

Module 3. Mitigating political risk in wealth management

Unit 3.1 Introduction and overview

In this reading, we are going to move beyond the mapping exercise that we introduced in reading 2, which allowed us to identify and categorise the political risk and opportunity scenarios that a sports organisation or sports investment opportunity can face, towards an applied focus on how to manage political risk in wealth management and sport. This reading zeroes in on the political risk side of the equation, while reading 4 will look at how to harness political opportunities.

This reading will build upon the conceptual structures that we established in the first two readings. In the first place, we will look at political risk in stable political systems. Here, we make a distinction between established versus dynamic substantive political risks. Established political risks are those that are embedded in the political system as it stands. Dynamic substantive political risks can also occur within a stable political system but are differentiated from established risks because they occur when new issues rapidly emerge into the political sphere, where there is a sudden shift in policy direction, or where there is a shift in the balance of power between political actors and organisations.

Having established and provided examples of these types of political risk in stable systems, we will then go on to explore mitigation strategies. We will focus on political investment and alignment as strategic approaches to mitigating established risk. Political intelligence gathering and integration into marketing and communication are then advocated as a strategy for dealing with dynamic political risk.

The second half of the reading focuses on unstable political systems. Again, we will make a distinction between different types of risk that can arise when political systems are fundamentally unstable. In the first place, we will discuss **generalised** systemic volatility, where the entire political system within which a sports organisation or sports investment opportunity is embedded is unstable. Such instability affects sporting organisations and investments, but also bears on the political system that underpins any type of economic activity. Sporting organisations or investment opportunities, embedded within political regimes, are characterised by such instability risk, seeing a dramatic diminution in the value of their assets and/or limitations on their ability to realise the value of those assets. The second type of political risk we will also analyse is **particularised** systemic volatility. This type of systemic volatility is distinguished by its application to a limited section of the governance regime, economy, or society.



Having established and provided examples of the political risk in unstable political systems, we will then go on to explore risk mitigation strategies. Regarding generalised systemic instability, we will explore two strategies for risk mitigation: (i) diversification of assets and investment across a range of political systems, and (ii) political risk insurance. In terms of particularised political risk, we will return to the strategies of political investment and alignment, as well as political data gathering and analysis to consider their application to this type of political risk.

The key theme that runs across the reading is that failure to successfully mitigate political risk can lead to significant financial and reputational losses for sports organisations and investments. An important point to be made here is that political risk mitigation does not translate into risk elimination. Because sporting organisations and investment opportunities are embedded in wider political structures, they have limited capacities to shape their political risk environments. Instead, mitigation strategy focuses on how sports organisations and investment opportunities can work to insulate themselves from the following aspects:

1. their **exposure** to certain types of political risk that impact their profitability, liquidity, and scope for commercial activity. We argue that this should be the goal of sports organisations and investments in stable political systems.
2. The **consequences** of political risk for the value (or ability to realise the value) of assets of sports organisations or investments. We argue that this consideration is to the fore in unstable political systems.

Within each section, risk crystallisation and mitigation will be illustrated with case studies that bring the intuitions, concepts, and strategic ideas developed to life and demonstrate their substantive importance.

Unit 3.2 Political risk in stable political systems: Established versus dynamic political risks

In this section, we will focus on how political risk can affect wealth management in sport within stable political systems. In a stable political system, the overarching regime type (that is, the distinction between democratic, autocratic, and mixed accountability structures) is well-established and faces few to no imminent existential threats. Such systems are consequently characterised by continuity in terms of the network of governance actors that a sports organisation will interact with, as well as the hard, soft, and smart power dynamics in operation. Within stable political systems, the first



analytical distinction to be made in developing a risk mitigation strategy is between **established** and **dynamic substantive** political risks. These terms can be defined as follows: **established political risk** are interests and powers of actors embedded within a political system that can impinge on the profitability, liquidity, or scope for commercial activity enjoyed by a sports organisation.

Dynamic substantive political risk are emerging issues, political organisations, or shifts in policy that can impinge on the profitability, liquidity, or scope for commercial activity enjoyed by a sports organisation.

Established political risks that are already embedded in the *status quo* are the most predictable types of risk, in the sense that they are discernible via a political risk analysis, incorporating available information. In understanding such risks, an appreciation of regime types, governance actors, and power relationships is key. The most common route for established political risks to negatively affect sports organisations or investment opportunities is via a previously **latent** aspect of the political power structure that they have overlooked or underestimated. The fundamental dynamic here is the **crystallisation** of risk, which occurs when relatively predictable and powerful sources of political opposition to the activities of a sports organisation or investment are not accounted for before such activities are undertaken.

Dynamic substantive political risks are less straightforward to identify. They emerge within relatively stable political systems when circumstances cause increased political prominence for an issue, lead to a shift in political policy, or create a disruption to the power dynamics of governance actors (which can include the insertion of new governance actors into the network). The most common crystallisation of dynamic substantive political risk that a sports organisation or investment faces is exposure to censure for what might have been previously thought to be an acceptable (or at least ignored) practice. When this happens, past activities can create a reputational liability, diminishing the soft power that a sports organisation or investment enjoys and thereby undermining its profitability.

When dynamic substantive political risk emerges in a democratic political regime, horizontal accountability structures are particularly important. Civil Society Organisations and media can seize or, at least, affect the narratives and information flows that surround emerging issues. Sporting organisations and investments are a common target for this type of high-level scrutiny due to their public prominence. Thus, the nature of dynamic substantive political risk means that sports organisations or investment opportunities can lose control of how they are portrayed and/or the narratives that describe their actions.



Unit 3.3 Examples of established and dynamic political risk affecting sports organisations and investments

A striking example of the crystallisation of an established political risk in a context of systemic stability can be seen in the failed 'European Super League' (ESL) venture. For those unfamiliar with this example, it was a proposal to create a new European Football competition announced in April 2021 via a press release by the twelve clubs who had signed up to be involved, including English clubs (Arsenal, Chelsea, Liverpool, Manchester City, Manchester United, and Tottenham Hotspur), Italian clubs (Inter Milan, Juventus, and A.C. Milan), and Spanish clubs (Atlético Madrid, Barcelona, and Real Madrid). Welsh (2022) provides an excellent account of both the affair itself and the political and sociological developments that underpinned it.

The political reaction to this proposal was particularly pronounced in the United Kingdom, where it was deeply unpopular with football fans. The below headline from *The Mirror* newspaper captures the tone of media coverage of the proposal in the UK, and there were public protests at the clubs involved, including a pitch invasion at Old Trafford that led to a game between Liverpool and Manchester United being suspended. In such a context, political leaders faced a strong incentive to publicise their resistance to the initiative – with both the UK prime minister and leader of the opposition making their opposition to the plan public and Culture Secretary Oliver Dowden pledging to do 'whatever it takes' to stop English clubs joining the ESL (Payne, 2021). The French, Spanish, and Italian governments also issued statements backing UEFA's plans to oppose the project. This pressure led to a humiliating climbdown from the majority of the clubs involved, leading to reputational damage and loss of the revenues that the ESL project promised.



Figure 1. Example of negative news coverage of ESL proposals



Source: Kemp and Sullivan, 2021, <https://bit.ly/3Q9pCsj>.

A similar dynamic characterised the National Basketball Association's (NBA) turbulent relationship with the Chinese government. By 2019, the league's operations in China represented a substantial income stream, estimated at up to 10 % of the league's revenue or 5 billion dollars (Fainaru-Wada and Fainaru, 2022). This lucrative relationship was jeopardised when Houston Rockets General Manager Daryl Morey tweeted his support for pro-democracy demonstrations in Hong Kong. The reaction from the Chinese government was swift and comprehensive: it included suspension of the league's official commercial partnerships in China, including sponsoring organisations as well as affiliates such as Ctrip (China's largest online travel website) who ceased to sell NBA-related tickets and travel products on its platform. The incident also prompted a three-year ban for the NBA's broadcasts on Chinese state TV. This disruption took years to repair for the NBA and is estimated to have resulted in lost income for the league running to hundreds of millions of dollars (Paez-Pumar, 2020). This is in spite of the NBA reacting quickly to Morey's Tweet; he was rebuked by the Rocket's owner Tilman Fertitta and the NBA itself in a public statement released in Mandarin expressing its disappointment in Morey (Lutz, 2019). Morey himself deleted the original Tweet and issued an apology (see image).



Figure 2. Daryl Morey's apology tweets



Source: [online image of Daryl Morey's apology tweets], (n. d.), <https://bit.ly/3vPerNh>.

In both cases, a simple political risk mapping exercise would have revealed the established risks involved, and this type of exercise could have allowed for risk mitigation. China clearly has an authoritarian regime type, lying in the bottom 10 % of global states in terms of Varieties of Democracy's Liberal Democracy Index (Boese *et al.*, 2022).

The NBA's intersection with China could thus be straightforwardly understood as an alignment between basketball's soft power and China's hard power, and the lack of vertical and horizontal accountability structures within China gives the state considerable scope for punitive activities, if this balance of power is disrupted. The NBA itself is embedded in a more liberal democratic regime on the USA, which is often in tension with China, and its attempt to walk back the offence caused by Morey's Tweet led to considerable criticism within the American political system (Lutz, 2019). Given the regime



and power dynamics at play, it was highly predictable that such tensions could surface and disrupt an otherwise profitable sporting venture.

Similarly, the ESL proposal activated a previously latent aspect of the democratic accountability structures that characterise the states germane to the proposal, all of which are established democracies – namely that football fans are also voters. By undertaking an action that outraged both their own fans and, crucially, those of other clubs, these sporting organisations invited political intervention that represented the crystallisation of an established political risk. Again, such risk was foreseeable and could have been mitigated by more thoughtful political analysis.

Let us move on to explore two recent examples of dynamic substantive political risk undermining the commercial operations of sports organisations and investments. The #MeToo movement saw an increased focus being placed on sexual abuse and harassment in the light of the exposure of numerous sexual abuse allegations against the film mogul Harvey Weinstein in late 2017. Weinstein's exposure unleashed a deluge of accounts of similar allegations within and beyond the entertainment industry. This high-profile, viral social media campaign led to an increasing emphasis on intersexual dynamics in a range of organisations, and sports were not exempt, most notably with USA Gymnastics confronted with a huge sexual abuse controversy when it emerged that former US Gymnastics doctor Larry Nassar was accused of multiple allegations of sexual abuse. Although these allegations first surfaced in 2016, they picked up momentum in the light of the #MeToo movement, leading to Nassar's eventual imprisonment and huge reputational and financial damage for US Gymnastics. As mentioned in reading 1, Ajax Football Club also recently found themselves exposed to this sort of dynamic political risk, when it emerged that their Sporting Director Marc Overmars had sent numerous inappropriate messages to female colleagues; the coming to light of this led to Overmars resigning and the Dutch government appointing a new commissioner to tackle sexual abuse and intimidation (Euronews, 2022).

Another prominent example of dynamic substantive political risk can be seen in the Black Lives Matter (BLM) movement that began in the early 2010s in response to police brutality and racially motivated violence against black people in the USA, but which gained significant international traction in 2020, following the emergence of a video recording of the murder of George Floyd by Minneapolis police officer Derek Chauvin. TePoel and Narcotta-Welp (2020) describe this movement as having led to a 'racial reckoning in sport', with many sports organisations struggling to reconcile historical scandals and legacies. Liew (2020) pointed out the difficulty of such legacies for sports organisations and investments, arguing the following:



These are not pleasant conversations to have. They feel horrible and uncomfortable, just as they should. They require individuals and organisations to keep talking about racism long beyond the point when people have tired of hearing about it. It won't be polite. It won't be easy. But nothing this important ever is. (para. 8).

The BLM example also illustrates the fundamental unpredictability that dynamic substantive political risk creates. The movement was deeply contested in American politics in particular. Stories undermining BLM and the emergence of a counter-movement ('All Lives Matter') meant that sports organisations struggled to adapt to the new political risk dynamic that it created [see Pilkington (2021), for an in-depth discussion]. This created significant ambiguities for many sports organisations where activities in response to the BLM movement (most notably 'taking the knee' before games) were met with opposition from some players, fans, and political leaders.

In the next two sections, we will outline two strategic lines of approach to mitigating political risk in stable political systems. Fundamentally, the strategies discussed bear on how to minimise the extent to which sports organisations or investments are **exposed** to political risk. That is, these strategies can facilitate sports organisations and investment, lessening the likelihood that either established or dynamic substantive political risks affect their profitability, liquidity, or scope for commercial activity.

Unit 3.4 Mitigating established political risk in stable systems: political investment and alignment strategies

The first strategy that we consider is political investment and alignment. This involves sports organisations and/or investment opportunities dedicating resources to mitigating political risk by inserting themselves as more powerful actors in the political and governance structure within which they are embedded. It is particularly effective in mitigating established political risk.

Political investment and alignment both involve an upfront outlay of some of the resources of a sporting organisation in order to mitigate established political risk. Let us begin by looking at political investment. In politics, as in most domains of life, money talks. Within competitive, democratic elections, one of the most consistent findings in the political science literature is that there is a positive causal relationship between levels of campaign spending and success at the polls [see Schuster (2020); Sudulich and Wall (2011); Sudulich *et al.*, 2013). This fact of political life means that political success relies, to some degree, on being able to fundraise. As such, a straightforward means of insulating



a sports organisation or investment from established political risk involves making political contributions.

Indeed, it is clear to see that this fact of life is not lost on many owners of sports organisations in the US political system, with Graham's (2016) analysis of donations from sports team owners in the Trump versus Clinton campaign, indicating that they had collectively given over \$25 million to the two campaigns. Alongside campaign donations, many sports organisations invest heavily in political lobbying operations, which can also involve significant financial outlay, including paying for the activities of full-time, professional lobbyists and directing funding at influential political actors in between elections. Of course, there is significant international variation both in the regulation of political donations and the laws and norms surrounding lobbying (Chari *et al.*, 2020). Activities outside of these laws and norms bring risks of their own, but, if you are either running a sports organisation or evaluating an investment in sport, it is reasonable to anticipate that such investment serves to provide a degree of insulation from established political risk.

Beyond contributing financially to campaigns and/or political operations, sports organisations and investments can insulate themselves from political risk through a strategy of **alignment** with the goals and policies of powerful actors in their governance network. An excellent example of this strategy can be seen in Liverpool FC's land acquisition and stadium re-development project in the Anfield locale. This project has proved controversial for a variety of reasons, with Conn (2013) arguing that the "policy of buying up houses around the stadium and leaving them empty has driven the local area into dreadful decline" (para. 1).

As such, this policy carries the potential to crystallise established political risk for an organisation like Liverpool FC, both in the tensions that it creates with the club's core identity (Putra, 2019) and the potential for oppositional political mobilisation that it creates. However, Liverpool FC's consistent alignment with the Liverpool City Council's plans around urban regeneration has proved to be a highly effective strategy in mitigating this established political risk. The club and its proxies have worked in partnership with the Council over several years – which has provided a favourable framing of their land acquisition and redevelopment as a means of regenerating the Anfield area, as well as neutralising local politics as one of the principal potential routes for an established political risk to crystallise. As we can see in figure 3, this approach not only allowed for the club's strategy to progress, but also allowed for the club, its partner organisation in this venture (a property company called Your Housing Group), and Council Leaders to present a 'united front' on their preferred framing of this policy as an investment for urban renewal, giving little oxygen to alternative, more critical narratives (Putra, 2019).

Figure 3. Example of positive news coverage of Anfield regeneration project



27 FEBRUARY 2020 1 MIN READ

£2M Anfield environment programme completes

The second phase of a £2million investment in environmental enhancement of the Anfield Village area has now completed.

The CEO of Your Housing Group Brian Cronin was joined by Mayor Joe Anderson, Lena Simic, Labour Councillor for the Anfield Ward, Penny Lane Builders and the Anfield Alley Angels to mark the completion.

Source: [online image of example of positive news coverage of Anfield regeneration project], (n. d.), <https://bit.ly/3A6ZnNf>.

Similar alignment activities can be seen in the off-the-pitch activities of all sorts of sporting organisations. One particularly notable example is Manchester City, FC. Through its 'Cityzens Giving' and 'City in the Community' initiatives, the club is able to align itself with actors in the governance network around what political scientists call 'valence' issues in UK politics (Green, 2007). Valence issues are those where there is near universal agreement on the outcome to be pursued across the political spectrum; they include

health, security, high employment levels, low crime, etc. The City in the Community webpage states the following:

Supporting 20,000 people each season, City in the Community's award-winning programmes aim to:

- Nurture **healthy people** by putting physical and mental wellbeing at the centre of its sessions.
- Build **healthy futures** through education and employability pathways.
- Connect people by creating **healthy communities** in safe, inclusive environments. (City in the Community, n. d., para. 3).

Such issues are the 'motherhood and apple pie' of political life, and alignment with such issues provides insulation from established political risk. The Manchester City initiatives also provide soft power opportunities for their partners/sponsors (including Etihad Airways, PUMA, Cisco and Nissan) to both offset the outlay involved and share in the established political risk insulation that such projects engender.

Unit 3.5 Mitigating dynamic substantive political risk in stable systems: political intelligence gathering and incorporation into a communication strategy

Mitigating dynamic substantive political risk is, by its very nature, a less straightforward matter. Fundamentally, it involves anticipating and, where possible, getting ahead of emerging political issues and policies. This is done through the integration of political intelligence gathering and the communication strategy of a sports organisation or investment. Where this strategy is well-executed, we will show how it allows sports organisations and investment opportunities to proactively mitigate dynamic substantive political risk.

In order to adopt this strategic approach, the initial emphasis is on political **intelligence gathering** in the form of generating insights into the dynamic substantive elements of political systems. What are the emerging issues, policies, or (in some cases) new political actors that are likely to develop? In many cases, political intelligence gathering can be done in parallel to political investment and alignment. Contacts with political actors through donations and/or lobbying activities can be leveraged to provide enhanced insights into emerging issues, policies, and governance actor dynamics. Similarly,



partnering with political and community actors as part of an alignment strategy can provide a source of political intelligence.

More proactively, sports organisations are in a privileged position to collect data on the opinions and priorities of their fans, who have a high proclivity to engage with them by communicating through a variety of media. Indeed, many major sports organisations are already highly successful at leveraging this valuable asset as part of a wider fan engagement strategy, that can inform commercial and sporting decision-making (Yoshida *et al.*, 2014). Such data collection can be achieved through a variety of methods, including social media analytics/big data, surveys, and focus groups. Of course, such an approach is not without its own risk, with fans' opposition to the politicisation of sports being one of the more consistent findings in the extant research on fan opinions (Zirin, 2013). However, such research can be carefully conducted and framed primarily in terms of understanding social (rather than political) values and issues affecting fans.

Particularly important is to understand that fans of a sports organisation may differ from the general population in terms of the issues or stances that are important to them. For instance, Thorson and Serazio (2018) found basketball fans were less supportive of increased military spending and the endorsement of traditional gender roles than fans of other sports or than the US population generally. This type of intelligence gathering therefore cannot just inform sports organisations about emerging issues generally, but can allow them to understand whether and how such issues are perceived as important among their fans. This dynamic might help to explain why the involvement of the NBA in supporting BLM did not seem to come with costs in terms of TV viewership (Pazzona, 2021). To successfully mitigate dynamic political risk, sports organisations must convert their political intelligence into a strategy, focusing particularly on their marketing and communication activities. Where an emerging issue is identified, it is vital that a sports organisation or investment opportunity acts early and proactively; this can allow for greater control of the narrative that unfolds.

An interesting example of how political intelligence gathering and strategic communication planning combined favourably for a sports organisation can be found in Sport England's response to BLM. Sport England is an arms-length government body responsible for driving grassroots sporting activity in England. Its (then) Chief Executive's statement (Hollingsworth, 2020) following the killing of George Floyd provided a strong demonstration of the value of political intelligence and analysis for offsetting dynamic political risk. An excerpt from this statement is reproduced here:

We have already focused much of our work on tackling long-standing and deep-rooted inequalities that mean currently only just over half of Black people in England reach the recommended amount of physical activity every week.

There are some things which we can sincerely feel we have achieved – not least some ground-breaking research into the levels of activity of Black, Asian and other minority ethnic groups that seeks to make a genuine difference and was vividly brought to life at a major conference we hosted earlier this year in Birmingham, and a partnership with Perrett Lever which has in the past year placed 23 candidates – 61% of whom are from the wider BAME community - onto the boards of sports organisations. Sport England itself also focused on ensuring a genuine diversity in its Board membership, with over a third of its membership coming from Black or Asian heritage.

But it did not feel appropriate to add our voice to the Black Lives Matter conversation earlier this week. In part, that was because we are very wary of a trite or contrived response. Mostly though it was because we wanted to step back, listen, seek to understand and then genuinely say what we are doing to help make change. (Sport England and responding publicly to Black Lives Matter, 2020, para. 6-9).

In the first place, the organisation had, through engaging with relevant political research, the organisation found itself (to an extent) 'ahead' of these dynamic political issues, and therefore was able in this statement to its early prioritisation of race in sport through research and a track record of governance reform. More generally, there was a clear communications/framing strategy in place; this involved acknowledging the relevance of the issue, offering to be open to new voices and viewpoints, and pledging to take further action. This strategy was proactive in the sense that it enabled a degree of narrative control for a dynamic political issue.

On the converse of this, some sports organisations and governance bodies were significantly 'behind' the issues and foci driven by BLM, and their reactions and communication strategies were consequently reactive and often damaging. For instance, a long-running controversy about the name of the American Football Franchise 'The Washington Redskins' (now the Washington Commanders) was given significantly greater visibility by BLM, ultimately leading to an announcement that the name would change in July 2021. McArtney (2021), writing in *The Washington Post*, argued the following:

It is [...] worthwhile to reflect on why it's happening now. The name has drawn significant public criticism for nearly 50 years, yet Snyder consistently said it would 'never' change. ('You can use caps', he told an interviewer).

The timing offers some revealing truths about how social change occurs in America. Snyder reversed himself now because of a burst of pressure from big



corporate money. That pressure sprang from the national shift in public opinion on race after the police killing of George Floyd in Minneapolis. (para. 7-8).

Coverage of the name change decision ultimately focused on the corporate pressure brought to bear on the organisation, framing it as a forced reaction, rather than as a proactive decision. In this case, we can see a process of crystallisation of dynamic substantive political risk, resulting in the diminished brand equity of the Washington Commanders franchise.

Reflecting on these different trajectories regarding BLMM, it is important to acknowledge that there is an element of chance to how a dynamic substantive political issue affects a sports organisation or investment. The Washington Redskins/Commanders found themselves particularly exposed to an increased focus on racial politics due to the long-running dispute about their name. While they had invested considerable money into public relations surrounding this dispute, their failure to get ahead of the narrative proved costly. In the round, then, this section has argued that the best strategy for mitigating the exposure of a sports organisation to dynamic political risk involves the gathering of political intelligence and its harnessing into media and communications strategy.

Unit 3.6 Political risk in volatile political systems: Generalised and particularised systemic volatility

In this section of the reading, we move on to consider how to mitigate political risk for sports organisations and investments in unstable political systems. Volatile political systems are characterised by regime instability, the unpredictability of actors in a sports organisation's governance network, and rapid shifts in hard, soft, and smart power dynamics. Sports organisations or investments embedded in such political systems face severe consequences when political risk crystallises. In essence, the normal 'rules of the game' that allow for assets to hold their value (or for that value to be realised) can be suspended in unstable political systems, leading to potentially catastrophic losses from a wealth management perspective. As such, the examples and strategies that we review in this part of the reading centre on minimising the extent to which sports organisations and investments are exposed to the **consequences** of political risk in unstable political systems.

In our analysis, we distinguish between two types of political systemic volatility: generalised and particularised. As described in the previous readings, generalised systemic volatility affects all aspects of commercial and social activity within a political regime. We can see instances of such volatility in sudden regime changes; recent



examples include the collapse of Afghanistan's government following the capture of Kabul by Taliban forces and the seizure of power by the military in Myanmar in 2021. In these circumstances, many of the underlying pillars that stabilise the value of sports organisations and investments weaken or disappear altogether, as regime change can often lead to effective state collapse (Dodge, 2005).

This means that sporting and other investments can face catastrophic losses. For instance, the Norwegian telecoms group Telenor wrote off a \$782 million investment in Myanmar in the months following its regime change (Reed and Milne, 2021). In these circumstances, contracts may no longer be upheld, or assets may be seized; for instance, there was a surge in cases brought to the International Centre for Settlement of Investment Disputes following the 'Arab Spring' movement in 2010, as investors in states including Egypt, Tunisia, and Libya sought restitution for damages due to the decisions of new regimes, with Foty (2019) noting that "the outcomes have not always been favourable for investors" (para. 5).

Particularised systemic volatility captures the risks to sports organisations and investments that emerge when the 'rules of the game' are suspended politically, but where such a suspension only applies to certain groups or sectors of society. One of the most prominent recent examples of this type of volatility occurred in response to Russia's invasion of Ukraine in early 2022, which resulted in a dramatic intensification of sanctions against Russian and (in some cases) Belarusian companies, banks, and individuals in a range of states including the United States, Britain, Canada, and the European Union. Athletes, sporting organisations, and sporting investments from Russia and Belarus have all suffered from forms of suspension of their ability to compete, earn income, and extract income. Notable early examples include UEFA's decision to move the 2022 Champions League final from Saint Petersburg to Paris and the exclusion of athletes entered by the Russian and Belarusian Paralympic Committees from the Beijing 2022 Winter Paralympics, just one day before the Games were due to begin. Goretti (2022) notes the international coordination surrounding this development, explaining the following:

On 8 March 2022, ministers and secretaries of state from 37 Western countries signed a 'statement on Russia's war on Ukraine & international sport' calling on those International Sports Federations (IFs) that had not already done so to take the following measures in response to Russia's 'unprovoked and unjustifiable war of choice' against Kyiv 'enabled by the Belarusian government': (i) excluding Russia and Belarus from hosting, bidding for or being awarded any international sporting events; (ii) banning 'individual athletes selected by Russia and Belarus' as well as administrators and teams representing officially or 'effectively' the Russian and Belarusian states from competing in sporting events held in third countries; (iii) limiting 'wherever possible' any sponsorship agreements or financial ties with entities connected to the Russian and Belarusian states. Such exceptional



measures should be in place ‘until cooperation under the fundamental principles of international law has become possible again’. (p. 2).

A case that illustrates the complex nature of particularised systemic political risk to sporting organisations and investments is the decision by the All England Club to ban players from Russia and Belarus from the 2022 Wimbledon tennis tournament. The All England Club chairman Ian Hewitt was clear that this decision was “influenced by the directive guidance which the government gave us in relation to the matter” (Hamilton, 2022, para. 4). However, this proved to affect the sporting prestige of the tournament, as it was a unilateral decision that led to the ATP and WTA stripping the tournament of ranking points. Goretti (2022) discusses the fallout of this controversy, stating the following:

It is notable that the organisers of the French Open quickly distanced themselves from the decision of the All England Club stating that they would allow participation of Russian tennis players under ‘a regime of strict neutrality’, as well as the fact that, while several Ukrainian players were supportive of Wimbledon’s decision, a number of top Western players – among them, Rafa Nadal and Andy Murray – publicly questioned it, unlike what had happened in several other instances right after the outbreak of the war’. (p. 15).

In a similar dynamic, Manchester United suspended its sponsorship deal with Aeroflot (Russia’s state airline) 18 months early, losing significant commercial revenue in the process. In both of these cases, we can see that particularised systemic volatility political risk can reach beyond directly targeted groups and organisations.

Finally, there are instances where these two types of systemic volatility can intersect. For instance, sports investments may be particularly exposed in regime change scenarios where the new regime is ideologically opposed to certain types of commercial sporting activities that are central to their operations. For instance, professional sport was a particular target for the ire of the post-revolutionary Cuban regime while sport (Bunck, 1990) and, in particular, women’s sport was targeted by the Taliban regime that ruled most of Afghanistan between 1996 and 2001, and the future of sport in Afghanistan remains ambiguous following their 2021 return to power. The intersection of politics and sport means that, in such instances, sports organisations and investments can be undermined by a combination of generalised and particularised systemic volatility.



Unit 3.7 Strategies for mitigating political risk in unstable political systems

As outlined in the previous section, political risk in situations of systemic political volatility can crystallise into severe losses for sports organisations and investments. In this section, we will explore a series of strategies that can limit the gravity of these consequences. The first strategic approach discussed here involves a combination of political risk diversification and an emphasis on the fungibility of assets. The term political risk diversification follows a similar logic to wider diversification strategies in wealth management. The idea here is that sports organisations and investment portfolios are less exposed to the types of shocks that can occur in unstable political regimes when all of their financial eggs are not in a single political basket.

One straightforward way to achieve this is to be cognisant of the spread of assets and investments across relatively stable versus unstable regimes. As we will explore in the next reading, sporting investments in unstable political regimes can be very lucrative; this is because sporting prestige can bring much sought-after legitimacy and soft power benefits to such regimes. However, as with most investment classes, higher returns tend to correlate with higher risk. As such, a wise strategy is to balance investments and assets in such regimes against those in stable regimes, leaving one less exposed to the financial consequences of generalised systemic volatility. Also, important to consider here is the extent to which the levels of volatility of different state-level regimes are correlated. A longstanding finding in the political science literature is that dramatic shifts in regime tend to occur in 'waves'. For instance, Chen and Suen (2016) reported the following:

An investigation of revolutions after 1970 reveals that most of them clustered in three waves: the collapse of communism, the 'colour revolutions', and the Arab Spring (...) Another interesting observation about contagion is that the spread of crisis is not necessarily confined to countries with close economic linkages or political ties. (p. 228).

What is notable about all three of these 'waves' is their relatively uniform trajectory in terms of the type of regime towards which states moved (that is, towards more liberal democratic regimes). There is nothing inevitable; however, about the direction in which unstable regimes move on the democracy-autocracy spectrum – indeed, the latest Varieties of Democracy (2022) report, states:



The level of democracy enjoyed by the average global citizen in 2021 is down to 1989 levels. The last 30 years of democratic advances are now eradicated. Dictatorships are on the rise and harbour 70 % of the world population – 5.4 billion people. (p. 3).

In such a context, a diversification strategy would do well not to simply spread risk across physically distinct states that share a common regime profile. Instead, a better strategy is to consider a diverse set of state profiles to minimise the potential consequences of a ‘wave’ of regime change in a given direction. It is therefore important to consider which direction of change regimes are most vulnerable to. For instance, newly established or fragile liberal democracies appear particularly vulnerable to the wider trend towards autocratic regime types that the world is currently experiencing. On the other hand, in a global or regional context of liberalisation or democratisation, autocratic or mixed regimes may be more vulnerable. As such, a diversification strategy that spreads risk across several regimes of this type would be highly vulnerable to the type of contagion effect that led to the ‘waves’ of regime change discussed above.

The second strategic approach to mitigating risk in unstable political systems is a direct one: it involves investing in political risk insurance (PRI). Mayer (2018) describes PRI as follows:

PRI provides protection against the risk that actions of foreign governments or political groups will negatively impact what were otherwise sound commercial investments. It is designed to meet the needs of equity investors and banks making loans to commercial entities in foreign markets and is frequently used in the extractives, manufacturing, construction, retail, and services sectors. PRI typically provides coverage for the various kinds of political risks, like nationalisation and expropriation of assets, restriction on remittances, political violence and war damages, currency inconvertibility, and breach of contract. (p. 7).

While PRI is a straightforward and direct way to mitigate the consequences of political risk in unstable political systems, there are currently restrictions that limit its availability and affordability. Availability limitation stems from the high degree of specialised knowledge and resources required to accurately price political risk, and fragile states tend to also be characterised by less data reliability and availability. This means that a relatively small group of large insurance providers (e.g., Lloyd’s of London and its syndicates, Sovereign, Zurich, AIG, and Chubb) have the requisite resources to offer political risk insurance – and this limited market, combined with the complex nature of pricing, mean that PRI can often be difficult to procure or exorbitantly priced for investors.



There are also public providers of PRI including the World Bank Multilateral Investment Guarantee Agency (MIGA); African Trade Insurance; the African Development Bank, the Islamic Corporation for Insurance of Investment and Export Credit, the Inter-Arab Investment Guarantee Corporation, and the Asian Development Bank. While these public providers offer significant advantages in terms of their time horizons and ability to incorporate non-commercial considerations such as development, they can be bureaucratic and difficult for smaller investors or projects to engage with. While PRI is thus not a 'silver bullet' for mitigating generalised systemic volatility, it is certainly an option to explore for sports organisations and investments in unstable political systems.

Finally, the issue of particularised systemic volatility is arguably the least amendable to systemic mitigation. The events that tend to drive such volatility are nearly always difficult to predict and tend to unfold rapidly. However, these properties mean that the patterns that we described as significant in stable political systems – namely, political investment and alignment and political intelligence gathering – are also of value in mitigating particularised systemic political risk. Being connected politically can, in some cases, allow for 'especial circumstances' to be pled. Having one's ear to the political ground can allow for particularised volatility to be anticipated and mitigated before formal decisions or sanctions come into force.

3.8 Conclusion

This reading has delved into the types of political risk that a sports organisation or investment may be subject to and has outlined a range of strategies for mitigating each type of risk. Overall, it suggests that, alongside the wider risk mapping strategy advocated in reading 2, those seeking a solid understanding of wealth management in sport need to consider the extent to which a sporting organisation or investment has a developed, proactive strategy for mitigating these risks.

In order to make this assessment, it is important to ask oneself the following questions:

- within what type of regime (or combination of regime types) is a sporting organisation embedded?
- To what extent is this regime (or these regimes) stable?
For sporting investments or organisations based mainly (or exclusively) in stable political regimes, is there:
 - 1) evidence that it has engaged in strategies of political investment, political alignment, or both?
 - 2) Evidence that it pays attention to the importance of political intelligence gathering, and integrates this into its communication strategy?



These two strategies are also important for evaluating the extent to which sporting organisations and investments can minimise the consequences of particularised systemic volatility.

For sporting investments or organisations with substantial assets or bases in unstable political regimes, to what extent have they:

- 1) offset generalised systemic political volatility by diversifying into other types of political regimes (especially those that are less vulnerable to a 'wave' of regime change in a common direction)?
- 2) Underwritten generalised systemic political risk by acquiring political risk insurance?

Running through these questions will allow individuals involved in managing sporting organisations to identify means for improving their strategic mitigation of political risk. For those considering an investment in sports assets or organisations, these questions can be helpful in grasping the degree of exposure to political risk and the likely scale of consequences of such risk crystallising.

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