

The Future of Sports between Value and Values

Coordinated by Dino Ruta

“Sport” is a global term by definition; it doesn’t need translation. Play, performance, and competition are essential elements of society, dating back to the first Olympics. Over time, sports have evolved from a recreational activity to an important element of business. The focus is on how sports have become an industry that encompasses more and more sectors: infrastructure, entertainment, health, tourism, and of course, the economy. We will analyze the most evident strategic decisions related to sports assets: athletes, clubs, competitions, events, fans, communities, and facilities. These are general culture topics capable of enhancing everyone’s well-being.

A Model of Sports Olympic Spirit and (Hyper)Professionalism

by Dino Ruta*



Sport represents a complex and varied set of meanings and values: it is a game, competition, show, but also respect for diversity, inclusion, and culture in the broadest sense of the term. These characteristics concern sports in its professional sense, where they are differentiated according to different cultural and social models, whose differences, especially in the field of football, are evident, particularly between Europe and the United States.

Pierre De Coubertin was an enlightened scholar, the inventor of the modern Olympics as an event capable of giving centrality to sport and its values. De Coubertin created symbols full of meaning: the five rings, a symbol of the intersection of the five continents; the Olympic flag with the six colors present in all the flags of the world's countries, and the lit flame during the games to signify the cessation of hostilities among peoples.

Alongside these symbols, De Coubertin also formulated principles and rules encapsulated in the Olympic Charter, a document continually updated over time that encompasses the deepest essence of Olympism and the mission of the International Olympic Committee (IOC). The vision of the IOC is to build a better world through sports. The IOC serves as the guardian of the Games, the leader of the Olympic movement, and the guarantor of values such as excellence, solidarity, and friendship, which are evoked in every Olympic action. It is a fully global organization that acts as a catalyst for collaboration among all Olympic stakeholders, in-

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cluding athletes, National Olympic Committees, International Federations, Organizing Committees of the Games, commercial partners, and media.

The IOC is committed to promoting sports in society, reinforcing the integrity of sports, and supporting athletes and sports organizations. It sits atop the so-called sports pyramid, which distinguishes the international sports model, followed by international federations, clubs, and then professional and amateur athletes.

The strength of the five rings lies precisely in their global recognizability, the definition of a system of shared and equal of rules, and in the forward-looking vision of cohesion and peace among peoples. These are timeless themes, but they become more essential than ever in a world seeking social and environmental sustainability.

People learn and then apply concepts they directly experience; this is why today more than ever the world needs to experience Olympism up close. Hosting the Games can be a way to inspire new generations. Diversity and inclusion are integral to the very concept of the Games, both for those who participate and for those who organize or watch them. In this way, sports are not just a spectacle but become culture, shaping a sports mentality that characterizes the lives and education of citizens.

SPORTS AND IDENTITY

Historically, every culture plays and follows some sports more than others. Football (soccer in the United States) is universally recognized as the world's most popular sport, while other sports have more territorially defined identities, such as cricket in India,

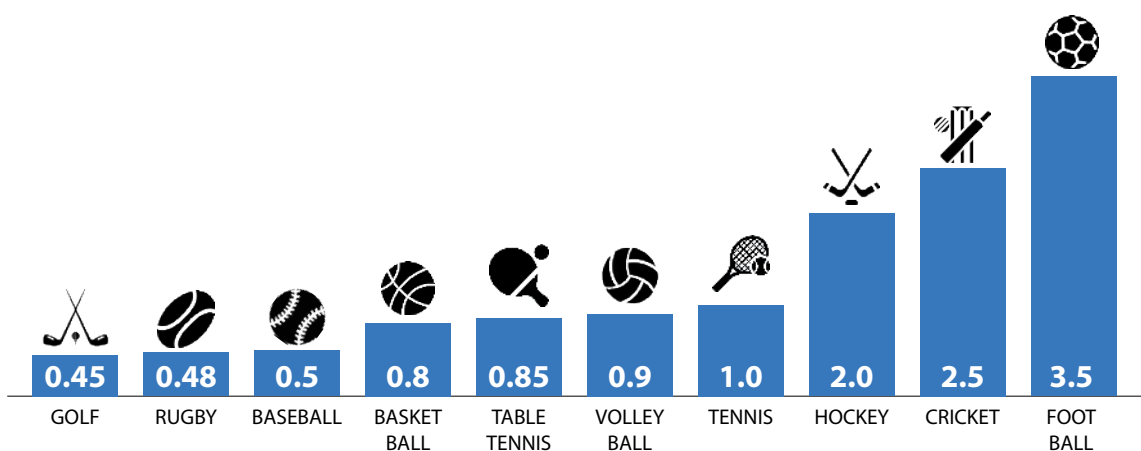
Pakistan, and the UK; badminton in China; padel in Argentina and Spain; and American football in the United States. The beauty of sports lies in the stories of fans and enthusiasts, in the relationship between playing a sport at an amateur level and seeing one's idol on TV. In Italy, people recount the stories of Panatta in tennis; Thoeni, Tomba, and Compagnoni in skiing; Meneghin in basketball; Mennea in athletics; Vezzali in fencing; Pellegrini in swimming, in addition to the many football, volleyball, and other sports legends.

The number of fans and their geographical dispersion are two of the main indicators that explain how the practice of sports can become a business. The number of fans, in fact, determines the volume of business generated, for example the consumption they are able to generate through the purchase of merchandise, tickets, media subscriptions, and any other value that then contributes to the revenues of clubs and competitions. This connection between practice, athletes, and industry becomes a virtuous circle, especially when there is an ecosystem capable of creating international competitions, suitable infrastructure and facilities, where athletes and spectators create the show.

PROFESSIONAL SPORTS

While the structure of the Olympic movement led by the IOC is uniform worldwide, professional sports can have various forms of organization. The most established model is the so-called international or European model because it is inspired by the sports pyramid. The two key principles of this model are solidarity (between the wealthiest competitions and other actors in the system) and the concept of promotion and relegation in each competition. These are

FIGURE 1 | MOST POPULAR SPORTS IN THE WORLD (IN BILLIONS OF FANS) ACCORDING TO WORLD ATLAS 2022



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two principles that aim to consider sports as a common good, where sporting results and performance on the field are central and allow everyone the opportunity to climb the pyramid and potentially win any competition.

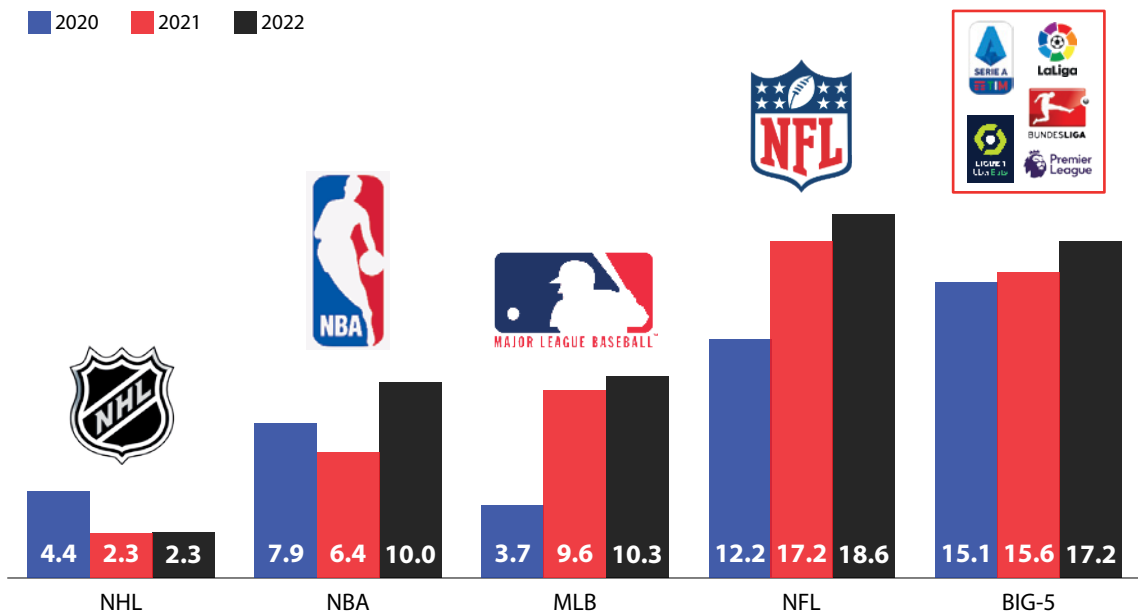
The North American model of professional sports is based on different concepts and can be summarized as “asset appreciation.” Investors and club owners want sports to be seen as a place for investment and the appreciation of their investments. For this reason, they design closed leagues (without relegation), impose cost caps, such as on athlete salaries (but not on investment in assets), adopt governance where decision-making processes are predominantly guided by economic considerations, and aim for “competitive balance,” meaning that all clubs cyclically have the opportunity and probability of winning a championship. Besides American sports, an example could be Formula 1, which has grown over the years among prestigious teams (Ferrari, McLaren, Red Bull, etc.) and circuits scattered worldwide. The desire is to see your favorite car and driver win and celebrate in the most captivating Grand Prix, from Monte Carlo to Monza. The rotation of winners is a central point for the growth of a league or event. In contrast, in some football leagues, only a few clubs have a realistic chance of winning, limiting competitive balance. The North American model re-

inforces balance, creating a more evenly distributed financial value among all clubs.

This graph shows the aggregate revenues of the clubs from the major American professional leagues (basketball, American football, baseball, and ice hockey) compared to European football. Two reflections emerge. The first is that football in Europe has significant economic importance and is competitive with respect to the NFL, considering also the other UEFA competitions that are not included here. On the other hand, the numbers in the graph represent the aggregate revenues of the clubs, while the portion that remains with the leagues is not public. It is very likely that the value that American leagues use as investment in their assets (beyond the clubs) is higher than that of football leagues.

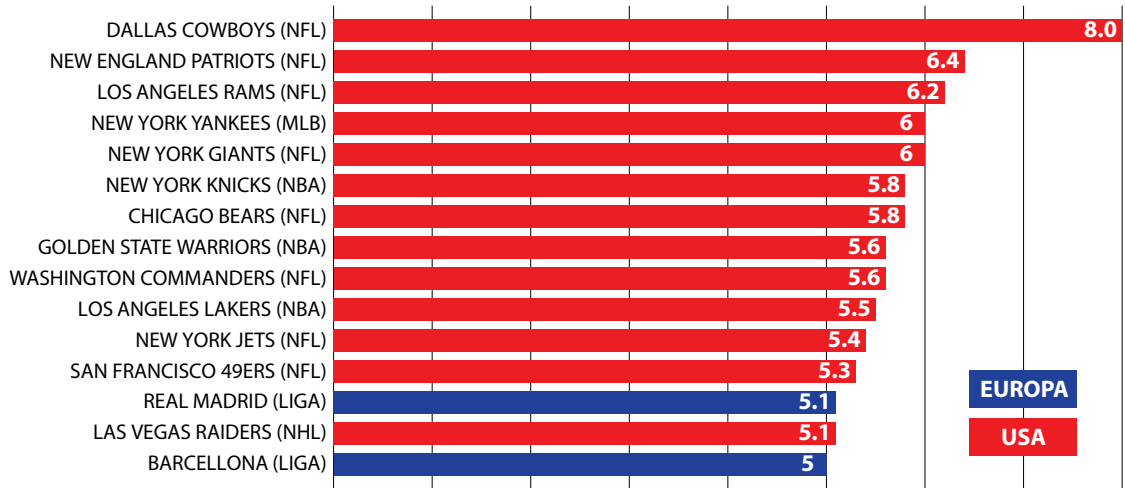
Indeed, if we change our perspective and instead of measuring revenues, we focus on the value of these clubs, the so-called franchises that compete in American leagues have a higher value, as shown in the following graph. The assets these organizations possess include sports facilities, the brand, managerial organization, technology, and the ability to create commercial partnerships. Athletes are not intangible assets like football players in Europe because, in the American model, players are considered contracted personnel, avoiding the issue of capital gains or losses that often cast shadows on the financial statements in Europe.

FIGURE 2 | COMPARISON BETWEEN THE REVENUES OF THE FOUR MAJOR AMERICAN LEAGUES AND THE REVENUES OF THE BIG-5 EUROPEAN LEAGUES



*Note: The league revenues are calculated as the aggregates of the revenues of the individual clubs within them, based on data published by Deloitte (Annual Review of Football Finance) and Statista.

FIGURE 3 | TEAMS WITH THE HIGHEST ENTERPRISE VALUE (EV) ACCORDING TO DATA PUBLISHED BY FORBES IN 2022



ATHLETES' SALARIES

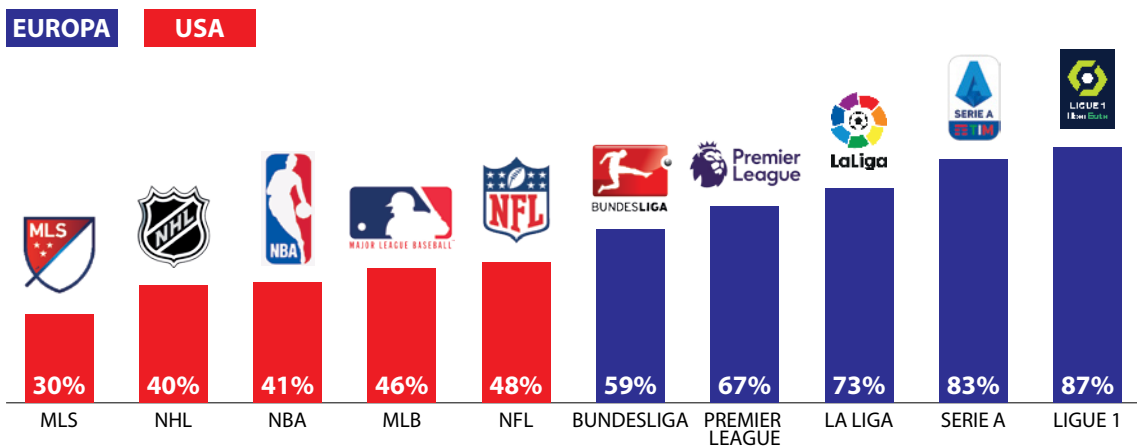
How club owners invest or spend money on athletes can make a big difference. An indicator monitored in the industry is the ratio between salaries and revenues in the principal leagues. It is clear that in America, there is a rule that prohibits spending more than 50 percent of revenues on salaries because the rest must be invested in medium to long-term tangible and intangible assets, in line with the asset appreciation vision. In Europe, the desire for victory, promotion, or the fear of relegation drives owners to invest in the

technical dimension, in players, in the market, with the incidence of salaries ranging from 59 to 87 percent, leaving little room for growth projects except for a few major clubs like Real Madrid, Barcelona, Manchester City and United, among others.

The COVID-19 pandemic has exacerbated this situation, reducing revenues from games played and in part commercial contracts as well, exposing clubs to significant losses in situations where clubs were often already heavily indebted.

The significant efforts of UEFA, with the Financial

FIGURE 4 | AVERAGE VALUE OF THE RATIO BETWEEN SALARIES AND REVENUES IN THE MAJOR SPORTS LEAGUES, BASED ON DATA PUBLISHED BY DELOITTE (ANNUAL REVIEW OF FOOTBALL FINANCE), SPOTRAC AND FORBES



Note: The data related to the NHL is for the 2020/2021 season; the data related to European football leagues is for the 2021/2022 season; the data related to the NFL is for the 2021 season; the data for other American leagues is for 2022.

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Fair Play regulations, had succeeded in almost completely eliminating the debts of European football, pushing towards a more balanced model in which clubs spent in line with their earnings. This fragility in the system has reopened the debate on the Super League, which is actually a profound reflection on the right governance model for European football. It's a choice between the current model where national leagues coexist with UEFA competitions, or a closed league

model where certain clubs are favored to create a richer commercial platform.

European football looks with envy and admiration at how American sports monetize their activities especially through media rights, with the NFL reaching a record \$10 billion in revenue in 2022. European football cannot guarantee constant participation of clubs because they have to qualify. For instance, in this edition of the Champions League for 2023-2024, Chelsea,

FIGURE 5 | BROADCASTING REVENUES (INTERNATIONAL AND DOMESTIC) OF THE MAJOR AMERICAN AND EUROPEAN LEAGUES IN 2022, ACCORDING TO DATA PUBLISHED BY FOOTBALL BENCHMARK AND PWC SPORTS OUTLOOK



BOX

Formula 1

Formula 1, the pinnacle of motorsport, is one of the most beloved and thrilling competitions in the world. At the heart of this organizational model is the International Automobile Federation (FIA), which serves as the governing body and ensures the safety and integrity of the competition.

Silverstone, Monte Carlo, Indianapolis, Bremgarten, Spa-Francorchamps, Reims, Monza: these are the historic circuits that hosted the first edition of the Formula 1 World Championship back in 1950.

A limited circle, with a distinctly European character, far from what Formula 1 would become over the years: an open competition, as regards both hosts (the circuits) and guests (the teams), with an international character.

From the 1960s to the 1980s, the participation of countries beyond Europe increased (Canada, Mexico, Argentina, Brazil); the 1990s saw the entry of the Asian world, with Suzuka (Japan), Adelaide (Australia), and Sepang (Malaysia), which later became pillars of the world of motorsport.

The new millennium is marked by the presence of China (Shanghai) and Singapore (Marina Bay) and the prominence of the Arab stage: countries like Bahrain, the United Arab Emirates, Qatar, and Saudi Arabia create magnificent paddocks, capable of providing state-of-the-art technology to the hosted teams and unforgettable experiences to fans attending the events.

Thanks to this skillful strategy of internationalization, Formula 1 has become a global marketing platform over time, with international brands associating themselves with teams and the competition itself. The media value of the races attracts a vast audience, offering visibility and engagement opportunities for commercial partners and sponsors, from Rolex to Saudi Aramco, from Crypto.com to Qatar Airways, from DHL to Heineken.

In 2022, Liberty Media, the owner of Formula 1, reported a revenue of 2.4 billion euros (an increase from 2 billion in 2021). Formula 1 cars attract a global average audience of approximately 70 million viewers for each race (about 1.5 billion viewers across the 22 races in the season).

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Liverpool, Juventus, and Ajax are missing, clubs that have a significant following and appeal to the media and football fans in general.

Given this situation, the Super League proposed in April 2021 by Juventus, Barcelona, and Real Madrid was rejected by all fans and European institutions because it betrayed the concept of European sports and the sports pyramid. Although the solution was shelved, it is worth considering that the United States (excluding Canada, which however participates in various leagues) is a market of over 300 million people, with a single currency and a market based on advertising and communication. Europe is a fragmented market, difficult to compare with the United States.

The centrality of UEFA in Europe is becoming increasingly solid, and attempts by clubs to break away from the current Champions League are becoming more remote. The European Club Association (ECA) is contributing to creating a harmonious environment and growth in the football system, benefiting everyone, especially players and investors, who are the two pillars of every professional sports system. The keyword is growth, and this will happen increasingly with qualified personnel with

broad visions of the economic and managerial world. Projects for managerial training are becoming more frequent to support the growth of executives. An Italian example is the Executive Management of Football program by the Technical Sector of FIGC (the Italian football federation), in partnership with SDA Bocconi, aimed at providing managerial knowledge to the Italian football world, especially to technical staff and former players who manage the core of the system.

In summary, reconciling the values of the Olympic movement with the spectacle of the major American and European sports leagues is a challenge for sports executive today, who operate in a fragmented and complex ecosystem, balancing political and managerial dimensions. Sports have grown significantly in the last thirty years with sponsors and television, and now await a new impetus to further increase their centrality in modern society, which is increasingly focused on sustainability and positive educational models. The key will be to harmonize the values of the Olympic movement, based on culture and well-being, with everything that sports can encompass, including entertainment and more.



BOX

Premiere League

Re-founded in 1992, the Premier League has become the world's leading football league, farsightedly implementing a development model that has been imitated (with regrettable delays) by its direct European competitors.

While internationalization and the need to diversify revenues have been perceived elsewhere as a necessity, especially after the introduction of Financial Fair Play by UEFA, English football made it the driver of its exponential growth since its inception.

To date, the gap appears far from being bridgeable. According to the Annual Review of Football Finance 2023 published by Deloitte, in the 2021/22 season, the twenty Premier League teams generated aggregate revenues of 6.4 billion euros. In contrast, the other major European leagues reported 1.8 billion for Ligue 1, 2.3 billion for Serie A, 3.1 billion for the Bundesliga, and 3.7 billion for La Liga.

The Premier League has aimed to become a media product for all television networks worldwide, attracting investments from foreign owners who see football as both a game and a business. As demonstrated by a study conducted by the Sport and Entertainment Knowledge Center at SDA Bocconi, among the twenty clubs participating in the 2021-22 sports season, sixteen are majority-owned by foreign investors.

The Premier League has become the most-watched championship in Asia, with agreements to broadcast matches in India and China dating back to the 1990s. Summer tours by clubs in Asia have become customary, and in 2003, the Premier League Asia Trophy, a friendly tournament held every two years in Asia, was established. There have been many other initiatives abroad, such as the recent opening of an office in New York.

These expansion strategies have led to the acquisition of new fans worldwide, ensuring a significant impact, especially in TV rights. It is challenging for other European leagues to close the gap, also because television networks worldwide cannot afford to buy the rights to other European leagues as well. There would be too much football on air, and competition also comes from other sports. As a result, today we no longer talk about the big-5 (UK, Italy, Spain, Germany, and France) but rather about 1+4. The growth of the UEFA Champions League will provide a further significant boost to the dimension and growth of the leagues.

BOX

NBA

The NBA (National Basketball Association), the pinnacle of professional basketball, is known worldwide for its rules aimed at achieving balanced competition among all teams, where eventually everyone has the chance to win the most prestigious basketball championship in the world.

It starts with the fact that, like in every American league, a Collective Bargaining Agreement (CBA) is signed between owners and players, which among other things, identifies the percentage of league revenues to be distributed to the players. This leads, first and foremost, to the Salary Cap, a limit imposed on each franchise when signing player contracts. Unlike other leagues like the NFL, MLB, NHL, and MLS, the NBA uses a Soft Cap. It is possible to exceed the Salary Cap, but this triggers a financial penalty known as the Luxury Tax, which imposes a progressive fine based on the amount of the excess to be paid to the league's coffers. In the 2022-23 season, the Luxury Tax Line, the threshold above which the penalty kicks in, was set at \$150.3 million, approximately \$27 million above the Salary Cap.

The second rule is the NBA Draft, an annual event where the best talents from universities, youth leagues, and international leagues are selected. In this case, the Reverse Draft mechanism establishes a specific order of precedence in the selection process, allowing teams with the worst records to secure the best talents.

Under current rules, only the top four picks are determined by a lottery, with the worst team having the best chance of obtaining the first pick. After the lottery, the order of picks for other teams follows the reverse of their win-loss records.

Another particularity is that franchises can trade or transfer their draft rights based on particular needs that may arise in building their teams.

Thanks to these mechanisms for competitive balance control, the NBA has managed to provide its fans with an exciting and unpredictable competition. From 2003 to 2023, a total of eleven different franchises have lifted the famous Larry O'Brien NBA Championship Trophy, named after the NBA commissioner in the 1970s who laid the groundwork for the league's subsequent international development, carried forward by the famous David Stern and today by Adam Silver.

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SYNOPSIS

- Football is universally recognized as the most popular sport in the world, while other sports have more territorially defined identities. The number of fans explains the volume of business generated, and this link between practice, champions, and the industry creates a virtuous circle.
- Professional sports can have different forms of organization. The most established model is the European one, inspired by the so-called "sports pyramid." The two key principles of this model are solidarity and the concept of promotion and relegation. Sporting results allow everyone the opportunity to climb the pyramid and win every competition. The model of North American professional sports is based on different concepts and can be summarized as "asset appreciation."
- There are substantial differences in the salary model between Europe and America as well: in America, it is forbidden to spend more than 50 percent of revenues on athletes' pay, as the rest must be invested in medium to long-term assets. In Europe, the desire for victory, promotion, or the fear of relegation drives owners to invest with the incidence of salaries ranging from 59 to 87 percent.