

A Study on System Reformation of Chinese Sports Industry Innovations

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Abstract With the integrated use of the principles of sports economics, political economy, administrative science etc., this paper analyzes the issues referred to the innovations and system restructuring in the sports industry. In current days, sports market is somehow immature in China, while the trade associations in sports industry can hardly work effectively; therefore, the function of capital market is limited. Thus we argue the sports industry system must be reformed; the role of the government must be changed; sports industry trade associations should be perfected, and the industry should open to diversified capitals.

Key words Sports industry innovation; Government function; Sports industry investment; Financing system

1 Introduction

The status and role of sports industry in the national economy have been fully understood. At present, sports industry in China is constructed with service industry and manufacturing industry as leading industries and many other industries follow. Sport industry in China plays a very important role in promoting the national economy; and sports industry has effectively facilitated the development of relevant industries. Currently, the sports industries amount to more than 1% of GDP in most Western developed countries. While in China, it is only 0.7% at the end of 2009. Overall, in China, irrational sports industrial structure, the small industry scale, and market imperfection make Chinese sports industry lag far behind developed nations. Accelerating the development of sports industry has an important role in promoting China's economic development and economic structural adjustment. The development lies in innovation, which has become a consensus. But, we do not have a clear idea about how to achieve innovations. As for any kind of innovation, we should put forward it according to reality. In sports, the drawbacks of sports industry in China can not simply be solved by the current phenomena, they should be solved from the industry system. At present, many innovative ideas are only stopgap measures, and they are difficult to produce results. The author believes that the key in sport industry innovations is the innovations in its system; because any economic reform and industrial development are carried out within a certain structure. The backwardness of the sports industry in China is because of the shackles from outdated system. If China does not reform the outdated system, the innovations and creations in this industry will become an empty talk.

Some researches have been done on this subject. Liang Jin(2004) analyzed the problems in the transformation of government role in the process of sports industrialization. Hu Xiaoming(2006) pointed out that innovation is the key to development, and open-mindedness is the premise to the reforms and innovations in system and regulations. Dong Xiaoqin(2007) showed that there are many constraints in the development of Chinese sports industry, and the only solution is to reform its system. But all the researches just give general suggestions, no specific ways.

In the post-olympic times in China, the development of Chinese sports industry is very urgent, and the aim of this thesis is to put forward concrete ways and measures to reforming the system defects and promoting innovations in sports industry.

2 The Drawbacks of the Existing Sports Industry System

The general scale of sports industry in China is relatively small with its far smaller economic effect compared with that of Hong Kong and western developed countries. The specific problems are as follows: The state hasn't developed enough encouraging and supporting policies for sports industry and the administrative relationships haven't been clarified with few sounding management formulations. The general service level of fitness sports industry lags behind people's need. The most noticeable problem in sports event industry is that government has the exclusive control of sports event resources meanwhile the elite sports events are rarely seen and lack the support of professional intermediary agencies. The nowadays sports manufacturing industry in China features provides small value-added

and labor-intensive products. The general administrative level of sport industry is low and industry development within the sport sector doesn't go smoothly.

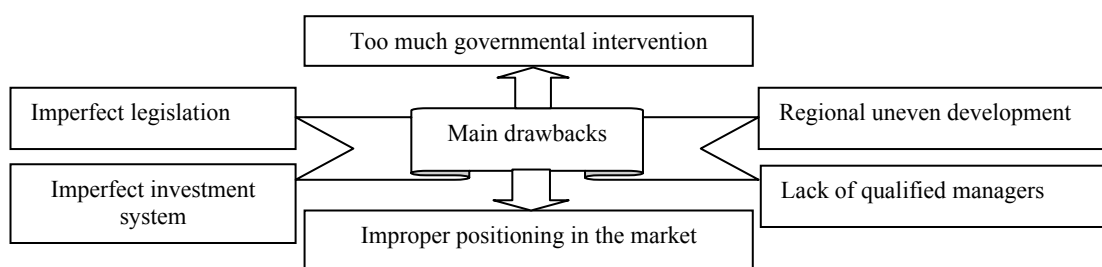


Figure 1 The Drawbacks in Current Chinese Sports Industry

Since the founding of the People's Republic of China, just as in other lines, in sport field, governmental administration exists everywhere. This kind of administration system can devote all available human, financial, and material resources to ensuring outstanding performance in athletic competitions, and so our sports achievements are outstanding. But this kind of administration system also exists in sports industries. With the furthering of China's economic reform, sports economy is also in transition, and great reforms are happening in Chinese sports industries. But these reforms are merely superficial ones; the fundamental issue of "governmental interference in industries activities" is not really resolved from the source. In other words, although the Chinese sports market has been commercialized, the sports industry is still fundamentally in the traditional government-administrating system. This system is incompatible with the irreversible commercialization trend of sports industries.

3 The Concept of the Innovations in Chinese Sports Industry System

Market economy is an economy in which market automatically allocate resources. It changes the positions of government and market in the allocation of resources. That is, the main body of resources allocation is now the market, not the government. The advantage of this kind of economy is that, with the premise of complete free competition, market economy can automatically lead to reasonable allocation of social resources, and give every economy subject freedom of economic choice. So market economy is a live operational mechanism as well as an efficient way of resources allocation. This is proved an irreplaceable leading mechanism. It is true that government is important in sports industry administration, but the sports economy development in China shows that, with the government as the leading role, it is very hard to promote the sports industry innovation. The reason is that, in the economy pattern in which the market is the main feature, sports economy can only develop in accordance with market economy laws. Some scholars suggest that government guide the innovations. This is not practical. At present, the relationship between the sports industry and government is not a question whether the government power should be further expanded, but the question whether government reasonably should give up some of its power, or withdraw from the industry business activities. Only in this way can sports industry innovations be realized in the market.

3.1 Government should make clear its role in the sports industry

In any country, the development of sports industry can not escape from the influences of sports market and government. But the influences of market and government in sports market are different in motives, means, degrees and timing. So there are two sports market operating mechanisms: market-oriented mechanism and government-oriented mechanism. Market-oriented mechanism is a mechanism whose drive comes from the market subjects' pursuit for financial benefits and the competitions among them. Government-oriented mechanism is a mechanism that needs the government as the planner and manager. Government sets up developmental goals for sports industry, and regulates and controls the development of sports industry with government executive means.

The administration system in sports industry in China cannot be changed in a short period of time. And it is also impossible for the government to ignore its administration responsibility in sports industry. Although we cannot believe market is omnipotent, we must consider one question: to what degree should the government interfere in the sports industry? The degree is regarded as the most appropriate degree which is most beneficial to the sports industry development. The degree decides the government's role in sports industry development. So finding the proper position of the government in

the market to make clear the government's role in it is the most important issue to promote innovations in sports industry.

The interferences of government in sports industry are in fact the management and regulation of government in the overall production course of sports products and services. It is a dynamic course in which the government, through instructions, planning, regulations, services, supervisions etc., influences sports industries, stops their development diversities, so that the development of sports industries won't divert from the national sports industry strategy. Only when market itself cannot regulate and solve its problems are government interferences needed. Government influences are needed only to solve the problems caused by shortcomings and deficiencies of market regulation. The strategies of governmental interventions and involvement in sports industry can be summarized as follows:

First, the governmental responsibility is to make industrial policies. Government macro-regulate and macro-manage sports industry by making policies for sports industry. It sets up goals for the development of sports organizations in a period, makes policies and takes measures to assure the realization. The policies include: policies about sports industry, policies about the setting up, promoting of sports industry trade organizations, and their massive production, and policies about the distribution of sports industry.

Second, government can not get into the business activities. It should give enterprises what they deserve and avoid intervening in their business activities. It can only influence the industry by making industry policies.

Third, government should be the service provider of enterprises. Government should devote more energy, human and financial resources to serving enterprises. Long-term development strategy guidance, planning, information services, guiding the direction of economic development for the sport enterprises are all that government can do.

Government function pattern explains the relationships among government, market and society, which demonstrates how the government utilizes marketing forces and government interference to develop athletics, and how government provides the necessary public sports service to public. In the new era, the government function pattern, chosen by Chinese government should be consistent with the development of economy and society. First, we should establish a market-based system to integrate sport resources. Market system must be set up to mobilize and reshape the sport resources in our country to optimize the resources allocation in a scientific way instead of solely relying on the government administration or finance. Second, the government's leading role in socialization of athletics should be given full play. The non-governmental organization related to athletics should be delegated adequate authorities or profits as stimulus. In socialization of athletics, the government should shift its focus to macro-control and regulations. Third, we should establish a non-linear net-work athletics system to substitute for the previous system with a linear feature from the central government to the local government. They will constitute an organic part of urban culture and economy. Meanwhile they are the corner-stone and symbol of the over-all strength of physical activities of the country. Fourth, the previous mono-professional competition mechanism will be replaced by multiple occupational, vocational and amateur simulation training programs. Eventually market-based professional athletics will come into being with government policies and investment as leverage.

3.2 Capital system reform in sports industry

Since 1990s, an obvious developmental trend of sports industry is that the relationship between sports industry and capital market is becoming closer and closer. In developed countries, the capital payback rate in sports industry is obviously higher than the average of the overall social capitals. So the capital amount entering the sports industry is comparatively bigger than that in other industries. The investment in sports industry is becoming more and more attractive. At the same time, the capital flowing efficiency in sports industry is higher than that in other industries. The experience in sports industry in developed countries shows that setting up joint-stock clubs, merging assets, taking the path of incorporation, reforming the industry system, implementing operational autonomy of enterprises are all correct ways for the development of professional sports clubs.

3.2.1 Improve the investment and financing system

From the requirements of modern market economy to re-build the sports industry financial investment and financing mechanisms, the most critical thing is to make laws to establish the normative orientation of sports industry investment and financing. And the supporting measures for sports industry financial investment and financing system innovation include:

(1) Legal system innovation

Currently, Chinese government just gives directing policies about sports industry development, lacking a fairly standard legal system. To suit the rapid development of sports industry, the legal system innovation is imminent. On the one hand, we can improve the legal structure through making new laws or amending existing laws and systems. On the other hand, we should pay attention to national legislation and uniform systems. The State Council formulates principles and regulations; local legislation departments take charge of specific content and implementation details.

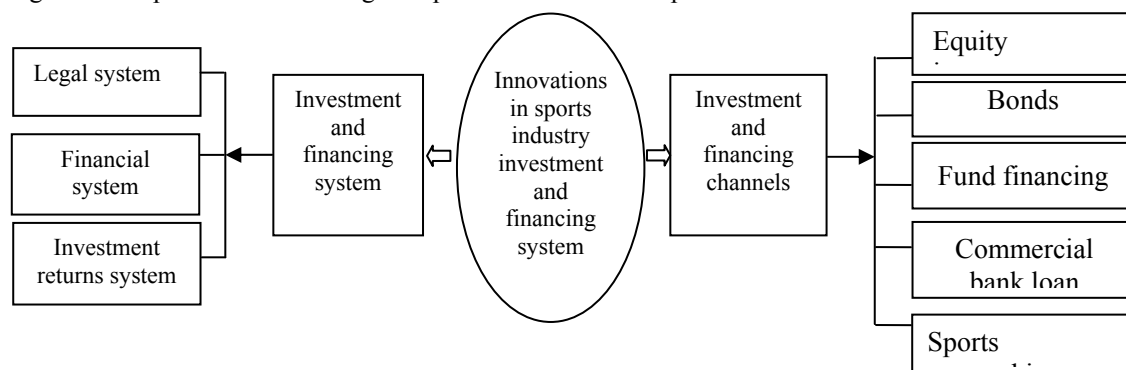


Figure 2 Main Contents of the Investment and Financing System Innovations in Chinese Sports Industry

(2) Financial system innovation

The lag of financial reforms in China directly influences Chinese economy, including influencing the healthy development of sports industry. To promote financial reform, we must rely on innovating financial system. First, government should make laws and regulations to expedite the formulation of the access of private capitals and foreign capitals to sports industry. Second, government should make regulatory laws and regulations about the activities of Chinese private banks and Sino-foreign banks in sports industry as soon as possible, and establish a diversified financial regulatory system. Third, we should make insolvency laws and regulations about Chinese private banks and Sino-foreign banks as soon as possible and monitor the progressive realization of the system transition from institutional financial regulatory system to a functional one.

(3) Innovative ways of investment returns system

Public sports facility projects should be funded through governmental and private capitals. When private capitals enter, we need a necessary investment returns system. Public tolling system should follow the "Who benefits and who pay" and "multi-benefit, multi-pay" principle. In the area of sports facilities, government can entrust private sections with production and services through contracts, granting management rights, legal protection and other means and ways. Then, according to the amount of production and services, government gives the private capitals reasonable allowance. This form in fact means that government attracts private investment through the approach of "buy". After completion of the projects, government regularly "buys" products and services from business investors for consumers. The perfection and implementation of investment returns system will attract more capitals, and help establish a healthy investment and financing environment.

3.2.2 Innovate investment and financing channels

In nowadays China, the government is the main financing and investment source in sports industry. With the rapid development of the society, the traditional financing channels can not suit the fast growing sports industry. With the market-based operating principle of "multi-investment, risk-sharing and interest-sharing", government should give the enthusiasm of different investment and financing subjects full play and achieve the diversification of investment and financing channels.

(1) Equity investment

In the stock market, the sports industry companies can raise capital through stock issuance. To promote the development of sports industry in China, we must learn from developed countries to solve the problem of insufficient funds in the development of sports industry by using stock market.

(2) Bonds

Bonds are open external borrowing certificates issued by the sports industry companies in the stock market. Corporate bond financing will help improve business visibility in the community, strengthen the social supervision of the enterprises and promote the enterprises to improve their management. The new

"Corporate Bonds Regulations" issued for the development of China's corporate bond market has brought new space.

(3) Fund financing

As distinct from financial, banking and stock market financing instruments, sports development funds grow with the sports industry and have the color of quasi-financial institutions. They raise funds through issuing benefit certificates to public enterprises and institutions. Open market fund shares can not and need not enter the stock market, so they will not intensify stock market money supply shortage and will also avoid the investment fund shares being speculated on in the secondary market. They can fully play the role of financing and assets revitalization in sports industry.

(4) Commercial bank loan financing

Sports industry enterprises can get loans from commercial banks to obtain funds needed for development. This financing way is flexible. Enterprises can apply for long-term development loans for special use but also can apply for short-term loans for circulating capital. Enterprises can raise a mortgage on assets such as a stadium; they may also turn to the major shareholder of the higher credit as guarantee to get loans. Compared with equity financing, bank loans can quickly raise the funds needed. Of course, compared with equity financing, this financing way has a higher demand for the management and operation of debtor enterprises.

(5) The financing of sports sponsorship

Sports Sponsorship refers to a particular business practice, in which, to achieve the objectives of their organizations, the sponsors pay a certain amount of cash or in kind to the owner or sponsor of physical assets or events (sports events, stadiums, sports and other public sports welfare activities). Sports sponsorship is an effective way of marketing, enhancing corporate image, expanding sales, improving market competitive power of enterprises in reality.

4 Conclusions

Sports as a sunrise industry has become a new growth point of the developed economies, China's sports industry is huge room for development and for sustainable development of China's comprehensive national strength has very important significance. However, the development of China's sports industry is facing many constraints, only the sports industry, institutional development, innovation, can the healthy development of China's development of sports industry find a way out, one change of government functions and capital market perfection is the most important innovation initiatives. In a market economy conditions, the establishment of government-led multi-functional sports models, role of the government in the sports community of the leading role, completely changing the way the Chief of intervention. Establish and improve the sports industry investment and financing system, expand physical investment and financing channels, to promote the rapid development of China's sports industry.

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