

STRATEGIC RISK MANAGEMENT IN SPORTS ORGANIZATIONS

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Abstract: *Currently, sports organizations in Slovakia but also in the world, are facing another huge threat. They barely survived the difficult two years during the Covid 19 pandemic, this time they are facing an energy crisis. These uncertainties emphasize the need for prevention and the importance of risk management in sports organizations as well. The assessment of risks and possible threats from the external environment gradually becomes part of the activities of every sports organization. The purpose of the paper is to present the process of strategic risk management in sports organizations to support their sustainability in the face of negative threats from the external environment. To mitigate the consequences for the sports industry, the authors of the paper propose an important measure, i.e. increasing interest in prevention and paying more attention to risk management. The essence of the proposed procedure of strategic risk management for sports organizations is the determination of the individual steps of the application, i.e. ensure the support of the management of the sports organization for risk management, establish a risk management strategy and policy, responsibility for risk management, establish risk criteria, risk capacity, risk appetite, use methods and techniques to analyze the external and internal environment, create scenarios, define and create reports on key strategic risks. With the right approach to the effective application of risk management, sports organizations can better anticipate and prepare for strategic threats affecting their operation and management, thereby increasing the probability of achieving the set goals or ensuring the overall existence of the club.*

Keywords: *risks, threats, risk management, strategic management, sports organizations*

JEL Classification: *L21, Z28, Z29*

1. INTRODUCTION

The sports industry is an important economic sector in the EU, with a share in national economies and in larger European countries, it employs millions of citizens and generates billions in revenue. European sport relies especially on the structure of small clubs and associations which play a key role in enabling citizens to participate in affordable sporting activities (Varmus et al., 2020). These small clubs and associations are the backbone of European sport. These are mostly non-profit organizations, without any reserves which often work in precarious conditions with the support of passionate volunteers and employees.

The two-year period 2020-2021 marked history and became a turning point for all of humanity. The Covid 19 pandemic subjected the world to a transverse shock that affected all aspects of human behavior and forced humanity to fundamentally reevaluate or eliminate previous patterns and models of behavior (Covid-19, 2022). Social distancing caused by the rapid and dangerous spread of Covid 19 did not spare sport. The Covid 19 pandemic paralyzed the entire world of sports and caused a complete global shutdown of sports competitions at all levels (Westmattelmann et al., 2020, Bazzanella et al., 2022). It caused mobility restrictions and blockades hit the sports sector to the core (Dašić et al., 2020). Not only small clubs were affected but also large ones, from non-professional sports to the entire sports industry and its stakeholders: sportsmen, coaches, instructors, employees of sports organizations, volunteers, referees, delegates, businesses, especially micro-enterprises and small businesses (e.g. fitness clubs, gyms, retailers, event organizers, marketing agencies, sporting goods manufacturers and hirers). (Wiltshire et al., 2022, Edgar,

2021). Currently, many other authors, institutions, and organizations in individual EU states are evaluating the economic and social impacts of the Covid 19 pandemic on the sports industry.

On the one hand, the consequences related to the Covid 19 pandemic which sports organizations had to face, have not yet been resolved, on the other hand, other catastrophic threats are currently emerging, such as the war in Ukraine or the energy crisis.

The energy crisis will affect all sports clubs, e.g. hockey clubs. A huge amount of electricity is needed to cool the ice. Its price is rising to record highs as a result of the war in Ukraine. In Slovakia, not only an amateur but also professional hockey players are worried about their existence. Currently, no one knows whether all the ice surfaces in the stadiums will not remain melted due to expensive electricity. According to top representatives of the Slovak Ice Hockey Association, hockey will be the most threatened sport at the end of the year. They are already registering problems on seventy projects with ice surfaces where the season can be seriously threatened. They are trying to resolve this situation with state officials in an attempt to prevent the collapse of stadiums and hockey clubs (Fotta et al., 2022).

Rising energy prices have significantly affected and will continue to affect other areas of sport in Slovakia. Cities and municipalities that own sports halls, swimming pools, football stadiums, and winter stadiums are already announcing that they will not have the money for them and may close some of them. Many cities and municipalities are announcing that if they have to cut some expenses in their

budgets, sports will be among them. Savings measures in sports halls, such as training only in daylight, are only a short-term solution (Dulaiová, 2022).

The situation in the Czech Republic is similar to that in Slovakia. Sports clubs there survived the Covid-19 pandemic but now they are on the verge of collapse. The sudden increase in energy prices destroys them. The General Assembly of the Czech Sports Union (ČUS) described the situation of Czech sports as the worst in history. The combination of the decline in state aid and the energy crisis, which brings about an increase in expenses for the operation of sports grounds, can have far-reaching consequences, including the closure of sports grounds and the collapse of clubs. The difficult situation is perceived mainly by sports that take place indoors. The situation with increasing energy costs will be viewed critically, especially in the autumn, when more heating will be needed in badminton centers. There is a similar situation in squash, where it is very likely that training will become more expensive because the current state of squash centers will not improve (ČTKa, 2022).

Another example is speed skating big power Holland. According to the head of the skating union there, Herman de Haan, eight of the 22-speed skating rinks will have to close due to high operating costs. The Dutch swimming federation also has similar problems according to which it will close 200 out of 637 public pools due to the increase in energy prices. Energy expenses for swimming pools and speed skating rinks used to account for 15 to 20 percent of operating costs, now they have grown to half. The operators of swimming pools and halls cannot cope with this (ČKTb, 2022).

These negative events from the last and current period point to the vulnerability of the sports industry, as well as its sustainability for the future.

The sports industry is considered a fast-paced and highly competitive industry in which strategic management and strategic threat assessment of sports organizations should also be considered (Hoye et al, 2015). Strategic management in sports can be defined as the focus of a sports organization on a pre-selected direction, based on factors influencing the external environment and on maximizing the organization's resources and capabilities, with the aim of gaining a competitive advantage or fulfilling its needs (Bill, 2009). While in the business sector the highest priority is customers and shareholders, in the sports sector organizations have to satisfy a larger number of interested parties and in the process of strategic management, they should also consult with the sportsmen themselves, coaches, parents (when it comes to youth) or sponsors (Varmus et al., 2018).

Strategic management in sports organizations has a higher level of public responsibility. For successful strategic management in sport, it is necessary to combine the use of appropriate resources in combination with environmental analysis, passion, guts, adaptability, and creativity. Delarestaghi et al. (2017) identified three main levels of the benefit of the application of elements of strategic management in the field of sports: individual (improvement of managerial abilities and skills, increase of job satisfaction), organizational (improvement of innovation process management, improvement of risk management, improvement of process management) and social (creating

value for the customer, sustainability of job positions, building the position of sport in society) (Adamik, 2021).

2. SCIENTIFIC AIM, METHODOLOGY/METHODS

The aim of the paper is to propose a strategic risk management procedure for sports organizations to support their sustainability in the face of negative threats from the external environment

The methodological starting point of the processed contribution is the assumption that turbulent changes in the sports industry caused by the Covid-19 pandemic and the energy crisis can be a source of risks, crises, and even bankruptcy for unprepared sports organizations. Based on this, it is possible to make the assumption that despite the unpredictability of some situations in the sports industry, it is possible to resist the effects of risks or at least significantly reduce the consequences of adverse situations. A comparison of current knowledge about sports management and approaches to risk management confirms the high topicality of the issue being addressed.

The following methods were used to achieve the set goal:

- analysis of relevant foreign and domestic sources,
- assessment and generalization of current knowledge about risk management in sports organizations,
- synthesis of proposed solutions i.e. the process of strategic risk management in sports organizations to support their sustainability in the face of negative threats from the external environment.

3. FINDINGS

Even sports organizations realize their mission and goals in a certain environment from which they draw resources and to which they transfer the results of their activities. The environment is a condition for the existence of every organization which is currently characterized as unstable, uncertain, turbulent, and with constantly changing conditions. This uncertainty and the dynamics of various environmental factors affect long-term intentions, goals, strategies, and decision-making processes that affect the management process of sports organizations.

The goals of sports organizations are realized in an environment that, in addition to providing many opportunities for success and profitability, is also a source of threats, risks, uncertainty, and ambiguity. Manifestations of uncertainty increase the risks to which the organization is exposed. While risk is most often considered the uncertainty of the influence of environmental factors on the functioning of the organization, on the fulfillment of its goals. This is a risk that means the possibility of a negative or positive deviation. The size of the possible threat is not only determined by the existence or size of the threat but also by the vulnerability of the organization, its weaknesses and the extent of possible damage. The most serious risks for sports organizations include:

- insufficient provision of the sports club's profit,
- insufficient provision of sporting success,
- insufficient provision of the overall operation i.e. failure to fulfill the vision, mission - the overall existence of the sports organization.

If sports organizations want to fulfill the set goals and face the external and internal factors of their environment, they

should pay attention to prevention and create space for risk management. Prevention should be part of the management of sports organizations, approaches that focus on the analysis of failure, financial losses, and other negative events and prevent their repeated occurrence. Risks should therefore be assessed continuously, comprehensively, proactively, and systematically (Crovini, 2022).

An important role in the implementation of the risk management process is played by the previous experience of the managers of sports organizations and the need to respect **the procedure of strategic risk management for sports organizations proposed** by the authors, which consists of the following steps, Fig.1:

1. **Support from the management of the sports organization to promote risk management.** It is very important that management is oriented toward prevention. Prevention applied through risk management should be part of strategic management, approaches that focus on analyzes of the non-fulfillment of set goals and should prevent their repeated occurrence.
2. **Determination of the strategy and objectives of risk management for sports organizations,** which will be part of strategic management. Risk management strategy and objectives should address the tasks, activities, allocation of resources, and tools in the area of risk management. It is an important basis for decision-making and significantly influences the expected development of the management of a sports organization.
3. **Determination of policy and risk management principles** that support the chosen strategy with a positive impact on the achievement of goals. The risk management policy should be created depending on the specific situation, financial strength, and amount of estimated potential losses of the sports organization. The principles of risk management should be declared in the risk management policy, oriented more towards the regular monitoring and evaluation of the results of the set goals, the interlinking of risk management with all key processes, communication about risks with interested parties, placing an overall emphasis on the prevention of the sports organization.
4. **Determination of responsibility for risks.** The management of the sports organization should be responsible for setting up and functioning of risk management as a whole, approving the policy, strategy, and objectives of risk management. The established responsibilities and powers for risk management depend on the size and specific conditions of the sports organization. In large international sports organizations, a specific position of the risk manager is created, in the case of small sports clubs, risk management is dealt with by the club management, or authorized responsible person
5. **Defining the risk criteria by which individual risks will be evaluated.** The criteria represent boundaries for assessing the significance and severity of risks. Sports organizations should define the level of the largest loss that the organization is able to survive (risk capacity) and determine the level of risk that is acceptable to them and that they can afford to bear (risk appetite), i.e. set tolerance limits.

6. **Processing the analysis of the external and internal environment in connection with risk management.**

It is also necessary to assess the sports organization's capabilities in relation to the established goals and risk management strategy. It is an assessment of internal and external environmental factors that influence their success or overall existence, e.g.:

- External factors from the external environment: factors from the macro environment that have a direct impact on the functioning and activities of a sports organization. In particular, these are factors from the economic, social, technological, legislative, political environment, etc., which affect sports organizations. Factors from the industry environment have a direct impact on sports organization, or the achievement of their goals, e.g. the influence of competition, club members, suppliers, legal agencies, sportsmen's groups, etc.
- Internal factors from the internal environment are considered important from the point of view of sports organizations, they include, e.g. policy, processes, regulations, sports club guidelines, human, financial, physical, information resources, leadership style, communication, values, etc. These factors also have a strong influence on the functioning of sports organizations from the point of view of the external environment.

It is advisable to apply the following methods and techniques to analyze the environment of sports organizations:

- STEEP analysis, Porter's 5 forces model - analysis of the external environment.
- Analysis of resources, analysis of capabilities, analysis of vulnerability, determination of key indicators of the organization and processes - analysis of the internal environment.
- SWOT analysis, SPACE technique, scenario analysis, strategic thinking method.

7. **Creation and evaluation of scenario analysis.** Sports organizations should adjust their management and operation to prevention and effective strategic thinking with a focus on risk management. They should use the process of creative thinking, thinking about the future development of individual indicators affecting the set goals. This process can be supplemented with current new knowledge and information that affects the development of the external environment. It is correct to use simple logical thinking, the basis of which should be strategic decision-making based on the analysis of sub-scenarios of the development of essential factors of the organization's environment and their interconnection into a summary estimate of the future development of the sports organization. These are scenarios of the development of external factors, e.g. the development of the Covid-19 pandemic, the development of energy price growth, the development of financing, the development of competition and etc. With the help of scenario analysis, it is possible to establish a forecast of the future direction and development of the sports organization's environment (Hudakova, Varmus, 2022).



Figure 1 Procedure of strategic risk management for sport organizations

Source: own processing

8. Defining strategic risks and preparing measures to reduce them.

The management of a sports organization should define strategic risks at least once a year, taking into account the overall external and internal environment in which it operates. Among the current strategic risks of sports organizations can be determined (Hudakova, Varmus, 2022):

- Financial risks - insufficient liquidity, profitability and cash flow, failure to obtain funds - sponsorship, tickets, sale of players, rental of premises, increased costs of purchasing players, salaries, membership, rehabilitation, care of players, risk of closure, the bankruptcy of associations and clubs.
- Economic risks: increase in energy, property tax (stadium, gymnasium, premises...), unemployment of people in the sports industry...
- Risks resulting from club management, e.g. failure to secure powerful players, wrong strategy, incompetence of managers...
- Competitive risks arising from competing clubs...
- Legislative risks: non-compliance with the Sports Act, regulations, decrees...
- Criminal risks: damage to property, cyber attacks, damage to reputation, blackmail, fraud, embezzlement...
- Social risks: lack of interest of children/parents in sports, insolvency of parents...
- Stakeholder risks from the point of view of sports associations, cities, schools, media, suppliers, players' agents, partners, the general public...
- Risks from the point of view of management (owner, boards, interested parties, marketing, other employees): bad decisions, personal involvement, lack of qualifications...
- Risks from the coaches' point of view - incompetence, lack of authority, lack of motivation, underestimation of the situation, communication.....
- Risks from the players' point of view (the player is an employee): injury, accident, social insurance, psychological problems, insufficient preparation of the player after his career...
- Risks from the point of view of fans, visitors, members (parents) ...

9. Creating reports (risk reporting) on the results of risk management.

The person responsible for risk management should check and discuss risk management documentation at least once a year, assess the overall risk position and the development of the most serious risks to sports organizations. The authorized person responsible for risk management should periodically update data, indicators, identify, analyze and evaluate risks, monitor their development, issue timely warnings (according to the established tolerance limit). Propose measures to reduce them, periodically prepare a risk report for management. To try to improve procedures, methods used in risk management in accordance with the strategy of the sports organization.

In response to Covid-19, most sports organizations have already recognized the need to identify strategic threats and manage risks and activities that are critical to ensuring their survival and recovery. Many have already adjusted their core organizational processes and adapted their ways of working. For some sports organizations, these can be permanent changes that become the "new" standard. Operators and managers of sports organizations should assess the long-term impacts of the Covid-19 crisis on their resilience and approach to risk assessment and management. This can have a lasting impact on an organization's risk culture. This could lead to changes in the way sport organizations approach to risk, including risk identification, analysis, assessment, monitoring, mitigation, and reporting.

The Covid-19 pandemic has caused sports organizations to perceive the risks that were accepted in the past differently, and therefore it is necessary to check the acceptable limit values of the identified risks. The amount of tolerated risk represents the total amount of risk at which the defined goal of the sports organization must be achieved. It is determined during the creation of the strategy, and measures for risk management (reduction) must be set so that the limit value is not exceeded. It depends on the requirements of sports organizations and the expectations of interested parties and on the attitude of management (especially top management) towards risk. Checking the willingness to take risks is crucial for the development of the strategy of sports organizations. It is equally important to update the risk management policy and check whether the probability and impact of the identified risks reflect current changes in the internal and external environment of sports

organizations. A possible change in the effectiveness and efficiency of risk mitigation measures must be detected in time, and it is necessary for monitoring to function effectively. Sports organizations should review the impact of scenarios on the sensitivity of changes and focus on recovery and ensuring the smoothness of operations. By monitoring risks and checking established indicators, they can provide timely information and, subsequently, an adequate response to risks.

By effective monitoring of risks in sports organizations and suggestions for their reduction, it is possible to achieve a faster reaction process to adverse developments. Therefore, there should be risk management in every sports organization, which, based on established indicators, would identify those imbalances that have reached the latent phase of the crisis due to their deviation. Timely prevention of the emergence of a crisis and an adequate response can be a prerequisite for the continuous improvement of the entire operation of the sports organization and at the same time satisfying the needs of all interested parties.

4. CONCLUSION

The field of sports is an important element in the economy of every country. The Covid 19 pandemic hit the EU and its member states in a sudden and dramatic way. It has affected every part of the sports value chain from the

sportsmen themselves, to sports teams, clubs, and leagues, to the media. Currently, there are other negative threats that sports organizations have to deal with, i.e. increasing energy prices, etc. and already now they have to prepare measures to mitigate their consequences. This uncertainty emphasizes the need for prevention and the importance of risk management in sports organizations as well. This results in the requirements to create and enforce a strategic risk management procedure in sports organizations so that through it the management can know the key strategic risks that threaten the fulfillment of the main goals and propose a measure to reduce them.

The benefit of the contribution is to support the process of strategic management in sports with greater emphasis on risk management, due to current and future threats to sports organizations not only in Slovakia but also in other European countries. With the right approach to the effective application of risk management, sports organizations can better anticipate and prepare for strategic threats affecting their operation and management, thereby increasing the probability of achieving the set goals.

ACKNOWLEDGEMENTS

The paper was prepared with the support of the project APVV-20-0481 - Sustainability Strategy of a sport organization in the conditions of the Slovak Republic.

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