How Czech sport lost a cash cow: A Case study of governance failure leading to crisis of Czech sport

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Aim of abstract/paper
Czech sport is facing hard times and substantial decrease in revenues. National sports organizations (NSOs) have lost 13 % of revenues due to bankruptcy of the largest lottery company Sazka. The company Sazka had been sending over 40 million EUR to Czech sport every year. Since 1993 Sazka was owned and governed by NSOs until 2011 when Sazka was declared bankrupt. Due to their own governance failure NSOs lost all the revenues from Sazka and consequently the very existence of many NSOs and individual sports clubs is threatened. This critical state of affairs is broadly termed as Crisis of Czech sport. The aim of this paper is to shed light on the primary causes of the bankruptcy and to analyse governance failures of Czech NSOs which lead to Crisis of Czech sport.

Theoretical background
Ownership of Sazka by all NSOs represents a case of widely dispersed ownership. Dispersed ownership results in exercise of ownership rights through elected representatives and thus dispersed ownership leads to loss of control. In such case, perfectly working board elected by owners (NSOs) is very important, because the board "governs the organization on behalf of the owners and is responsible for strategic direction and performance of the organization, the allocation of resources, the assessment of risk, compliance of legal obligation and reporting back to the legal owners" (Australian Sports Commission, 2005, p. 1). This definition is represented by six key principals of good governance (National Council for Voluntary Organisation, 2005). Furthermore, good governance must be associated with trust between board and executive (Taylor & O'Sullivan, 2009), good board-executive relationship (Hoye & Cuskelly, 2003) and clear separation of responsibilities of board and executive (Jensen & Fuller, 2002).

Cultural and economical background must be taken into account. After 1989 Czech Republic and many Eastern European countries went through a shift from communism to capitalism. The shift caused fundamental political, economic and cultural transformation which significantly affected organization of sport too (NSOs took over Sazka). These countries often struggle with transparency and special guidelines were published by some governing associations (e. g. European Non-Governmental Sports Organisation) to provide framework for sports organizations. Hence, transparency was assessed as a significant factor.

Methodology, research design and data analysis
The case study research design was employed subject to following conditions: a complex issue was analysed, explanation of causes was required, the author had no control of behaviour events and the study was focused on contemporary events. Data were collected through combination of document analysis and interviews. All available governance document were analysed such as constitutes, annual reports, board meeting reports, employment contracts and many other relevant documents. Interviews were conducted with board members of Sazka (appointed by NSOs) and with NSOs' board members.

Results, discussion and implications/conclusions
There is one broadly accepted cause of the bankruptcy of Sazka which is construction and financing of multi-purpose arena. The construction expenses exceeded the plans substantially and Sazka was not able to pay off the instalments of the obligations secured for the financing of the arena. However, this was just a tip of the iceberg and three primary causes were identified beyond. The primary causes are linked with board comprised the representatives of Czech NSOs. First, strong executive was recognized with all attributes and consequences. The board failed to ensure top-level control mechanism when the CEO dominated not only the company but also commanded the board. To illustrate, most members of board had no notion of CEO's remuneration which was obviously excessive, even in comparison with the best top managers' remuneration. Second, low transparency was revealed which prevented all stakeholders from possibility to monitor the events within the company. This is in accordance with previous author's findings on generally low transparency in Czech sport governance. Third, the Czech Republic government failed to provide control rights too – the construction of the arena was approved as public interest and the government was obliged to ratify distribution of Sazka's profit every year. All these causes lead to massive overcharging of contracts and huge waste money by management (mostly by CEO).

In summary, the largest lottery company went bankrupt despite flourishing core business. As a result, Czech NSOs lost the cash cow securing revenues over 40 million EUR because they were not able to express their ownership rights.

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