

Modulo 1. Sport and politics driving wealth management in sport

Introduction: Sports and politics are not separate

Politics and economics were long regarded as separate realms, with only limited interaction between them. Today, however, most businesses recognise that political actions and decisions have major implications for commercial operations, and that they are easier to predict than the weather (Fägersten, 2015, p. 24).

A common refrain that arises when sports and politics collide is that 'sports and politics should be kept separate'. From an idealistic point of view, it is easy to see why this is desirable: separating sports and politics allows participants and fans of sports to consider themselves as taking part in a process of 'pure' competition, unsullied by the conflicts and messy compromises that characterise the political sphere.

The call for separating sports and politics also speaks to the capacity of sports to facilitate a suspension or even easing of political tensions – perhaps best symbolised by the mythical football match between German and British soldiers who emerged from the trenches of Flanders on Christmas Day in 1914. This football match (the existence of which is historically contested) was even memorialised in the below sculpture unveiled in Liverpool in 2014.

Figure 1. 'All Together Now' sculpture designed by Andy Edwards, unveiled in December 2014 in Bold Street, Liverpool



Source: BBC, 2014, <https://bbc.in/3p0gE4s>.

In this course, however, I am going to show you that, when it comes to wealth management in sport, the idealistic image of sport being a realm separate from politics is a costly misapprehension.

In the first place, sports – and particularly elite sports organisations of the greatest relevance to students on this course – are inextricably bound up with the twin political concepts of identity and prestige. Think of any sports fan that you know (or yourself, if you happen to be a fan of a major sports organisation) and ask yourself how it makes you feel when they fail on the field or, even more egregiously, are embarrassed by some scandal. Now think of that same person when their team succeeds or distinguishes itself through fair play or charitable work. Realising this stark difference, consider the following: the feelings of these individuals are replicated simultaneously in large numbers and often within politically relevant boundaries. While one might imagine that the sentiments of citizens only matter to politicians in democratic political systems, there is an emerging consensus among scholars of sports and politics that autocratic regimes are at least as inclined to use sport to burnish legitimacy (see, for a fuller discussion on this point, Jedlicka *et al.*, 2020).

This can be seen when assessing the political benefits of sporting success; for instance, Miller (2013) reports an econometric analysis of sports team performance and incumbent success in US mayoral elections that concludes the following: “Winning sports records boost incumbents’ vote totals and likelihoods of re-election, exceeding in magnitude the effect of variation in unemployment” (p. 59). Politicians (at least, successful politicians) are well-aware of the stardust that sporting events can sprinkle on their careers, and are always careful to be seen supporting the teams that matter most to their voters.

The below image is a version of an archetype that will be familiar to many followers of sport; it is about besuited politicians inserting themselves into the celebration of a victorious athlete. It captures the then Irish Taoiseach (Prime Minister) Charles Haughey, who travelled to Paris in order to be in the frame for Irishman Stephen Roche’s historic Tour de France victory. This was a particularly memorably example because of the press coverage that this received in Ireland at the time, with *The Irish Times* cartoonist Martyn Turner running a series of cartoons, giving the impression that Haughey had won the Tour de France himself, with Roche playing the role of his **domestique**.

Figure 2. Charles Haughey and Stephen Roche



Source: [online image of Charles Haughey and Stephen Roche], (s. f.), <https://bit.ly/3oYoNGu>.

Of course, the opposite can also be seen in action; sporting mediocrity is often a harbinger of local, regional, or national stagnation, and perceived injustices in the sporting arena can spur violent, often highly politicised reactions among fans and politicians. Furthermore, sports can serve to keep memories of political enmity alive long after they may have died out on their own; witness the sectarian tensions around the Celtic Rangers football rivalry, for example.

Finally, in many contemporary societies, elite sport is one of the few areas of culture where large groups of people continue to regularly share common experiences. The wider trend in culture, driven by changes in media and technology, is one of increasing fragmentation and individualisation of the type of content we engage with and how we interact with it. Elite sports competitions and performances thus occupy a vital place in our political and cultural consciousness, and are often among the most prominent social locations where emerging political issues play out.

Given all of these dynamics, it is unsurprising that politics (and politicians) tend to take an outsized role in elite sports, in comparison to other sectors of the economy. Political actors and regimes are often willing to suffer disproportionate economic downsides in order to benefit from the reputational and authority-enhancing effects of sporting success. On the other end of the spectrum, political interventions can fatally undermine the finances of previously viable sporting organisations. Outside of dramatic market distortions like this, it is also the case that, during times of relative political stability, some sports organisations can benefit greatly from established political alliances, while others find themselves frozen out of such opportunities.

Thus, incorporating an understanding of politics into one's strategic approach is of vital importance for understanding wealth management in sports, whether from the perspective of an administrator in a sports organisation or from the perspective of an investor looking to identify value in the marketplace.

In this first reading, we will introduce the conceptual strategic toolkit that will be developed in greater depth in the subsequent modules. We will then engage with a range of examples that illustrate just how important political considerations can be for the finances of sports organisations, and how a failure to appreciate and mitigate political risks can lead to catastrophic financial consequences. We will also explore examples of sports organisations and investments that have harnessed a strategic integration of political dynamics to achieve beneficial outcomes.

The core dynamic that we will explore relates to how politics can create both risks and opportunities for the commercial operation of sports organisations. The key understanding that you should take away from this reading is as follows: wealth management strategies in sports, that fail to consider and incorporate political dynamics, can lead, on one hand, to an underestimation of political risk and, on the other, to a failure to capitalise on political opportunities.

Key terms. Establishing a language of strategic integration of politics into wealth management in sport

Let's begin our exploration of the intersection of politics and wealth management by outlining how each of these terms will be used and understood, and how they can be made to intersect in building a strategic approach to integrating politics into wealth management in sport.

The term 'politics' has escaped a widely accepted universal definition over more than two millennia of study (Heywood, 1997), and the definition that I propose here is selected with a view to maximising utility in integrating political analysis into wealth management in sport (other definitions may be better suited to other analytical purposes). With that said, I will be using a deceptively simple definition first proposed by Harold Lasswell in 1936 of politics as being concerned with 'who gets what, when, and how' (Laswell, 2018). This approach focuses on politics through the lens of power, viewing it as the means through which authoritative decisions about the distribution of value in a society are determined.

This approach is built on an appreciation of the fundamental inequalities of power and wealth that prevail in all complex political systems. It is well-suited to a focus on political **elites**, that is, individuals or groups in a political structure with disproportionate influence and power. It is also well-suited to focus on state interventions in sport, which tend to be of the most critical importance from a perspective of wealth management (Jedlicka *et al.*, 2020) and tends to understand such interventions as driven by the needs of those in power to maintain or strengthen their position.

Fundamentally, this approach allows us to pull out two core elements of politics that affect wealth management in sport. The first element is **systemic**; this refers to a combination of the institutions that undergird political power structures. Such institutions include police and military forces, courts, media systems, and institutions directly involved in making laws, nominating, and holding executives to account. This systemic element captures the wider political infrastructure within which political decisions are made and enforced. The second element is **substantive**; this concept captures policies and priorities within a political system. In order to arrive at a well-designed strategic approach to politics in wealth management in sport, it is essential to understand the nature of the systemic and substantive properties of the political system within which a sports organisation is operating.

This definition and the wider analytical approach to politics entail work well in conjunction with political risk, that is the most common framework used in order to integrate politics and wealth management strategy. The concept of political risk has been mostly studied in the international business literature through the lens of types of disturbances to an established *status quo* that affect the value of a company, and the majority of studies on the evaluation and measurement of political risk have been performed from the perspective of a company evaluating the potential risks involved in



foreign direct investment. This approach treats politics largely as a process that can impinge on normal market conditions to affect the viability of a business, through expropriation, nationalisation, or targeting sanctioning, for example.

The scope of the political risk concept in this literature has widened over time to include processes of change and ambiguity, as well as systemic/institutional volatility that undermines the capacity of businesses to extract a reliable return on foreign direct investment [see Hartwell and Devinney (2021) for a detailed review of this literature].

While the political risk framework from the international business literature is a useful starting point, it is insufficient in scope to act as the basis of a strategic approach to wealth management in sport, due, firstly, to its focus on downside risk. As this course unfolds, we will demonstrate that there are also substantial upside opportunities that can be developed by harnessing (or at least being able to read and navigate) political currents and conditions. Secondly, the political risk approach tends to focus exclusively on the implications of various forms of political disruption for investment opportunities, meaning that it fails to appreciate the political risks and opportunities that can obtain in relatively stable political systems.

This is a problematic omission, as the politics largely operates in a pattern of 'punctuated equilibrium', where long periods of relative stability are occasionally interrupted by sudden ruptures in policy and institutional structure (for a comparative discussion, see Baumgartner *et al.*, 2009). Failing to account for the risks and opportunities within relatively stable political systems means that your strategy will fail to accommodate politics as it mostly plays out in day-to-day life.

Finally, the concept of 'management' within wealth management is another area where there is little overall agreement on a definition among academics. It is worth noting that, in the political risk literature discussed above, Fägersten (2015) and others including Bracken *et al.* (2008) and McKellar (2010) have emphasised the importance of both integrating political risk into investment calculations and proactively managing political risk as part of commercial operations day-to-day.

With all of these considerations in mind, I define political risk management as follows: the strategic and (where possible) proactive development of opportunities and mitigation of risks caused by political dynamics, understood in terms of the intersection of systemic and substantive forces.

Framework for strategic politics analysis in wealth management in sport

On the basis of the ideas laid out above, we can now begin to develop an analytical framework that can be used to map strategy management approaches to political risks and opportunities in different types of political environments and situations.

In the previous section, I introduced the idea of looking at politics in terms of power and the allocation of resources, and broke this down into **systemic** and **substantive** aspects



of political scenarios. In this section, I propose a framework for understanding the interplay of these elements in terms of their relative **stability** or **volatility**. This framework is presented in table 1 below. In this section, I will explain the framework abstractly, before concluding this first reading with a series of examples that illustrate the different political scenarios that it envisions and how they affected the value and/or financial functioning of major sports organisations through a series of case studies.

Table 1. Analytical framework for this course

	Political stability	Political/policy uncertainty within a stable system	Generalized systemic volatility	Particularized systemic volatility
Political opportunities	Financial and reputational benefits of alignment with established power structures and actors.	Getting ahead of emerging issues to improve reputation; Reaching out to new support bases.	Investment (especially in liquid capital) can generate returns that are impossible in normal circumstances.	Favoured actors can benefit as new commercial arrangements are developed.
Political risks	Being 'frozen out' of established power structures; facing entrenched opposition from established actors.	Previously acceptable practices become liabilities; fans, athletes, and journalists shift narratives and information flows.	Underlying pillars that stabilise asset value can become unstable.	Assets of targeted organizations can be frozen, seized, or rendered worthless.

Source: own source.

Fundamentally, what this framework portrays is that different configurations of systemic and substantive elements of politics can have different implications for the political risks and opportunities that lie at the heart of a politically-informed strategic approach to wealth management in sport.

Each column presented in this framework represents a different overall configuration of systemic and substantive factors. On the far-left side of the framework is a situation of combined systemic and substantive political stability. This captures a situation where political structures are established and not in any apparent danger of collapse or radical change. It also captures relative stability in terms of the stable basis and scope of political competition, with no emerging political issues or forces redrawing the political landscape. In such instances, I will show that considerable opportunities and risks in terms of wealth management in sport are often 'baked in' to the political system, and that a shrewd wealth manager can better appreciate and develop their strategy by understanding this.

The second column captures a situation where a structurally stable political system finds itself exposed to substantive political uncertainty or volatility. This is typically caused by a new issue emerging in politics that has not been well accommodated by existing power players. Think, for example, of the effects of Brexit on the UK political system: the emergence over time of this issue posed challenges to political and business elites, who were internally divided on the issue. Another example is the increasing prevalence of identity politics and the politics of race in the light of the Black Lives Matter movement. In these instances, organisations that are not following and developing strategic responses



to these developments can find themselves caught up in narratives that are imposed on them by political and media forces. On the other hand, organisations that proactively manage these situations can capitalise on emerging themes and use them to build their support bases and set of political allies.

The third and fourth columns capture two types of instances of wider political volatility, i.e., systemic volatility. This type of volatility has long fascinated international business scholars, as it represents the most dramatic form of political risk for foreign direct investment. Under the heading of generalised systemic volatility, I include situations where either elements or the entirety of a political structure are under pressure of failing or being replaced. In such situations, the risk profile of investments of any sort rise dramatically; however, it is also the case that systemic crises can create highly lucrative investment opportunities within and beyond sports, especially to those with mobile and liquid forms of capital.

Particularised systemic volatility, finally, captures instances where sectors or subgroups of actors within a political system are exposed to an effective systemic collapse, while, at the same time, other sectors and actors are able to continue to operate within a relatively stable environment. The type of targeted sanctioning of Russian individuals and companies that we have seen recently in response to the Ukraine crisis (see, for detail on how this applied to sports organisations globally, Gray *et al.*, 2022). The COVID-19 crisis and state's response to it can also be conceptualised through this lens, in the sense that it was a systemic political crisis with particularised consequences and applications.

The framework illustrated: classifying political intersections with sport affecting wealth management

In this final section, we will look at a range of cases of political risks and opportunities that have affected the wealth management profiles of major sporting organisations, in order to illustrate the utility of the framework introduced in the previous section for making sense of these instances.

Let's begin by looking at examples of political opportunities that can be developed and maintained in systemically and substantively stable political systems. Often, such opportunities are historical achievements that require a degree of political engagement and lobbying to maintain. One excellent example of this are the especial exemptions from aspects of antitrust law enjoyed by the National Football League (NFL) in the United States of America. While Major League Baseball has a long-established exemption for antitrust law due to a 1922 Supreme Court decision, the NFL faced an uphill battle after a 1957 Supreme Court ruling that it did not enjoy the same blanket exemptions.

In this context, a key priority of successive NFL administrators was securing a federal exemption through legislation that has allowed the league's teams to cooperate on television contracts, following intensive lobbying in the Sports Broadcasting Act of 1961. This exemption has been crucial to the development of the NFL, although several critics



have argued that the original justification for this exemption has long since been rendered irrelevant by development in communications technology. More straightforward political opportunities lie in particular funding streams and other forms of financial support for established organisations in stable political systems. Such forms can be direct, in terms of backing or guaranteeing loans, or more indirect – often in the form of public/private partnerships that develop infrastructure beneficial to a sports organisation.

Stable political systems also carry substantial risks, particularly for ‘outsiders’, that is, investors or organisations without an established network of political support. Consider here, for example, the difficulties faced by minority sports or sports without an established line of state funding in achieving parity with established insiders. Consider also how league rules such as the 50 +1 rule in the Bundesliga creates substantial barriers to investment and ownership structures that would be commonplace outside of the intersection of sports and politics.

Where political systems remain stable, emerging issues that disrupt the substantive basis of political competition (which are often driven by a combination of popular sentiment and media focus) can lead to the emergence of previously unforeseen risks. For instance, look at the recent emergence of the ‘Me Too’ movement, which has seen an increased focus on instances of the use of positions of power to get away with sexual inappropriateness, harassment or event assault. Several sporting organisations have found themselves caught behind this trend, with a notable recent example being the events that led to the resignation of Marc Overmars as director of football at Ajax. Sports organisations have been similarly exposed to this dynamic in the realm of racial politics in the wake of the BLM movement, with notable criticism of, for instance, the NBA for discrepancies between the diverse ethnic makeup of players and supporters, and the more monocultural nature of influential leadership positions within the organisation.

Such issues, successfully managed, can allow sports organisations and investors to develop innovations that put them ahead of the curve on emerging issues, allowing them more control over the political narrative, and enabling them to benefit from political opportunities both in terms of state support and growing their support bases. In the realm of sports marketing, for instance, Nike made a bold play to ‘own’ an emerging issue by aligning themselves with Colin Kaepernick’s activism surrounding BLM.

Instances of generalised systemic volatility can be seen when the extent of political disruption is such that the institutional supports that allow for effective medium term wealth management are removed. Consider the fate of sports investments and organisations when regime change occurs suddenly – such as in military coups, or popular uprisings. Or consider the situation faced by sports organisations struggling to manage major economic disruptions that threaten the value of their assets. However, in such contexts, there are also considerable opportunities for high-risk, high reward developments, as new regimes seek inflows of liquid capital.

When it comes to instances of particularised systemic instability, there are few more apposite examples than the sanctioning of Russian individuals and companies due to the Ukraine crisis. This obviously represents a risk for targeted individuals – witness the write-down in Roman Abramovich’s investment in Chelsea football club. However, as with generalised systemic instability, there can be opportunities caused by this disruption; it is no surprise that there has been healthy competition to invest in Chelsea FC following this development.

Conclusion

Overall, this reading has sought to motivate the course and present the analytical framework that we will be using in subsequent modules to explore how to map political risk and opportunities, and to incorporate political analysis into strategic wealth management planning in sports. Please, review the key concepts, and especially the framework presented in table 1 closely, as these will be recurring elements as we dive deeper into these aspects in subsequent modules.

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