit as a tourist city,*
38
39 *industry city, culture city, activity city [...] I see no end to what it will mean for Bergen.”⁷*
40
41

42
43 This optimism infected many others who were involved in the preparations. Officially, the sponsor
44
45 budget of NOK 33 million lacked NOK 9 million. However, in an early media interview the general
46
47 manager of Championship revealed even higher expectations – that is, for NOK 50 million (Hansen,
48
49 2016). The tour-operator who operated on behalf of the organiser had pre-booked more than twice
50
51 the number of hotel rooms than were needed. Many hotels had therefore rejected requests for other
52
53 activities during the Championship period. This included conferences and congresses, which are the
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⁷ <https://www.bt.no/sport/i/3J9grv/her-jubler-bergen-for-sykkel-vm>

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3 most profitable activities for many hotels. Those responsible for accommodation were informed, too
4
5 late, that during previous Championships the majority of visitors had come during the final weekend.
6
7 This is an example of asymmetric information, where the UCI (as principal) can benefit from avoiding
8
9 the transfer of information to potential hosts (agents; Douma and Schreuder, 2002). Had they shared
10
11 this information, it could have reduced the interest in hosting the Championship.
12
13

14
15 These examples illustrate how overoptimistic stakeholders can get carried away and invest too
16
17 much effort into getting an event, as well as when hosting them. In such cases, other stakeholders
18
19 than the organiser can influence the bidding strategies. Some of them can operate as free riders, only
20
21 enjoying benefits without paying the costs. This, in turn, reduces the motivation to consider the
22
23 aggregate benefits and costs.
24
25

26
27 The hosting of sports events is different from many other activities because it requires
28
29 contributions from several stakeholders, many of whom operate independently of one another. The
30
31 findings show a lack of communication between the contributors. Decisions were taken without
32
33 considering the consequences for others. The postponement of the fall break made public transport
34
35 costlier than budgeted. Better coordination could also have allowed the organiser to make better use
36
37 of the staff of Bergen Municipality's sports department, which amounted to approximately 100 people
38
39 who were underused due to a lack of communication and coordination.
40
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43 The interviews also revealed communication problems between Bergen 2017 and external
44
45 stakeholders. Several vendors were not allowed to communicate with each other. Instead,
46
47 communication had to go through Bergen 2017. This delayed many processes, which caused both
48
49 frustration and inefficiency. Indeed, some suppliers felt that Bergen 2017 was working against them
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51 instead of collaborating with them.
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Lack of competence and experience

Many of those involved in the preparations were inexperienced with such events. This reduced the ability to foresee the consequences for themselves and others. The municipality administration allowed representatives of the cycling organisers to design the racecourse without considering the consequences for daily operations both for the public sector and others. The NCF did not gather enough information to consider whether it should buy exchange rate insurance or not, a mistake that cost them dearly.

Initially, seven cities applied to be the Norwegian host city. Expressed in auction terms, the NCF could have required the respective local public sectors to join them as owners of the event organisation. The NCF, however, refrained from pursuing this possibility. Instead, it waited until after the selection had been made to invite Bergen Municipality and Hordaland County Council to become joint owners, an invitation that both rejected.

These examples illustrate how inexperienced event organisers can behave irrationally. A more financially robust organisation could have afforded the hiring of more employees with the necessary competence, but instead NCF gambled away their cards. Several respondents painted a picture of an organisation with too few employees who lacked competence to handle important operations:

- *They (Bergen 2017) had no competence in the technical field at all... it was chaos. The only thing that mattered was to get the Championship hosted... When they started cleaning up after the Championship, we saw that they had neither the control nor the competence [...] this was an organisation that had undertaken an event they were unable to handle.*

By January 2015, the staff consisted of five people, most of whom worked part time. Although the organisation was extended, the new appointments had the character of ad hoc employment and were not the result of well-thought-out procedures. Another disadvantage was that the managing leader

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2
3 was only employed part time and did not reside in the area of the event. He also simultaneously held
4
5 two other partly conflicting roles: as president of the NCF and UCI board member.
6
7

8 Study trips to preceding championships were carried out in the years before the event. However,
9
10 those representing the municipality were inexperienced with large cycling events, as the interviews
11
12 revealed:
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- 14
15
16 - *We were in the early stages, but did not have the necessary expertise at that stage... I had not*
17
18 *participated in bike events earlier, and therefore I did not have the ability to anticipate the*
19
20 *consequences... there were many questions we did not ask [...] wise questions were not in the*
21
22 *front of our mind... the exercise of "Sorry, we have to make this easier" was not done... the*
23
24 *areas of operational continuity – of closing the city – were senseless... here you lock our city*
25
26 *[...] The state road administration had not thought about it; the police had not thought about*
27
28 *it; we had not thought about it – there was no one who had.*
29
30
31

32 *Conflicting interests*

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34

35 The work on social security in the city was managed by the Department of Social Security and
36
37 Emergency Planning in Bergen Municipality. Several respondents with experience from similar events
38
39 found the operationalisation too strict and stated that the same degree of security could have been
40
41 achieved with fewer resources. This led to considerable additional work and cost increases for both
42
43 the organisers and subcontractors. Experience from previous events of similar size were not used,
44
45 although Bergen has extensive experience in arranging large folk festivals that gather almost the same
46
47 number of spectators as the World Cycling Championship. Quotes from respondents illustrated the
48
49 frustration:
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53
54 - *Risk and vulnerability analyses that had previously been approved by the police at all major*
55
56 *events in Bergen were not good enough anymore ... The question being asked was what could*
57
58 *happen in Bergen instead of what problems the Cycling World Championship brings with it...*
59
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3 *The list of requirements to the organiser became so large and long that it was hopeless to*
4 *satisfy [...] the level of detail was overwhelming [...] a risk analysis was demanded for each*
5 *pedestrian crossing, for example...*
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10 The preparation of the tasks was also extensive because of high ambitions. Local residents should not
11 be exposed to increased risk during the Championship period. Therefore, seven small emergency
12 services were established in the red zone: *“No one would have to give birth on the roads”*. In fact, it
13 was an aim that health care should be better during the Championship than normal. During the
14 preparations, the media focused much more on the negative aspects of the event, such as what could
15 go wrong. Therefore, the municipal administrators hoped that their ambitious aims would have a
16 preventive effect.
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26 *The costs of creating externalities* 27 28

29
30 Organisers of sports events often initiate supplementary activities to achieve public subsidies (Wright,
31 2007). A theoretical framework that can explain this behaviour is recourse dependency theory, which
32 basically states that organisations that are unable to generate enough internal resources need to
33 interact with other organisations that can provide these resources (Pfeffer and Salancik, 1978). The
34 application for funding emphasised the aim of motivating residents to cycle more often, both in daily
35 traffic and for exercise. Therefore, the core event was supplemented with a bicycle training
36 programme for children, a public health campaign, a cycling World Championship for older adults and
37 a teaching programme for primary schools. A quote from a leader in the municipality administration
38 clearly indicated that the core effects were not sufficient reason to host the Championship:
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51 - *It is totally uninteresting to arrange a World Championship unless we have any ripple effects*
52 *or, well, in the application it is termed “Legacies from the World Championship”. Both*
53 *children, youth and adults should be attracted. One should look at biking as an activity and*
54 *means of transport.*
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3 The side effects also included a cultural programme that was included in the original budget. Both the
4
5 UCI and NCF were initially reluctant about the idea of adding on a culture programme. Indeed, the
6
7 2017 Championship was the first ever World Road Cycling Championship that had such an extensive
8
9 programme. However, adding on side events not only required additional resources and extra costs,
10
11 but it also reduced the time and energy an already overworked event organisation could expend on
12
13 core activities.
14
15

16 17 *Attitudes*

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19
20 The organisation Bergen 2017 was owned by the NCF. Some respondents revealed attitudes within
21
22 the organisation that were egoistic (Gauthier, 1990, p. 253). Two respondents who were interviewed
23
24 separately and independently of each other, referred to board members in the NCF who had claimed:
25
26

- 27
28 - *"We can just create an Ltd. and then let it go bankrupt"*.
29
30

31 The consultancy company that quality checked the budget was only hired to investigate the costs, not
32
33 the revenues. This is alarming given the difficulties of selling tickets at cycling races compared to
34
35 events at stadiums. Indeed, several respondents pointed out that the poor economic conditions in
36
37 Bergen 2017 were the result of prolonging a practice that was common in the NCF. The difference was
38
39 that the financial figures became so much larger: *"It will fix itself in the future"* was the attitude.
40
41 Invoices that were unclear were taken out and not posted in the accounts – that is, they were put on
42
43 hold. In that way, the accounts were "papered over" until further notice. The attitude was that
44
45 negative or critical information should be withheld to get things done, taking a gamble that the later
46
47 clean up would go smoothly.
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3 The budgeting process shows similar examples of this type of strategic behaviour. In a media
4 interview, the head of the Police Unit for Operational Service under the Cycling World Championship
5 went a long way in suggesting that the costs were under budgeted for tactical reasons:⁸
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11 - *Our impression is that stipulated costs were kept artificially low by the initiators in the*
12 *application process only to get the championship to Norway and Bergen... The desire to keep*
13 *the costs down in the application process meant that we did not have a real financial*
14 *framework to deal with until months before the Championship started.*
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20 The general manager used the “cancellation card” to persuade the police and Hordaland County
21 Council to continue delivering services, despite the understanding that Bergen 2017 was unable to
22 cover the costs. These situations were given a sense of urgency (Mitchell *et al.*, 1997). A cancellation
23 would have caused substantial loss of prestige for a number of stakeholders, and no one wanted to
24 be scapegoated as responsible for the cancellation.
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32 Conclusion

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35 This paper has shown how major sports events can be trapped by the winner’s curse, in which fierce
36 competition forces the winning bidder to spend more on the event than what it is worth in economic
37 terms (Andreff, 2012). Hosting an event like the World Road Cycling Championship requires
38 contributions from several stakeholders other than the organiser. In this case, the efforts from the
39 contributors were uncoordinated. Information was not shared between them, and some had
40 conflicting interests. Both the organiser and the administration in the host city were inexperienced
41 with an event of this size and character. The organiser did not have the financial resources to hire a
42 sufficient number of employees with the necessary competence. Within the Norwegian Cycling
43 Federation, which was the owner of Bergen 2017, there was a culture of dubious attitudes and lack of
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⁸ <https://www.aftenposten.no/100Sport/sykkel/Politiets-utgifter-til-Sykkel-VM-ble-doblet-260953b.html>

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3 seriousness. Some of these attitudes seemed to have been transferred to Bergen 2017. In summary,
4
5 all these factors reduced the quality of the planning and preparation processes. They also explain why
6
7 the Championship was a failure in economic terms.
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Organisation	Role in implementation of the Championship	No. of interviews	Organisational affiliation of respondents
Bergen 2017, Administration	Main organiser. Legally responsible for organising the Championship. A joint stock company 100% owned by the Norwegian Cycling Federation	8	Administration
Bergen 2017, Board	Board members	3	
Bergen municipality administration	Host city. Operational responsibilities related to cleaning, garbage disposal and sweeping of the trails. Accountable for public information. Contributed with direct financial support of the event.	11	Various departments, managing and operational responsibilities
Hordaland county administration	Host county. Operational responsibilities connected to roads and transportation services to the public.	5	Various departments, managing and operational responsibilities
Agents in the public sector	Police, military, public hospitals	6	Management
Norwegian Cycling Federation	Owner of Bergen 2017 Ltd. Financially responsible to UCI.	4	Management and administration
Suppliers	Suppliers and sponsors	9	Management and administration
UCI		1	
Total		47	

<i>INCOME</i>	Budget as of October 2013	Forecast as of December 2017	Deviation
Government grants	80	86.8	6.8
Sponsorship	33	23.8	-9.2
Sales of TV and media rights	17.4	7.1	-10.3
Hospitality and VIP	9.4	3.4	-6.0
Kickback from accommodation and dining	5.0	3.7	-1.3
Public-oriented events	3.2	1.1	-2.1
Merchandise	1.5	0	-1.5
Ticket revenue	0.5	0	-0.5
TOTAL REVENUES	156.4	130.3	-26.1
<i>EXPENSES</i>			
Trails/Rides	25.2	43.8	18.6
Arena and start/finish area	10.6	21.8	11.1
UCI Organisation and marketing rights	37.5	65.2	27.7
Administration/Organisation	20.2	21.7	1.5
Media and press (TV production)	17.4	3.4	-14.0
Transportation and logistics	8.5	6.9	-1.7
Meetings and conferences	0	1.4	1.4
Accommodation	4.8	0.3	-4.5
Promotion/marketing	11.3	10.6	-0.7
Public-oriented activities	2.7	5.0	2.3
Public health measures	3.1	4.6	1.5
TOTAL EXPENSES	156.4	185.0	28.6
OPERATING PROFIT	0	-54.7	-54.7

The table only includes the costs and revenues with major deviations

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3 **Appendix: Supplementary information interviews**
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Organisational affiliation	Duration (hour, min.)	Number of respondents
Bergen 2017, Admin.	2,42	1
Bergen 2017, Admin.	1,20 + 2,00	1
Bergen 2017, Admin.	1,49	1
Bergen 2017, Admin.	1,03	1
Bergen 2017, Admin.	1,41	1
Bergen 2017, Admin.	2,07	1
Bergen 2017, Admin.	1,02	1
Bergen 2017, Admin.	1,41 + 1,15 + 1,11	1
Bergen 2017, Admin.	1,21	1
Bergen 2017, Admin.	1,18	1
Bergen 2017, Board	1,47	1
Bergen 2017, Board	1,50	1
Bergen 2017, Board	1,41	1
Bergen municip. Admin.	1,24	1
Bergen municip. Admin.	1,57	1
Bergen municip. Admin.	47 + 45	1
Bergen municip. Admin.	1,38 + 58	1
Bergen municip. Admin.	1,35	1
Bergen municip. Admin.	1,38	1
Bergen municip. Admin.	1,19	1
Bergen municip. Admin.	0,43	1
Bergen municip. Admin.	1,02	1
Hordaland county admin.	1,16	1
Hordaland county admin.	0,45	1
Hordaland county admin.	0,43	1
Hordaland county admin.	1,35	1
Hordaland county admin.	1,32	1
Agents in public sector	0,36	1
Agents in public sector	1,39	1
Agents in public sector	1,24	1
Agents in public sector	1,13	2
Agents in public sector	0,55	1
Agents in public sector	1,13	1
Norwegian Cycling Fed.	20,2	1
Norwegian Cycling Fed.	0,26 + 1,27	1
Norwegian Cycling Fed.	1,26 + 1,35	1
Norwegian Cycling Fed.	1,26	1
Suppliers	0,58	2
Suppliers	1,33	1
Suppliers	1,10	2
Suppliers	1,10	1
Suppliers	1,08	1
Suppliers	1,23	1
Suppliers	2,03	1
Suppliers	1,39	2
Suppliers	1,57	1

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UCI	0,49	1
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