

## The governance system in Formula One motor racing

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### **Aim and research question:**

Governance of Formula One Motor Racing (F1) is even more complex than in many other sports. Besides the International Motorsport Association (FIA), the list of important stakeholders includes constructors, drivers, car manufacturer, race track operators, sponsors, national governments, media, etc. The governance in a narrower sense is determined by the following organizations. First, the official sporting superintendence belongs to the FIA, which formally specifies the rules of the Formula One World Championship: International Sporting Code (general rules of FIA competitions), Formula One Sporting Regulations (rules of the execution of the world championship and single F1 races), Formula One Technical Regulations. Second, the marketing rights of the F1 series had been transferred from FIA to Formula One Administration Ltd. (FOA). However, as a representative of this organization, Formula One Management Ltd. (FOM) is in charge of the operating business. Both FOA and FOM, and thus also the F1 series, are substantially controlled by Bernie Ecclestone. Third and fourth, two interest groups exist: Formula One Teams Association (FOTA), Grand Prix Drivers' Association (GPDA). Finally, the distribution of F1 revenues is determined by a non-public agreement between the different parties, called the Concorde Agreement.

This paper presents an in-depth analysis of governance and, in particular, rulemaking in F1 against the background of the different influence groups and their power within the F1 governance system. Furthermore, an empirical analysis of motivations and effects of rule changes addresses the questions (i) when do significant rule changes occur and (ii) what are the main effects of these rule changes. Eventually, the paper aims at deriving management implications for reforming the governance system of F1.

### **Theoretical background:**

The theoretical background is twofold: firstly, governance theory in the tradition of Oliver Williamson is used to describe and analyze the existing governance and rule-

making system in F1. Secondly, the theory of competitive balance is employed as a benchmark for measuring the motivation and effects of rule changes in F1.

### **Methodology, Research Design and Data Analysis:**

Rule changes in F1 can be distinguished into different areas like technical rule changes (aerodynamics, motor configuration, mechanical grip, tires, etc.), changes in the reward scheme (points scheme, number of drivers rewarded, determination of the world champion, etc.) and changes in the financial redistribution (compensation of sporting success, etc.). Rulemaking can also be distinguished into groups according to the basic aim of the rule like improving drivers' security or competitive balance.

The rules of F1 had been subject to frequent changes in history. This number is used for secondary-data empirical analysis. After a comprehensive categorization of rule changes according to the area/motivation, in a first step, the effects of rule changes on competitive balance are analyzed using the time series concept like multivariate regressions or Granger causality. To analyze the effect with regard to the different dimension of competitive balance, a number of F1 specific indicators are employed. In particular, this method reveals time lags in rulemaking.

In a second step, the decision making process within the F1 governance system is analyzed by estimating the probability of the occurrence of rule changes. Considering the count data nature of the rulemaking variable, Poisson regressions are employed. Here, the probability of rule changes is explained by the competitive balance, number of (fatal) accidents, number of enlisted teams/manufacturers, etc.

### **Results, discussion and implications/conclusions:**

The research project is currently ongoing and will be finished in June. The results offer important and unique insights on the management of big, global sports championships both in a positive and in a normative way. Positively, the analysis shows interesting patterns of F1's governance system reacting to developments in competitive balance and other motivating factors with rule changes as well as deficiencies in governance. Normatively, our analysis allows for conclusions how to improve governance and management of F1. These insights can be transferred to the management of other top-class sports series, like major soccer leagues and offer interesting implications to them as well.