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Sandalio Gomez, Kimio Kase and Ignacio Urrutia
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Introduction

As an opening to the book, this introduction will address three issues:

(1) the significance of our research on sport-related phenomena;
(2) the basic approach or the common thread to/regarding their study; and
(3) the basic structure of this book.

Firstly, we refer to the significance of this research. Sport, with a capital 'S', has acquired a status in society that would have been unthinkable only twenty years ago. As a spectacle and as an activity, sport has traditionally been confined to the leisure sphere. In recent decades, however, it has become a full-blown business, one that not only stirs passions but also captures media attention around the world and generates more economic activity than even the most optimistic could have imagined.

Sport occupies an increasingly prominent place in social life, as anyone who watches the television news will know. There are endless radio and television programmes about sport, and even dedicated sports channels. The social spotlight on all things sport-related has made many sportspeople, coaches and managers famous: they have become media personalities and are often held in greater awe than politicians and other public figures.

The far-reaching transformation of the world of sport has been driven by rapid commercialization, which has reached a point where it is quite legitimate to talk of a 'sports business' (Beech and Chadwick, 2004: 496) or 'sports industry' (Foster *et al.*, 2005: 512). Two examples of the global importance of sport are the growth of the Olympic movement and the growth of football[1] (Amara *et al.*, 2005). To appreciate the transformation, we need only compare the budget

[1] Unless otherwise stated, all references to 'football' will refer to soccer.

and audience of the 1988 Olympics, just twenty years ago, with those of the recent Beijing Olympics, in which billions of dollars were in play, an entire country was brought to a halt and the host country's economy and image were transfigured.

The broadcasting of sports events, especially by television, has created revenue-generating opportunities for sports organizations through the sale of broadcasting rights, individual and team image rights, advertising, and so on. The media – television in particular – has revolutionized the world of sport, giving it a privileged status in social and economic life and making it the focus of a network of interests encompassing a variety of actors in society and the economy. The change is apparent in the expansion of the World Cup budget or the budgets of the leading European football clubs over the last two decades. The figures speak for themselves: twenty years ago Real Madrid football club had a budget of less than €60 million; today, it is €400 million.

Except for marketing, brand management and sponsorship, this phenomenon has so far received relatively little attention from management scholars and social scientists. In order to analyse what makes a club successful, we need a solid, comprehensive theoretical framework.

Sports institutions and clubs today have much in common with large or medium-sized businesses. In effect, they have become companies, creating economic value added, though with the specific characteristics of sports organizations, and so deserve to be studied on their own terms. In 2003, the Spanish sports daily newspaper *Marca* estimated that the soccer industry worldwide had a turnover of €235 billion (Agudo and Toyos, 2003: 398). It is hardly surprising, therefore, that the football industry should have become a major economic activity involving a variety of stakeholders. Linked by common interests, these stakeholders form a circular network, creating a virtuous circle of value creation.

This striking and thought-provoking development has prompted numerous intellectuals and academics to analyse and study the situation and its economic and social consequences for society, for the countries and cities that host major events, and for individual sports organizations and clubs.

No leading management education institution, faculty or business school can afford not to invest in research that will provide a conceptual basis for teaching activities directed to the world of sport. Any such teaching and research activity must be focused on the characteristics of sports organizations from the moment they stop being mere providers of entertainment to becoming a major source of economic value added. Without specific prior research covering the length and breadth of the sport business, it is impossible to provide high-quality education that adds real value to sports executives. In 2005, therefore, IESE Business School created a dedicated research centre, the Centre for Sport Business Management (CSBM). This book presents a small sample of the centre's work in sport and other areas over the last three years.

We are convinced that this book offers a novel conceptual framework and provides unique theoretical and practical insights for researchers and sports organization managers. Although all types of sport are included, the emphasis is on the sports that are most popular in Europe, football being the most emblematic on account of its economic structure, its fan base and its professionalization.

We now proceed to provide the reader with information about our basic approach. The common thread that runs through the chapters of this book and around which they cohere is the concept of value creation. Value is destroyed or subtracted when management of the sport entities or governing bodies in their ignorance misguide the organization. On the contrary, if they get it right and guide their organization wisely, value is added.

The value creation concept in sport-related businesses has traditionally been understood as:

(1) narrowly related to the physical aspect as provided by coaches and trainers; and/or
(2) the management and physical aspects dealt with separately.

In this book, we focus on value creation from the perspective of management. However, given its importance, reference to the physical aspect is covered among other things by the virtuous circle concept (of which more later).

Value creation from the corporate centre is the central theme in this study of corporate-level strategy. This book attempts to apply this theme to the field of sport-related businesses, in the belief that it furnishes an appropriate framework for the understanding of many phenomena in a coherent manner, since the analysis of these phenomena naturally becomes simpler once this framework is applied.

One caveat to note is that value created does not necessarily mean visible economic value. Notional value added also carries weight. Take the example of Real Madrid's management during the presidency of Florentino Pérez. Real Madrid centred their strategy on that of Walt Disney, which had managed to create a business independent of the success or failure of its film production. Their theme parks, such as Disneyland or Tokyo Disney Resort operating under Disney's license, are prospering thanks to the entire entertainment concept package, and not only because of Mickey Mouse, Donald Duck, or new characters created by recent films.

During Pérez's presidency, the club managed to consolidate its financial and economic base, which produced the liquidity necessary for signing excellent or high-profile players. This could be considered as an instance of value creation, albeit indirectly sport-related. Pérez's personal network, as the president of one of the largest construction companies in the world, certainly played a role: the sale of Real's training grounds must have been at least partly due to this fact.

In order to establish the dynamics for value creation, one of our first conceptual contributions was to define what we shall call the 'virtuous circle of value creation in sport'. This concept links and gives meaning to the activities of all those who participate directly or indirectly in the sports industry. The main success factor, at the centre of the 'virtuous circle', is the sports competition itself, the purpose of which is to entertain and stir passions in the target group (Miller and Letter, 2003). Entertainment is key in attracting new fans and instilling passion for the team colours, so as to create long-term associative ties or what we call the 'loyalty effect'. The initial purpose of sporting events, therefore, is to entertain and impassion. This means that the fans play a central role – they are the ones who set the circle in motion. Without fans, none of the rest would exist. So we need to understand how a sport attracts, entertains, stirs such passion and arouses such enthusiasm in its fans.

Next, we can study how a team acquires the 'magic aura' that makes its fans enduringly loyal. Why one sport is popular in one country and not in another is an interesting question that deserves sociological and historical study, but it lies beyond the scope of this book. The fact is that, while baseball is one of the top sports in the United States, it hardly exists in Europe, whereas football, the number one sport in much of the world, ranks at best fifth in popularity in the United States.

The whole sport economy clearly starts with the fans. It is the fans who open the door to other actors, who appear tentatively at first, then with increasing self-assurance. These other actors, stakeholders, or whatever one wishes to call them, add an extra sporting dimension and turn sport into a machine for generating economic value added. Finally, in the next section we outline the structure of this book.

Chapter 1 describes the virtuous circle of value creation in the world of sport and analyses each component.

Chapter 2 examines the four forms of value creation in sports organization management. Given these four forms of value creation (historical, economic, social and media capital), there is plenty of scope for diverse business models to coexist. This chapter shows that there is no one model, no 'one best way', for all sports organizations, but a whole range of aspects that help each organization choose the model that will best enable it to achieve its goals. This chapter provides tools for improving value creation in sports organizations, illustrated by case studies, including the America's Cup; the Estudiantes basketball team and temporary employment agency Adecco; the La Sexta television channel and the FIFA World Cup; and the Atlético de Madrid football club.

While accepting that diverse models of value creation are possible, Chapter 3 shows that the expansion of sports organizations is closely linked to their initial business model and the national context in which they have arisen. Studies of the revenues of Europe's largest football clubs show that there are broadly three contrasting models, based respectively on ticket sales, marketing and broadcasting rights. The ability to expand also depends on belonging to a league. For large football clubs, successful internationalization therefore does not necessarily require globalization but regionalization of their activities. A comparison with the regionalization of the auto industry indicates the real internationalization potential of sports organizations. This chapter also considers how sports organization management can become a benchmark for other industries.

Chapter 4 examines the behaviour and value creation strategy of Spain's two most respected sports organizations, Real Madrid and FC Barcelona. This comparative case study illustrates the challenge of excelling simultaneously in sport and business. Also presented in this chapter is the matrix the CSBM has developed for interpreting an organization's approach to sport and business.

Chapter 5 considers the cognitive processes of a sports organization leader based on two polar systems. The first paradigm is based on the 'profit arithmetic' approach, in which priority is given to short-term economic objectives. The second paradigm, the 'proto-image of the firm' approach, presupposes a long-term view of the organization, with more ambitious goals reaching beyond the purely economic sphere.

Chapter 6 addresses the organizational conception of an elite sports club, with special emphasis on football. In recent years the leading clubs have come increasingly to resemble conventional business enterprises. The division of functions and the coordination this requires must be founded on the structure of the organization, which must reflect all the activities a sports club must perform, given its size and objectives.

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1 *The virtuous circle of value creation in the sports industry*

1.1 Introduction

This chapter presents an exploratory discussion of the concept of the *virtuous circle*. It refers to the use of chains of reaction and interaction for the furtherance of an organization's cause. We see how the players of such chains comprise different stakeholders. The virtuous circle provides the justification for and the theoretical framework of coordinated and concerted actions on account of the synergies that they will release. Sport clubs, business entities and governmental bodies may thereby greatly enhance the effectiveness and efficiency of their tasks.

This chapter describes the virtuous circle of value creation in the world of sport and analyses each component in turn (Figure 1.1). The virtuous circle is a concept predicated on the assumption that when, in sport activities, town or regional development, for example, an appropriate measure is taken it will unleash a chain of positive reactions amongst the involved stakeholders. It implies the value creation process that reinforces itself through dynamic feedback loops.

1.2 Sports events: rivalry and competition

The main objective for the organizers of sports events and the teams or individuals who take part in them is to entertain the fans and win the competition. The basic ingredients that keep any competition alive are interest, uncertainty and a passionate involvement in the outcome. To create these ingredients, there has to be fierce competition between the teams and an enduring rivalry (Figure 1.2).

Without strong, evenly matched rivals there is no uncertainty or excitement about the outcome and the fans do not feel the need to proclaim their identification with and loyalty to their team. A

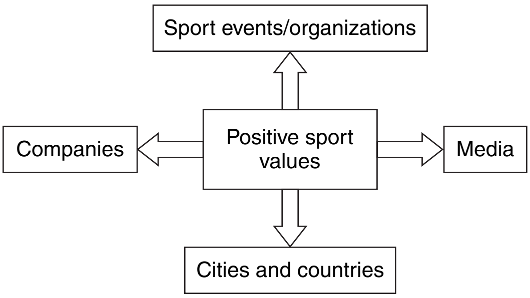

Figure 1.1 The sport virtuous circle
Source: Authors

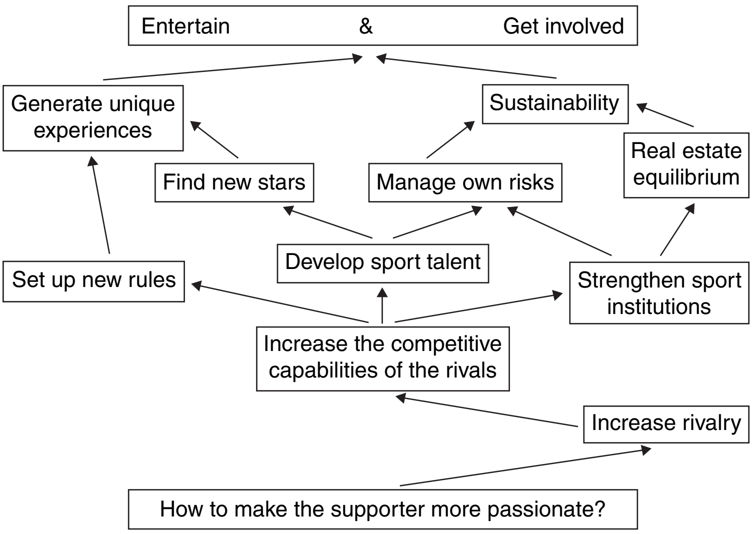

Figure 1.2 Key success factors of sports: entertain and get involved
Source: Authors

championship that is a foregone conclusion or that is always won by the same person or team (because the rivals are unevenly matched) loses its main attraction, which is the excitement of the result. When that happens, attendance at sports events plummets and the fans lose interest, at least temporarily. The more evenly matched the rivals, the greater the uncertainty and passion, which is what generates interest and economic value. The various and ongoing changes to

NBA rules reflect how important it is to maintain a balance between competing teams in order to keep the fans' passion alive. Such competitive balance is the only way to preserve the uncertainty as to the result, which is what ultimately keeps the spectators interested (Toft, 2003). Sports teams need strong rivals; otherwise they fade away.

Competition in sport is very different from competition in other areas. In sport, the aim is not to eliminate the weaker rival. The adversaries need one another and to some extent they also need the balance between them to be maintained (Elías and Dunning, 1992). The idea of a type of competition in which competitive and cooperative behaviour are not only compatible but can coexist in firm strategy is encapsulated in the concept of 'co-opetition' (Brandenburger and Nalebuff, 1996).

In the competitive models that predominate in conventional industries, profit maximization and profit appropriation are the rule, whereas in cooperative models the goal is profit generation. The fact that a football team wins the European Cup is a gain not only for the individual club but for all the clubs in the country, as it improves the country's ranking for subsequent European championships. Unlike other industries, participants enter into and maintain collaboration agreements to explore new sources of revenue and exchange ideas on best practices (Panstadia International, 2009). In any case, competition and rivalry must stay within limits, based on the values that sport promotes. 'Rivalry in sport is good provided the rivals get on with one another' (Normile, 2005).

1.3 Sports organizations

Sports organizations, as they exist today, cover a broad spectrum, so in order to study them we need to distinguish between different types. According to the Canadian author Trevor Slack, a sports organization is any social entity that participates in the sports industry, is goal-oriented, engages in a rigorously structured activity and has clear boundaries (Slack, 1997).

Given the breadth of the concept, we need to classify sports organizations according to their mission, goals and principal activity (Chelladurai, 1985; Gómez and Opazo, 2006). The mission of a 'sports governance' organization, be it a government department, a national or international federation or an Olympic committee, is to foster and develop sport at all levels in a certain geographical area. 'At all levels' means that sport is to be fostered among all categories of sportspeople (youth, amateur and professional), for both men and women, and for all age groups (children, adolescents, adults and older people). In order to 'foster sport', these bodies must start organizing sport activities at school level, in order to get people involved in sport from a young age. Child and youth championships, school tournaments and university championships all help to consolidate sporting activity among the younger generation.

Another mission these organizations have is to formulate and regularly review the rules of sports competitions and events and establish a disciplinary regime, so that the rules of fair play are respected. They must make every effort to make competitions interesting and review the rules of the game as necessary to promote an even match between teams, which is key to the rivalry and passion that attracts devoted fans. Sports governance bodies are by definition not-for-profit and obtain most of their revenues from public funds. Nowadays, however, many of them have opportunities to raise funds from the private sector, allowing them to broaden their horizons and finance a wider range of activities.

The role of the suppliers of sport activity, that is, the sports clubs and associations (ACB, LFP, ASOBAL, etc.), is different from that of sports governance bodies. Clubs and associations are private organizations that provide sports activity or produce sports events. Their aim is to supply a community with sporting activities, at both a recreational and a competitive level, and take part in national and international competitions. Also, they must defend the rights of the individuals and teams that take part in sports competitions.

Organizations with multi-million euro budgets and, in some cases, global reach and impact, obviously cannot be managed by enthusiastic amateurs who would be overwhelmed by the scale of the organizational challenge. The presidents of national and international federations, Olympic committees and large sports clubs need a different profile from that which was customary in the past. In order to manage sport institutions and companies, they need to be better trained and more specialized. As chief executives, they must be aware of the changes in recent decades and rise to the