

How Not to Respond to a Scandal



By Gilles Hilary , INSEAD Professor of Accounting and Control, and Leesa Soulodre , Managing Partner of RL Expert Group

Wherever there has been a sport contest with wagers, there have been opportunities for bribery and corruption. But organisations involved in sport today can no longer afford the risks of association with scandal.

In the 6th century, ancient Olympic Games contenders were “encouraged” by spectators who bet entire estates on the outcomes of the events. In 1919 eight Chicago White Sox players purposely lost the series to the Cincinnati Reds in exchange for bribes from gamblers. Today television rights, sponsorships and investments and an audience of billions have transformed sports into a **US\$145 billion criminal opportunity**.

Corruption in sport comes in many institutionalised guises. Club owners may demand kickbacks for player transfers, companies or governments may rig bids for construction contracts and organised crime may deploy match fixing. Gambling and money laundering can be widespread. This can take

place through sponsorship and advertising arrangements or through the purchase of clubs, players and image rights. Unusual legal structures and loose oversight helps the development of these criminal activities.

Sponsorship - What's the risk?

In spite of all this, sport endorsement is big business. As sponsorships have reached billions of dollars in size, they are now a core element of the integrated marketing communications portfolio of the organisations involved. But this remains a risky endeavour, particularly when studies indicate that reputational risks are regarded as the greatest threat to a company's market value.

Sporting transgressions have all kinds of consequences for sponsors. Take Tiger Woods, for example. Nike was able to sell approximately 1.4 million more golf balls per month when the golfer was under a Nike endorsement contract. Unfortunately, shareholders of the company and other sponsors collectively lost billions of dollars in the wake of the scandal involving his extramarital affairs.

Due diligence can mitigate this risk but never eliminate it. "Cobras", the industry parlance to describe disasters that strike suddenly, cannot be entirely avoided. Many would argue that the Tiger Woods scandal was one such example. On all accounts, the athlete was a good family man who lived to protect and promote the integrity of golf for all stakeholders.

Beware the python!

The more recent case of the FIFA scandal is different. It should not have come unexpected as rumours of corruption and human rights violations have been simmering for a long time. More than a cobra, this was a "python" - a slow-burning crisis that eventually strangles an organisation.

There is probably a commercial and reputational price associated with being a long-term sponsor of an organisation presented as a poster child for corruption. However, the problem runs deeper. Sponsors may have hoped to contain the issue to an acceptable level, counting on the fans' willingness to separate the officials from the sport and its sponsors. After all, why not? The strategy largely worked as U.S. football went through a series of scandals.

Unfortunately, corruption is contagious. Even the best people can succumb. For example, somewhat ironically, a well-regarded sport ethics professor found herself at the centre of a recent [basketball scandal in the USA](#). Nike, a long-time supporter of Lance Armstrong stopped sponsoring him only after he was banned for doping. The company, also a long-time supporter of FIFA, is now under the microscope and had to **issue a statement** indicating that "there is no allegation in the charging documents that any Nike employee was aware of or knowingly participated in any bribery or kickback scheme".

What Next?

For the sponsors, the battle for public opinion has started but their official reaction has been largely subdued. Scandals such as the multiple doping incidents in cycling can damage the value of sports. Yet, few, if any, have publicly divulged specific steps they are taking to pressure FIFA.

For FIFA, the situation is even more critical but it may look at the International Olympic Committee (IOC) reaction to its own major crisis for lessons. In 1998, the year that Sepp Blatter became the president of the FIFA, allegations of incestuous relations between IOC officials and the agents who helped cities bidding for the competition threatened to derail the 2002 Olympics in Salt Lake City. [Leaks revealed cash payments to IOC members, along with sweetheart deals, trips to the Super Bowl, and other lavish gifts.](#)

The IOC's response was an effective approach to managing reputational risk: It followed a three-step model: apologise immediately, investigate & punish in the mid-term, reflect & reform in the long run. In the midst of the crisis, numerous senior figures in the IOC expressed regret and contrition. Then, credible internal investigations led to the substantial number of departures. A body including outsiders was set up to develop structural reforms that led among other things to the introduction of a code of ethics and an [explicit policy on conflict of interest](#).

Once again, a scandal is hitting the world of professional sports. Once again, the actors profess shock and dismay. Sadly, by now, the rules of the game are known and the organisations involved need to clean up their reputations to remain respectable for the long-term.

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