The Impact of Mega Events on the Local Economic Development through the Development of Social Capital

Grazyna Chaberek-Karwacka
University of Gdansk
Poland

Julia Ziolkowska
Gdansk University of Physical Education and Sport
Poland
An Introduction to
ATINER's Conference Paper Series

ATINER started to publish this conference papers series in 2012. It includes only the papers submitted for publication after they were presented at one of the conferences organized by our Institute every year. This paper has been peer reviewed by at least two academic members of ATINER.

Dr. Gregory T. Papanikos
President
Athens Institute for Education and Research

This paper should be cited as follows:

The Impact of Mega Events on the Local Economic Development through
the Development of Social Capital

Grazyna Chaberek-Karwacka
University of Gdansk
Poland

Julia Ziolkowska
Gdansk University of Physical Education and Sport
Poland

Abstract

The aim of the paper is to prove the thesis that the organization of mass events
actually affect the local economic development but this effect to a large extent
is not straightforward. Mass events builds the social capital, which guarantees
economic development in the future. The paper includes a review of the literature
concerning the organization of mega events on the world and above all, a
review of the available research about the effects of mass events expected and
achieved afterwards. The study primarily includes the biggest sporting events
in the World and in Europe which took place after 2000. The paper includes
also authors' research based on the organizational effects of European Football
Cup Euro 2012 in Poland and 2014 Football World Cup in Brazil.

Keywords: Mega events, tourism infrastructure, social capital, local economic
development
Introduction

Organization of mega events is always associated with a lot of controversy and dispute about the justification of the expenditure. In the literature and the press is a dispute how to demonstrate the actual economic effects of the mass events. Increasingly, it is difficult to demonstrate a direct effect of the financial income of a mass event afterwards. Very often financial income during the event, in comparison to the expenses incurred, are not so impressive. However, in this case, more important is long-term effect of investment than the direct economic efficiency of the project.

The leading argument for the organization of the mega events is the expected economic effect, which involves the construction of transport infrastructure and new tourist facilities, which in turn translate to stimulate the local economy. Of course, such effect can be achieved only when the created infrastructure will not only serve the traffic associated with the event, but will be also functional for the daily needs of the residents and tourist services after the event.

However, the construction of new infrastructure does not guarantee the direct effect of local economic growth. In fact, the infrastructure is only a tool for achieving this kind of goals. The most important is desire, awareness and ability to use this infrastructure by the citizens, in a way that will contribute to local economic development. Important is the ability to exploit the effect of territorial marketing associated with tourism, build social networks and entrepreneurial and citizenship attitudes.

The aim of the paper is to prove the thesis that the organization of mass events actually affect the local economic development but this effect to a large extent is not straightforward. Mass events builds the social capital, which guarantees economic development in the future.

Controversy over the Organization of Mass Sport Events

Years ago, mega sport events were reserved solely to be hosted by the First World nations that had the economic vitality to viably stage them. In recent times even developing countries have been given the chance of hosting the mega events. The justification is the statement that the hosting of mega sport event is “a chance for development”. However, observers are asking if the organizing the mega event in fact, have a positive lasting impact for the developing countries, whether this is truly benefit for the citizens and the economy of the host country (Conchas 2014).

In fact, in most developing countries, it entrusted with the organization of major sporting events to prepare for the championships always take place in an atmosphere of controversy and social movements expressing opposition and discontent. Recently, in South Africa and Brazil, on the occasion of the organization of the FIFA World Cup. The reason is that in developing countries it is very difficult to accept the huge public expenditure on sports
infrastructure when many residents lacking homes, jobs, health care at the appropriate level and adequate infrastructure in educational institutions (Chaberek-Karwacka, Dolinski 2016). Those who are against the organization of mass sport events such as the Olympics and World Cup, prove that the event consumes astronomical spending which are not concern for the welfare of citizens at all. The mega events seem to be conceived and produced as privileged events for elite. Very often the unbridled investment in sporting infrastructure are opposed to the development of better social and educational programs (Conchas 2014). Sport mega events very often result in the clearance of communities away from stadia either forcibly or because of rising house prices. In Brazil, for example, the low of housing rights was being ignored at all (Levermore 2011). Additionally, the lack of transparency in spending and decision-making showed that the Brazilian government was more concerned with having an image as a big emerging country than with the welfare of its citizens.

Many surveys conducted after an announcement about Mundial in Brasil in 2014, show that the vast majority of respondents was opposed the organization that event (Chaberek-Karwacka, Dolinski 2016). The probe, conducted by Grazyna Chaberek-Karwacka and Karel Dolinski in April 2014 which collected 225 responses, also showed the almost 80% of respondents against the organizing of the event. Replies came from 25 different states of the country. The states with the largest number of answers are found in South-East Region (São Paulo, Minas Gerais and Rio de Janeiro) and the Southern Region (Santa Catarina, Paraná and Rio Grande do Sul). Those were states which were chosen to host the World Cup games. The question: “Why are you in favor or against the organization of World Cup in Brazil?” was answered differently. The argument the most often repeated was: “government should first be addressed and solved the basic problems of the country’s health, education, security and a high rate of corruption”. The second argument, which often appear in the responses, refered to the level amount of expenditure for organizing events. The third argument concerned the corruption in the country. On the other hand, among respondents who were in favor of organizing the World Cup in the country appear the arguments: “an increase in the number of tourists visiting the country, creating new jobs and prestige for the Brazilians”

In the government statements, the infrastructure development is the argument the most frequently given as one of the most important reason why countries and cities bid to host mega events (Malhado, et al. 2013). There were many expectations about the transport infrastructure development in brazilian host cities, too. Actually, one of the major expected influences of 2014 FIFA World Cup was the infrastructure available for transportation to and from the stadiums. Practically speaking, the preparedness of Brazil or any host country is an undertaking that presents complex challenges. The most important investment in the host cities is always the logistics system, which cover: revitalisation or new roads constructions and constructions of strategic crossroads and the

---

1 The result of the probe is publishing only partly in Chaberek-Karwacka, Dolinski 2016.
extension of the public transport system (Chaberek-Karwacka, Dolinski 2016). However, in fact, is crucial whether the transport investments occurred during the preparation for mass sport events are aimed only to improving communication and mutual availability between stadiums, airports and city centers (including tourist accommodation). Whether they are really useful in satisfying everyday communication needs. It is important to take into consideration the long-term effect of those spending. That is a question about the usability of new constructed infrastructure in everyday life of citizens (Chaberek-Karwacka, Dolinski 2016). Carron has cited the words of Rafael Lima the Bairro da Paz resident and community activist after announcing Brazil the host of FIFA World Cup 2014: “We need jobs. We need education. We need land titles. We need health care. And we need to know where this road they are planning to build is going, and who will be affected” (Carrion 2013: 26).

Certainly there are many arguments for the mega events contribute to the growth of the economic potential and the economic development of the host, however, should look at what really has the biggest impact on this positive economic effect.

The Real Effects of Mass Sport Events

Infrastructural and Economic Effects

Organization of mega sport events requires the construction of transport and sport infrastructure. This involves huge financial expenditure, which can not be covered by private capital. The financial benefits should outweigh the involved capital, that is the idea of investing. In the face of such assumptions, huge government spending involved in the organization of mega sport events should be reflected in specific budget income, higher than expenditure. In the public finance case, the result should be a higher GDP and higher tax revenues, both from the VAT and income taxes. The expected economic growth is the government's main justification of the public expenditure for the organization of entertainment events. The economic growth should occured by development of infrastructure, higher employment and overall growth of the welfare of society. Usually after the event, public opinion remains in the euphoria and no longer calculates the effects of the expenses. However, it is worth to take a look at how the assumptions of growth and economic development are realized in the economy of the host countries in long term after the event.

In this paper were analyzed some examples, comparing the expectation and real effects of hosting the mega sport events. The main preparation was focused on the investments on sport and transport infrastructure (Wozniak, Napierala 2012). In Poland, alike in other countries, main spendings concerned the building stadiums, sustainable transportation, extension of air infrastructure, roads, railways as well as the communication within the host cities and among those cities (Karwacka 2010). The cost of building the 1km of highway amounted to 17.19 million euros, which is more than twice the average cost of 1 km of motorway in Europe. Modernized airports were to be one of the main
pillars of the success of the operation of UEFA Euro 2012. But, as statistics show, increased air traffic (for example, Gdansk and Wroclaw) was observed only in the months of games (June, July), when it increased by 14.45%. In 2013, the number of flight operations returned to the state before the championship, and even down to the level of 17 151 to 24 960 Gdansk and Wroclaw. A railway played a key role in the transport of passengers during the UEFA Euro 2012. However, in this case, also cannot observe an increased number of passengers carried in the period after the tournament. Only in June 2012 the passengers number was increased. In Poland, were built 4 new stadiums. The most expensive was the National Stadium in Warsaw, constructed by more than 1,900 million PLN. It is hard to believe in achieving a positive return on investment. The annual cost of maintaining the stadium is 39.4 mln PLN and far exceeds the current income of 18.17 mln PLN.

When Athens successfully held the Olympic Games in 2004, many of the venues are vacant four years later, promised parks have never materialized, and new transportation infrastructure has caused problems like flooding and increased traffic. The whole legacy of the Olympic Games in Athens was summarized as caused more problems for the local economics than the benefits generated in the event time (Gong 2012).

The investment of improving the communication system is always one of the main expenses due to satisfy the big transportation demand during the event, but if the city already has advanced transition system, there is no need to extend it just because of one temporary boom of visitors. Prior to start a new project, the decision-makers should recognize if the communities need a magnificent venue or if there is sufficient market to maintain or make a full utilization (Gong 2012). The Chaberek-Karwacka and Dolinski research concerning the usability of the Brazilian Mundial's investments in everyday life of the citizens in host cities showed that all of these are parts of a basic logistic system in mobility of the surveyed cities. It seems that those investments were the most urgent and the most needed. Most of them were like a missing link. Moreover, most of presented investments were placed in the very center of the city where the transportation needs are the most frequently. The logistics systems in most of these 12 host cities, became more multimodal and coherent after the 2014 (Chaberek-Karwacka, Dolinski 2016). Similar infrastructure benefits were observed in Polish host cities of UEFA EURO 2012. Especially Gdansk gained the speeding up infrastructure investments in and around the city. These include a number of projects related to the modernization of transport infrastructure in the city, such as the expansion of the airport in Rebiecehowo and the road investment which allowed not only to provide communication facilities at the time of the Championship, but also contributed to the improvement of the quality of the citizens’ life (Raport 2012).

Macroeconomic indicators such as GDP showed the highest rate in two years and the year before UEFA Euro 2012. GDP grew faster by 3.6 and 3.1% than the average for the euro area. A year later after the event, the economy slowed down and grew more slowly than the average for the euro area, which denies the calculations made when Poland and Ukraine were chosen to the
hosting the UEFA championships, which assumed long-term dynamic growth of GDP by 2020 (Zurynski 2014).

When it comes to economic efficiency of mega sport events, it can be said that public funds involved directly resulted primarily on increased revenues of individual entrepreneurs including mainly large foreign corporations. Tayob proved that during the preparation of World Cup 2010: „the autonomy of the South African government, its manpower and its resources were subordinated to the demands of FIFA and its corporate partners, for whom huge profits were ensured. Even where profits accrued inside the South Africa, the main beneficiaries were large companies able to capitalize on the huge construction project undertaken and others with privileged access to capital” (Zurynski 2014: 146). Even an unemployment in every of host countries fell only seasonally. The objective benefits, both in Poland and in Brazil was the acceleration the development of many road projects enrolling in daily communication system of host cities (Chaberek-Karwacka, Dolinski 2016).

Tourism and Marketing Effects

Another important argument in favor of the organization of mega sport events underlined by the supporters, is an increase in tourism and associated with it the financial benefits to the local economy. The observed effect of the championship in this aspect is very diversified, however Du Plessis and Meaning (2011) proved that major sporting events have only a limited impact on tourism during the time of the event. One important reason is the crowding-out of “normal” tourist due to the noise, traffic jams and other disturbances.

But from another side there are many expectations in the improving of city or state image. This expectation is supported by so called "Barcelona effect". The Olympics represented a significant effort to restructure the city of Barcelona before the Olympic Games in 1992. Crucially the games seemed to change the way people thought of Barcelona. Nowadays this Spanish city is perceived as a land of sun, sand and sangria, but it is easy to forget that before the games in 1992, it was a somewhat different place. For one thing, it didn't really have a beach before. The city created 2 miles of beachfront and a modern marina by demolishing industrial buildings on the waterfront before the games. Between 1990 and 2001 the country went from being the 11th "best city" in Europe to the 6th, according to one ranking. The IOC says that 20 years after the games Barcelona is now the 12th most popular city destination for tourists in the world, and the 5th in Europe (Taylor 2012). That is why tourism and marketing effects should be analyzed in two aspects: the tourism just before and during the championships and also in long term after the mega event.

The example of positive touristic effect of the organization the mega sport event is Germany which has increased its share among the countries receiving the largest number of foreign tourists after the Mundial 2006. This development, was similar to the level of global, as in the case of a European country is a very good result, due to the fact that Europe as a tourist region steadily losing its share in incoming tourism to other regions of the world (especially for the
Another positive effect on touristic attractiveness has been observed in Poland after the UEFA EURO 2012 although there weren't so many tourists as Polish authorities had expected. Importantly, the vast majority of foreign visitors left the country positively surprised by what they saw. They were pleased not only with the level of sports events, but also of organization, infrastructure, hotel and catering offer and entertainment. Good assessment issued to Poland by foreign visitors have a chance to bring profit in the future. According to the PBS\(^2\) survey, as many as 92 percent of respondents PBS declared to recommend their friends Poland as a country worth visiting and attractive to tourists. 79 percent of respondents stated that they will come to Poland again (Wozniak, Napierala 2012: 453). Organizers and economists share the view that after the championship significantly improved the image of Poland in the international arena. This was the result of both a large number of information about Poland in foreign media as well as the positive feedback about the country's foreign supporters. This is confirmed by Brand Finance Institute survey conducted in 2013, in which the Polish national brand remained in the top twenty of the world's most valuable brands (Wozniak, Napierala 2012).

However, in 2008, The UEFA European Football Championship organized two countries, ie. Austria and Switzerland. In both countries, in the year following the organization of the European Championship (2009), was recorded a decrease of the total number of foreign tourists (respectively: Austria - 2.6%, Switzerland - 3.7%). It is very strange, considering that the two countries are characterized by a recognized and strong brand among potential tourists (especially practicing winter forms of tourism), and regardless of whether they are organizing a big event or not, should expect usually increased arrival of tourists from other countries (Marczak 2014).

**Social Effects**

As shown above, the financial results of the organization of sports events and macroeconomic indicators provide a lot of controversy, and thus on this basis is not possible to evidently determine the real impact of the event on the socio-economic development of the host country. In contrast, those who advocate positively with regard to the FIFA World Cup point to intercultural awareness as one of the benefits. That is mean that these mega-events allow nations and individual contestants to make a social network, by recognizing and cooperating with each other in spite of their differences but also opens up unique dialogical opportunities (Conchas 2014). In fact, even the main initiators and organizers somehow admit that the biggest benefits of the championships are social one. For example, after World Cup in 2010 in South Africa politicians, organizers and FIFA alike proudly proclaimed that the event was resounding success because large number of South Africans from all race and class backgrounds united under the national flag (Tayob 2012). Cornelissen claim

---

\(^2\) PBS - the largest Polish research company.
that even protests and demonstrations against the mega sport events built the social networking and social capital. At the example of South Africa, “while many of the demonstrations and civic actions were framed an in opposition to the World Cup, they were more significant for how they were embedded within a particular power configuration in the post-apartheid era, and their linkage to systemic process. The demonstrations placed in sharp focus the political divergences of the country. Such divergences are often accompanied by varied and opposing recollections of history that shape societal engagement and counteract national process of unification” (Cornelissen 2012: 345).

Social capital is an essential element of civil society. Most social benefits brought the preparation of the FIFA World Cup 2010 in South Africa, UEFA EURO 2012 in Poland and the FIFA World Cup 2014 in Brazil. The organization of such a big event has become a positive impulse and mobilize society to work together. In Poland, it seems that additionally managed to break down the barriers between the central authorities, local authorities and residents of host cities, even through extensive public consultation that took place on the occasion of the organization of fan zones and stadiums during the construction. Extremely important was the promotion of volunteerism, creating a base of volunteers and the construction of a bank of experience that can be used in the organization of future projects of similar scale and level (Wozniak, Napierala 2012 and Raport 2012).

The biggest challenge in the process of preparation for the tournament, in addition to the modernization of infrastructure, was just possibility for the community to face something important. With something that will trigger the need to coordinate efforts around a common purpose. From the beginning it was clear that the championship cannot be organized without the broad collaboration of various public institutions, to which the intended target was reached, had to go beyond the rigid framework of its bureaucratic world (Wozniak, Napierala 2012).

The Importance of Human Capital in the Socio-Economic Development

The main argument justifying massive public spending to prepare for the mega sport events is the socio-economic development. According to United Nation (2015), the sustainable development has been defined as development that meets the needs of the present without compromising the ability of future generations to meet their own needs. For sustainable development to be achieved, it is crucial to harmonize three core elements: economic growth, social inclusion and environmental protection. These elements are interconnected and all are crucial for the well-being of individuals and societies. That means, the sustainability contains the collaboration of economic, social and environmental goals.

In the economic aspect, sustainable development is the need to promote economic development, which gives a real increase in prosperity while maintaining this growth in the future (Chaberek-Karwacka 2012). The economic growth is based on the rational public finance management, entrepreneurship
and the economic effectiveness of individual companies. According to annual reports of Consumer Goods Forum and CapGemini (2012) to be prepare for the future, business have to be more sustainable and increase the collaboration across the industries. Networks and collaboration can lead to more innovative solution in the industry and social engineering. According to the research, the base of competitive advantage and efficiency is transparency, sharing the information and networking (Chaberek-Karwacka 2012). This kind of management is not possible without the trust. Trust is based on the universal norms which should lie on the foundations of the entrepreneurship and business.

These economic demands are directly related to the social aspects of sustainable development. The social aspect of development is based on providing equal opportunities for development, thus ensuring all people to have access to education, productive and fairly paid job and to participate actively in the public decisions (Chaberek-Karwacka 2012).

An environmental aspect of sustainable development is associated with persistent behavior of natural capital and the integrity of the environment necessary for the preservation of life on earth. This means the requirement that the natural goods and services were used so as not to undermine the networks of interdependence ensure the continuation of ecosystems, and on the other hand, not to reduce the contribution of these goods and services in the creation of human well-being. Environmental goods and therefore can not be used in excess (Chaberek-Karwacka 2012). Those postulates need the awareness of the entrepreneurs and consumers. At the same time, consumers should uphold ecological business through their market choices.

Taking into account all aspect of sustain development, the key to achieve it is creation of the social capital. The social capital can be consider as a nexus of both direct and indirect relationship between the firms, the environment and the social unity. The intellectual capital refers to the network of relationships between firms, the citizens, the employees and the social agents. In the nowadays economy, social intangibles become essential resources in order to achieve distinctive competencies. They are a set of critical resources that enable the creation of essential competences. Moreover, social activities increase the capacities for the creation, sharing and management of knowledge generating sustainable competitive advantage (Bueno, et al. 2004).

The social capital is generally found in the social structures of society, allowing individuals to act effectively within these structures. It is best conceptualized as a cumulative and transferable public good, freely accessible by the community (Arcodia, Whitford 2006). To possess social capital, a person must be related to others, and it is other, not himself, who are the actual source of his or her advantage. It involves civic engagement social norms, networks development (Willis, et al. 2004), responsibility for the public goods and environment. This way building social capital secures networking and trust in the business as well as the protection of the environment. All of them are necessary for the future economic and social development.
Conclusion

The expectations from the hosting of mega-sporting events are not only limited in the economic impacts such as touristic base development, increasing employment opportunities, infrastructure development and urban growth, but also include the positive social impacts such as international awareness and community pride, which are perceived as or even more important than positive economic benefits.

It is worth noting that political purpose very often plays the main role in the decision of hosting a mega-sporting event. It is an opportunity offering host communities an internationally-focused platform to present and promote their national identities and cultures, as well as industry and markets which play the key role in the economic growth and are the most political sensitive. Successfully hosting a sport mega event would be viewed as a great achievement in political career, which come with foreign currency. That is why some policymakers choose to be blind about the negative impacts and keep eager to win the hosting rights (Gong 2012).

During the preparation for the tournament, not everything goes as the host would like to. There is no the assumed amount of highways and not the entire rail network become modernized. Beautiful stadiums, which are built after the tournament not only don’t bring profits, but don’t even earn their keep. However, there are grounds for believing that the organization of the mega sport events creates the social foundations, that means social capital, consists of social skills and tools necessary for the achieving the economic growth and development in the future.

References


