

## Economic impact of sporting events - evaluation criteria and indicators of interest in the case of Madeira

António M. Almeida<sup>1\*</sup>

SHORT PAPER

### INTRODUCTION

Destinations around the world are increasingly investing in sporting events in order to attain a number of economic, socio-cultural and political aims. Politicians and policy-makers are under constantly increasing pressure to increase the number of events by creating from scratch new ones or by bidding to host large scale ones (Getz, 2008), because sport events are conceptualised as strategic tools leading to higher levels of economic activity, employment and tourists. Economic impacts “have become central to the rhetoric and practice of event bid committees” (Thomson, Cuskelly, Toohey, Kennelly, Burton, & Fredline, 2018). There are several reasons behind the current drive to bid for sporting events, include infrastructure revitalization in degraded urban areas, community involvement and pride, expectations of stronger economic growth over the medium term and better electoral results. Event bidding processes aiming at larger events tend to follow predominantly an economic and touristic agenda because it will be very much easier to persuade voters to ratify it. However, the evidence available suggests that smaller events might lead to significant positive effects, which is not always the case with larger events. The former may lead to highly negative impacts, in terms of public debt and social and environmental negative impacts. Whatever the case, public funding being made available to support events and bidding processes must be justified on grounds of economic rationality and long-term objectives. For that reason economic impact studies of sporting events are becoming commonplace. In this abstract we will consider the following issues. What are the most important criteria and

variables employed to evaluate the economic impacts of the organization of sports events in the Madeira Autonomous Region (MAR)? Which criteria should be taken into account in public policies for sports events organization? Is there any relation between participation or visit in the context of a sporting event and the possibility of revisiting the island (MAR) as a tourist? What are the profile of the sport events that bring more benefits for the economy as a whole? In the following paragraphs, we will now take a brief look at each of these questions.

### ECONOMIC IMPACT OF SPORTING EVENTS - EVALUATION CRITERIA AND INDICATORS

Economic impacts studies are rather the norm in the field of large-scale events. Such studies are increasingly required by policy makers writing down bidding documents containing proposals to host large events owing to issues of accountability, transparency and risk assessment cannot be overlooked anymore. A number of methods are available. Taks, Kesenne, Chalip and Green (2011) provide a detailed analysis of the standard economic impact analysis (EIA) and of the alternative method of cost-benefit analysis (CBA). Other methods include multiplier analysis, input-output modelling, and computable general equilibrium (CGE) modelling. When considering such methods, there are several relevant constraints to be taken into account. Barajas, Coates and Sanchez-Fernandez (2016, p. 124) refer aspects such as “misinterpretations and miscalculations” that may lead to spurious results (Baade and Matheson, 2006; Barget & Gouguet, 2011; Késenne, 1999; Taks, Kesenne, Chalip and Green, 2011). For example, carrying out surveys in outdoors is problematic for a number of

<sup>1</sup> Faculty of Social Sciences, University of Madeira

\* Corresponding author: [antonioa@staff.uma.pt](mailto:antonioa@staff.uma.pt)

reasons (Barajas, Coates & Sanchez-Fernandez, 2016), namely practical difficulties in assessing accurately the number of participants and attendees. Another sort of bias lies in the overwhelming majority of published studies refers to analysis commissioned by the local governments. As observed by McFarland (2017, p. 2), governments “of course, want all of these numbers to be very high, as it shows their direct spending was done very efficiently and effectively, significantly helping their community and people”. Consequently, consultants and firms carrying out the studies share a common interest in inflating figures in order to match the contracting entity needs. A number of other issues emerge when attempting to measure the sources of cash flows. For instance, Preuss, Könecke and Schütte (2010) consider that the event organizers should only consider money spent by visiting attendee’s staying in the host community. The authors consider that for the whole year, the amount of money spent by local attending sporting events abroad (negative cash flow) should be subtracted from the previous amount. For all these reasons, independent studies carried out by third parties such as universities should be the standard procedure in this field, but such studies are relatively rare.

The most common criteria and variables that are used to evaluate the economic impacts of the organization of sports events in the MAR are mainly economic and touristic in nature. The “commercial realities” always prevail in the public event discourse (Antchak, 2017). Newspaper reports and remarks by senior policy makers suggests that the number of participants from abroad, plus the number of extra number of nights and changes in the occupancy rate, are the most factors in determining the overall rate of success of the event. Such measures are readily available from official statistics and are easily understood by the average citizen. Local authorities in a number of regions adopt such an approach in increasing numbers. According to McFarland (2017) economic studies are mainly focused on indicators such as the total economic impact defined as “all the economic activity generated as a result of the event”, and indirect/induced spending plus the number of

direct and indirect jobs created. Studies commissioned by local governments or sporting event organizers outnumber by far those ones carried out by independent entities. When reading such studies, the reader must be aware of the “self-serving government bias” (McFarland, 2017) commonly found in the published studies and reports.

In terms of the criteria that should be taken into account in public policies for sports events, it is worth of consideration to consider a number of factors. Several authors assert that economic reasons, with the exclusions of other aspects, are insufficient to fully justify public funding for bidding process. Economic impact studies measure the economic value of an event in terms of expenditures and revenue, creation of employment and self-employment, attraction of extra number of visitors, media exposure and increased levels of attractiveness. In recent years, the scope of the economic assessment of major events has become more comprehensive and detailed. As observed above, the exact calculation of the final amount of expenditure is rather difficult, with a number of leakages to be taken into account. Dwyer, Forsyth and Dwyer (2010) characterized and described seven categories of expenditure by relevant segments of direct and indirect participants ranging from “event visitors, attendees, and local residents”. For that reason, the total amount of expenditure includes, among others, the loss of revenue relating to residents leaving the area, expenditure incurred by ‘casuals’ and by ‘time switchers’, plus retained expenditure and expenditure diversion. The calculation of new money introduced by holding a major event is crucial in the estimation of the economic impacts, and efforts are needed to further improve the estimation of event tourism expenditure.

Early studies reported mainly the “net financial impact” (Li & Jago, 2013, p. 592), defined as “the difference between event revenue largely from ticket sales and expenditure on operations and on building venues”. The methodological difficulties of this approach were briefly mentioned above. In most recent years, local authorities have begun to recognise the political and economic importance of supporting

sporting events based on long-term economic considerations. According to Li and Jago (2013) hosting a major event can benefit the region in the medium-long term via enhanced image and attractiveness followed by extra numbers of visitors in the near future (induced tourism) (Jago, Chalip, Brown, Mules & Ali, 2003; Macfarlane & Jago, 2009). Other advantages relate to the development of synergies and complementarities, community pride, political power and regeneration of urban areas. For all these reasons, events are perceived as a boosting strategy in terms of tourism and economic development in many countries.

The evidence available suggests that repeat visits account for a large proportion of the number of visits at any time in Madeira. Satisfaction studies on events' attendees conducted by the Tourism Observatory indicates that the number of repeat visits ranges from 40-50%. Based on data covering six different cultural events staged through the year, it can be suggested a sizeable number of attendees are repeat visitors. Loyalty and repeat attendance are a central concern of the sporting events organizers, because higher levels of spectator repeat attendance lead to a stable source of attendees and revenues. Repeat attendance is essential to achieve financial sustainability and a strong reputation in the event's market. Based on profitability concerns, most organization attempt to collect data on spectators' profiles and behaviour, in order to identify critical factors of success (Clemes, Brush & Collins, 2011). Developing loyalty offers ground to maintain a competitive edge, because loyal spectators exhibit higher levels of satisfaction, a more positive attitude towards the event and the destination and greater willingness to recommend the event. Akhoondnejad (2018) links higher levels of spectators' loyalty to a higher probability of re-attending the event. Loyalty relates to positive attitudes towards the destination and to cost-effectiveness, (if we compare the unit advertising cost of attracting a repeat visitor with that of newcomers). Loyal spectators are less price sensitivity and less sensitive to "service errors". Larson and Steinman (2009) refer that loyal spectators are

instrumental in persuading others to participate. Loyally measured by spectator's willingness to recommend and likelihood of return was found to be related to satisfaction. Undoubtedly, the best way of ensuring loyalty is to offer high levels of service quality. Alexandris, Theodorakis, Kaplanidou and Papadimitriou (2017), based on a sample of 368 runners participating in an International marathon indicated that a service quality measure by service environment and outcome impacted significantly event loyalty. The authors also shown that running involvement played a moderating role in the relationship between event quality and event loyalty. In this regard, it is important to consider that highly involved runners are in the minority in most running marathons. Most runners in marathons taking place in urban environments are leisure oriented. Event organizers are required to take into consideration simultaneously the needs and expectations of both segments to increase satisfaction, word of mouth and loyalty.

Economic impact studies must be intertwined with satisfaction studies in order to identify key weakness and major strengths as well as impact assessments and statistical calculations to identify correlation among variables.

With regard to the issue of the best type of sport events in terms of benefits for the economy as a whole, the literature almost unanimously advocated the emphasis on small-scale events. Ziakas (2014) observes that it is "often overlooked that the sustainability of benefits derived from one-off mega-events is inherently limited because of their one-time temporal character". Mega events demand huge amounts of investment and construction of facilities can turn into huge losses with long term negative consequences for the hosting community whether as a debt or unmanageable maintenance and service costs. The best approach lies in blending and mixing smaller scale events with cultural and civic events in order to use the limited resources available to bring about the highest possible level of long-term benefits for the hosting community. Policy makers, community leaders and sporting organizations have been pressed to adopt an event portfolio

agenda in order to manage an increasing number of separate events. According to Clark and Misener (2015, p. 13) an event portfolio is akin to a “holistic tool” capable of “articulating the strategic connection of events in the city for broader civic outcomes”. Still quoting Clark and Misener (2015, p. 13) an event portfolio in its essence, “a series of interrelated events in terms of resources, theming, and markets, which are strategically positioned on the basis of their operational and thematic relatedness”. An event portfolio intends to “achieve more benefits than the sum generated individually” (Pereira et al, 2015, p. 30). While it is not easy to adopt an event portfolio approach in a destination lacking a networking and collaborative culture, hosting events through the year offers an opportunity to develop a new mind-set based on collaborative networks, ex ante evaluations, stakeholders' consultation and identification of market opportunities to enhance the destination image abroad.

The evidence available for Madeira suggests that figures on the number of attendees and direct economic impacts tend to predominate. The Observatory of Tourism hosted by the University of Madeira have been able to record data on festival attendees' satisfaction and spending behaviour since 2016, which allow for a series of data over a sufficient representative period. At present, there isn't another similar data collection process underway.

### CONCLUSIONS

Sporting events are “vibrant element of human and community life” (Hjalager and Kwiatkowski, 2017) and an avenue to city “distinguish itself in a crowded events marketplace (Todd, Leask & Ensor, 2017, p. 11). The literature and the practice include a growing number of measures and analysis over and above standard economic measures. However, for the time being, traditional economic analysis will tend to dominate owing to concerns of accountability, transparency and evidence-based policy-making. Which is not to say that managerial approaches founded on well-established strands of literature such studies on event portfolios should be overlooked. In most

instances, cities and regions manage such a wide range of events through the year that more must be done to render such events effective in promoting the cities and regions economic fortunes in a strategic way. Not every event, even if the activity actually performs well in financial terms, must be supported with public funds. What is more important is to ensure that each event adds to the portfolio of events in a manner that the whole (the portfolio of sporting events) is greater than the sum of the parts (each one of the sporting events under analysis).

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