

Analysis on the Financing Mode of Joint Guarantee Loan for Professional Football Clubs of China

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Abstract: By using research methods of literature review, expert interview and case analysis, and adopting the research strategy of combining normative research with empirical research, this paper systematically reviews the theoretical origin and practical progress of the financial mode of joint guarantee loan, analyzes the financing status of professional football clubs in China, and preliminarily discusses the feasibility and implementation path of expanding the capital source and strengthening the business capacity of professional football clubs through introducing the financing mode of joint guarantee loan.

1. Research Background and Research Questions

1.1 Research background.

In March 2015, the General Office of the State Council issued the General Plan of China's Football Reform, which is a landmark in the development of football industry. The plan clearly puts forward to following proposals. "We need to strengthen the development of football industry, promote the development and protection of football intangible assets, and construct an all-round and whole-process football industry chain through building football brands, developing football accessory products, cultivating football service market and exploring the integration of football industry and related industries; measures should be taken to increase the income of football industry, and form a pattern of joint development of football industry and various economic elements." This plan provides strong policy support for deepening the reform of Chinese football professionalism and optimizing the governance structure of football clubs. However, it cannot be denied that the process of building a market-oriented football industry is still in the situation of fierce market competition; the prospect is of great uncertainty. Professional football clubs' problems on investment and financing have not been fundamentally solved. With the explosive growth of professional football clubs' capital demands, strong and stable financial capital injection has become one of the core links which can determine the survival and development progress of clubs. Based on above analysis, this study, aiming to optimize the investment and financing systems of professional football clubs, explores the new type of club financing model of "joint insurance loan", in order to provide professional football clubs with a new financing channel, and strengthen the market basis of football professionalism reform.

The theory of "joint guarantee loan" originates from the development of modern finance, especially from monetary banking theories. It is constructed out of developing countries' realistic needs on active, grass-roots financial markets. The history of joint guarantee loan practice can be traced to 1974, when Muhammad Yunus, a Bangladesh economist began to advocate his "Grameen Bank" theory. The peak of this financial mode occurred in October 2, 1983, when the independently operated Grameen Bank started its business. Since the turn of the century, joint guarantee loan has gradually become a popular financing mode all around the world, especially in developing countries. Professor Yunus won the Nobel Peace Prize of 2006 since his Grameen Banks contribute a lot to developing countries in ensuring economy stability and improving people's livelihood. Corresponding to foreigners' experience on joint insurance loan, ancient Chinese also made efforts in capital operation and social joint insurance. According to historical records, similar social and

economic systems also appeared in ancient China. The "joint insurance", also called as mutual insurance or co-insurance, has a long history of origin and evolution in China. From the perspective of human society's evolution and development, social communities and individuals with mutual trust and dependence can be considered as a community of mutual insurance; holding that perspective, people can better promote the smooth development of various transactions, improve the level of transaction security, and make the social life much more safe and stable. Thus, the practice of joint insurance system handed down from generation to generation. In contemporary financial industry, the Chinese government has attached great importance to joint guarantee loans since 1990s, and has tested this model in the vast rural areas of China. At present, the joint guarantee loan model has also achieved good results in the financing of small and medium-sized enterprises in China.

1.2 Research questions.

In recent years of China, the financing mode of "joint insurance loan" has made a series of progresses in practice and theoretical research, and attracted the attention of the professional sport industry. Most scholars suggest sports clubs to solve the problem of single financing channel through enterprise guarantee loans and going public. Researchers also carry out a series of feasibility analysis through theoretical analysis and comparison between Chinese and foreign experiences. However, the problems of inefficient internal investment and financing channels and poor profitability have suffered professional sports projects and enterprises, including professional football clubs for a long time, and have aroused the attention of investors, consumers and the management layer. The expansion of external financing channels can temporarily solve the fund shortage situation, but it cannot change clubs' internal financing situations, or effectively improve their profitability. Therefore, this study holds that, in addition to expanding clubs' financing channels, increasing their operating efficiencies and improving their investment and financing environments, it is also necessary to control their operation and management through innovative financing modes, so as to improve their profitability and activate their fundamental capital operation abilities. Managers, employees and researchers must pay attention to that issue. Generally speaking, as creditors, ordinary banks concern more about the possibility of default, the value of collaterals and the interest rate of loans when issuing loans to professional sports clubs. As debtors, professional clubs concerned more about the availability of loans and the collaterals required by banks. In order to increase the probability of obtaining loans, debtors may deliberately hide some facts to meet banks' requirements to the largest extent. Once they get loans, debtors may use them in high-risk projects to compensate high interest rates and solve hidden problems. Meanwhile, many professional sports clubs have low credit ratings, high operational risks and small loan quotas; most clubs are in deficit, making banks unwilling to take the risk of issuing loans in spite of clubs' great development potentials. However, the financial model of joint insurance loan for professional sports clubs has outstanding advantages of reducing financing risks and information acquisition costs, as well as improving clubs' financing credit ratings and reducing their financing costs. It can not only expand professional sports clubs' financing channels, but also effectively control their operation behaviors, thus realizing the double harvest of solving sports clubs' financing problems and improving their management levels.

2. Research Objects and Research Methods

2.1 Research objects.

16 professional football clubs which have participated in the Chinese Super League of 2015 are taken as the research objects of this paper to explore the feasibility and potential risks of introducing the joint guarantee loan financing mode into professional sports clubs; risk prevention methods are also put forward.

2.2 Research methods.

Literature review. 39 academic papers, 6 master dissertations and 4 doctoral dissertations are found in the CNKI net of China under the key words of professional sports clubs, professional

leagues matches of football, football clubs, football industry, financial joint guarantee loan, financing mode and others. These papers lay a sound theoretical foundation for this study.

Expert interview. Five experts from relevant research institutions are interviewed. Questions in the interview include investment and financing problems, as well as capital operation and financial innovation of professional sports clubs, especially professional football clubs.

Questionnaire survey. Taking 16 football clubs participating in the 2015 Chinese Super League as the research object, nearly 300 questionnaires are distributed to club managers, administrative and financial managers, as well as officials who are in charge of football in provincial and municipal sports bureaus. 271 questionnaires are collected, with the recovery rate of more than 90% and effective rate of 87%. Through the empirical study of professional football clubs with different properties, more valuable conclusions and suggestions can be found.

3. Analysis and Design of Financial Modes of Joint Guarantee Loan for Professional Football Clubs

3.1 Game analysis in the joint guarantee loan for professional football clubs.

The Game Theory has been widely used in the analysis of behavior choices of different players in the competitive market. It can also effectively analyze and design the financial modes of joint insurance loan for professional football clubs. Decision-makers in the game are interdependent. In the model of joint insurance loan, loan enterprises need to play the game at first. After the game, enterprises can form different joint insurance groups at their own will. The second round of game is then played between the bank and these joint insurance groups. Enterprises succeed in these two rounds of games can get the loan. In the game model of joint insurance loan, the joint liability relationship of game players is the mutual-restriction of all members in a joint insurance group. If any member in the group cannot repay the loan on time, all other members must repay its loan together.

As game players, professional football clubs have to experience two rounds of games with other members in the joint insurance group through private information sharing. Members in the group are encouraged to supervise each other's investment process from plan formulation to implementation efforts. In this process, adverse selections can be avoided; supervisory costs can be reduced. These outcomes lay a good foundation for the design and implementation of supervision mechanism in professional football clubs in the later period.

3.2 The design and implementation of joint guarantee loan projects for professional football clubs.

Joint guarantee loan for professional football clubs. In this mode, professional football clubs are regarded as ordinary enterprises. They need to choose joint insurance partners on their own, and apply for loans with other business entities in the joint insurance group. As independent enterprise operators, football clubs need to form joint insurance groups with other enterprises. They are the players of the first round of game. Financial institutions will evaluate them again after the second round of game, and determine which enterprises can get the loan. In this kind of financing mode, enterprises need to form joint insurance groups and apply for loan together. Through this financing mode, professional football clubs can learn more management methods from other members in the group, and develop along the professional way.

Joint guarantee loan for professional football clubs organized by the trade association. Under this mode, different professional football clubs work together to establish trade associations; these associations are equipped with their own professional institutions to deal with loan and financing businesses. The trade association is a kind of social intermediary organization which links the government and enterprises. Trade association serves commodity producers and operators; its main functions are coordination, supervision and providing various services.

In this mode, financial institutions and professional club associations establish a principal-agent relationship. Professional club associations entrust financial institutions to deal with some links in loan business and pay for their service. Although the bank and clubs still serve as the two parties of

loan transaction, professional club associations can reduce agency costs to a certain extent by restraining these clubs.

Joint guarantee loan for professional clubs as a whole. In this mode, the Industry Association of Professional Football Clubs establishes financing relationship with financial institutions as a whole. In the professional club association, some members form interest groups to finance. Under this mode, the overall credits of trade associations replace the individual credits of clubs; the trade associations replace individual clubs to negotiate with financial institutions. The method can effectively decrease agency and information costs. In the overall credit mode, the Association of Professional Football Clubs can establish and operate a joint insurance fund for business loans. The fund can be used as loan guarantee and make more professional clubs in the association able to meet the loan requirements of banks.

When a professional club in the association has capital demands, it needs to apply for loans to the industry association first. Then the association examines this club before financial institutions do. After examination and approval, the industry association submits loan application to financial institutions as a whole; the joint insurance fund serves as the guarantee of repayment. In this credit model, the industry association is deeply involved in the financing activities of clubs, and takes the default risks. Thus, industry associations should use the joint insurance fund scientifically and rationally, and supervise the use of loans, so as to solve the financing problems of members.

Through professional club associations, this model can better promote the financing of enterprises. Currently in some parts of China, trade associations of other industries have adopted this mode to promote enterprise financing; typical examples include "Fusong Model", "Xiaguan Model" and "Wenzhou Model". Almost all of these credit projects are participated by local governments and financial institutions. In view of the particularity of professional football clubs in our country, the researcher believes that the suitable financing method for these clubs is the "Xiaguan Model". In this model, the professional club financing association is set up under the leadership of the sports administrative department. The association is responsible for the financing of clubs, the management of the joint insurance fund and the preliminary examination of enterprises in loan application. For professional football clubs apply for loans, the association needs to review and supervise the entire process of fund operation.

4. Conclusion

On February 27, 2015, the 10th meeting of the Comprehensive Deepening Reform Leading Group of the Central Committee approved the General Plan of China's Football Reform, and adopted the strategy of three-step development of China's football industry in next period. The short-term reform goal is to straighten out the football management system and create innovate football management methods with Chinese characteristics. The plan lays a solid foundation for the marketization and all round development of professional sports, and provides important guiding ideology and policy basis for the further deepening of this study. Researchers have carried out a preliminary exploratory study on the new financing mode of joint guarantee loan for professional football clubs through the comprehensive integration of multiple research methods, and obtained research fruits with certain practical values and operability. It is necessary to further promote the application and popularization of relevant theoretical research results, which make higher requirements for follow-up research and practice.

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