

Full Length Research Paper

Analysis of China's sports industry investment funds by using the strengths, weaknesses, opportunities and threats (SWOT) method

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The purpose of the present study is to analyze the advantages, weaknesses, opportunities and threats of China's sports industry investment funds (SIIFs) as well as the strategic choices so that, competitive advantages can be built to response to the challenges of investment funds in China's SIIFs is facing by using the strengths, weaknesses, opportunities and threats (SWOT) analysis method. Result of the study shows that, China's SIIFs should try to reverse its weaknesses and seize opportunities so as not to miss the opportunity. Moreover, seeing from the long-term funding resource, law and policy conditions, funds management team and withdrawal channels of its establishment and operation has a considerable possibility to establish China's SIIFs.

Key words: Strengths, weaknesses, opportunities and threats (SWOT) method, analysis, sports industry investment funds, China.

INTRODUCTION

Industry investment funds (IIFs) refers to a collective investment system, existing and operating in the form of investment funds, investing mainly in non-listed companies and conducting capital management and supervision (Thomas, 2002; White et al., 2005). IIFs is characterized by the operating mechanism of "collective investment, expert management, risk diversification, common benefits and operational norms", that is, experts with specific expertise invest collected social capital in the high-tech or new industries with potential benefits in the use of the principle of diversification so that the benefits can be obtained through the specific and creative capital operation (Ahlstrom et al., 2007; Dong et al., 2008). In late July 2008, the National Development and Reform Commission (NDRC), China's central economic planning agency, announced that it is forming a

working group to draft new regulatory guidelines for IIFs (Sun and Wei, 2007).

IIFs appears to be highly consistent with China's 11th Five-Year Plan (2006 to 2010), which includes the objective of strengthening the financial system, in part by promoting direct financing for domestic companies under the "Interim measures on industry investment fund management of China", sports industry investment funds (SIIFs) refers to a collective investment system, investing in non-listed companies shares and providing management services, that is, by means of issuing of fund shares to most investors, funds companies are founded that appointed themselves as managers or entrust others to manage fund assets (Ding and Dong, 2008). China's SIIFs is mainly engaged in the investment field of the technology innovation of sports industry, sports corporate restructuring and funds construction, with the investors sharing investment benefits and risks (Wu et al., 2005).

Strengths, weaknesses, opportunities and threats (SWOT) analysis, also known as Dawes matrix, is a strategic analysis framework proposed by Professor

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Andrews of Harvard University in the 1970s (Lalitha, 2002). It is an important step in strategic enterprise management. As shown in Figure 1, S stands for the advantages (Strength) of enterprise, W stands for the disadvantage (Weakness) of enterprise, O stands for the opportunities offered to the enterprise by environment (Opportunity) and T stands for the environment threat to the enterprise (Threat) (Nige and William, 1989; Narayan, 2000; Shinno et al., 2006).

SWOT analysis is widely used, such as competitive intelligence activities, regional development and industry analysis (Houben et al., 1999; Westhues et al., 2001; Christiansen, 2002; Yooa, 2005). In this study, SWOT analysis is used to systematically analyze the advantages, weaknesses, opportunities and threats of China's SIIFs as well as strategic choices, so that competitive advantages can be built to respond to the challenge of investment funds which China's SIIFs is facing.

STRENGTHS ANALYSIS OF CHINA'S SPORTS INDUSTRY INVESTMENT FUNDS (SIIFS)

Personnel strength

SIIFs normally entrusts the funds to professional managers to operate by means of modern trust investment. The funds managers have stronger financial management abilities and higher level of expertise, more importantly; investors can get higher investment returns if the funds are entrusted to them. Investment managers have experienced professional investment teams to be in charge of sports industry funds assets, who have unparalleled strengths in knowledge, experience, information and time compared with individual investors. Professional investment teams overcome the drawbacks of information analysis lag and lack of operation skills so that expert financial management and funds benefits can be achieved.

Cost strength

Compared with bank loans, SIIFs has strengths in financing. First, SIIFs can reduce financing cost of sports enterprise and save financial expense, besides it has greater flexibility in duration that is beneficial to the sustainable development of sports enterprise, optimizing enterprise structure without increasing the leverage. Second, it is more flexible to raise funds. Since China's banks are very strict in supervision and paperwork of approving is very cumbersome and inefficient, there are times when funds needs of project parties cannot be met (Jiang et al., 2009; Horrocks et al., 2008).

With collective money trust products issued, according to the relevant provisions of the People's Bank of China (PBOC), there is no need for asking for approval of the PBOC as long as trust and investment companies recognize this. Collective money trust products are ready

to be issued as long as the project needs, without any limit to the amount of funds collected (Fung et al., 2004).

Finally, the various channels to collect funds are encouraged. By issuing collective funds affiance, investment channels can be expanded, financing environment can be improved, financial product can be innovated and the risk of the banking system can be reduced.

Portfolio diversification strength

SIIFs can be invested in different types of sports industry projects by means of portfolio diversification, reducing risks and improving benefits. For example, a certain percentage of sports funds can be invested by a certain percentage in stocks, bonds, industrial investment projects, etc., and investment can also be chosen according to the types of stocks. In this way, even if a particular investment type fails, other benefits can be used as compensation.

In addition, direction of investment of sports funds can be divided according to the expenditure: First, funds required to pay at any time have a high degree of mobility so the funds can be the preferred choice of bank deposits and can also be invested in money market, short-term lending, discounting commercial bills and purchasing bonds one year or less; second, funds that are not required to pay whenever necessary can be used for long-term investment, such as entrusted loans or direct investment. Benefits diversification should be realized based on investment diversification. Meanwhile, SIIFs has the obligation to publish periodic financial statements to the public and the financial operation has a higher transparency. Therefore, it can effectively avoid the investment risk, achieve higher benefits and has regular dividend income.

WEAKNESSES ANALYSIS OF CHINA'S SPORTS INDUSTRY INVESTMENT FUNDS (SIIFS)

Training of professionals takes a long period

Expert financial management is the core of investment funds (Dong, 2003); therefore, the quality of financial experts is the key to the survival and development of investment funds. To develop China's SIIFs, professionals who should master knowledge of not only financial service but also sports industry are needed. Through multiple channels and various forms of training, a number of professionals should be trained who are skilled in funds business and also have rich experience in the sports industry investment management. So team of professionals should be built, who are essential for developing funds business, such as lawyers, accountants, auditors, asset, etc. But nowadays there are not many professionals to meet the demands in China. Funds managers tend to specialize in a single area of expertise and it is difficult for them to adapt to large-scale

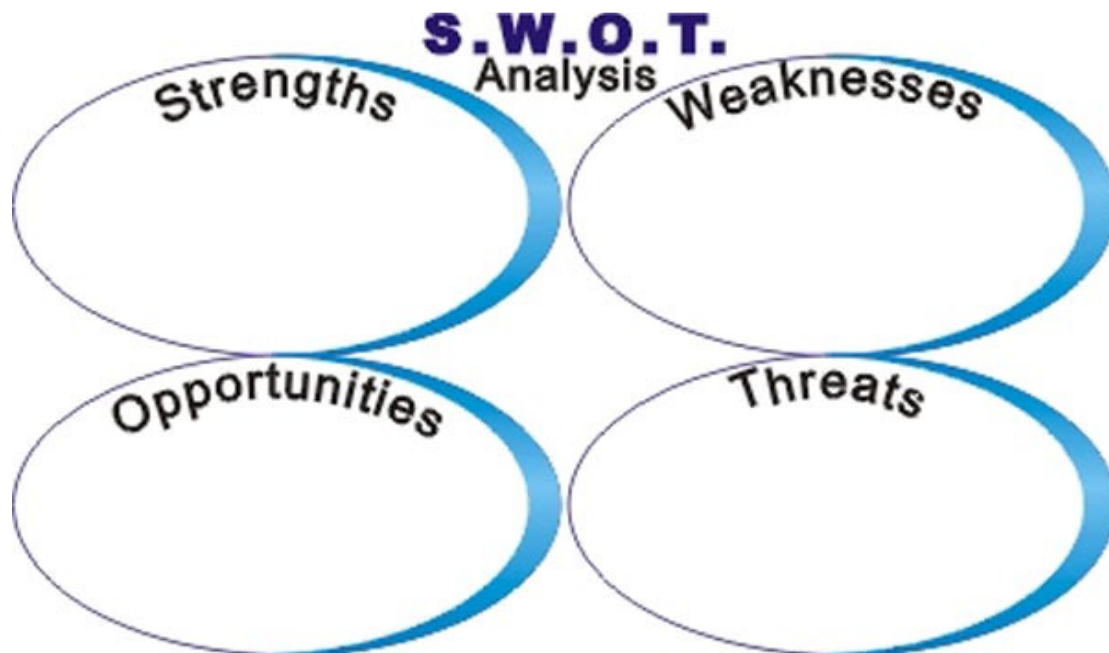


Figure 1. Dawes matrix.

operation of SIIFs. Therefore, it will take a long period to train professionals in this field.

Single withdrawal model in sports industry capital market

For IIFs, continued investment will be affected if the withdrawal cannot be realized timely (Yang, 2008). Good withdrawal channel is a key to success of SIIFs. Two withdrawal ways of SIIFs in developed countries are share transfer and settlement (Ren et al., 2008). To make China's SIIFs develop in a healthy way, effective capital withdrawal must be realized. At present, withdrawal models of China's IIFs (including venture capital funds, corporate restructuring investment funds and infrastructure investment funds) are the following three: The majority of IIFs are bought or transferred through private agreements; Part of the funds choose long-term dividend investment and a small amount of funds are withdrawn through international capital market.

Capital funds withdrawn from the venture enterprises of SIIFs, plus the higher value-added benefits of enterprises, are not only important to capital cycle operation and value realization of SIIFs but also conditions for mobilizing social capital to participate in SIIFs. Meanwhile, the higher capital benefits from withdrawal of SIIFs are, the greater the amount used in reinvestment of it will be. China's current capital market is not mature, so it is unrealistic and impossible for industrial investment funds to withdraw only by promoting listed companies. Therefore, when protecting sources of SIIFs, China's government should also pay attention to

the withdrawal mechanism of it to ensure that high withdrawal benefits can be obtained.

OPPORTUNITIES ANALYSIS OF CHINA'S SPORTS INDUSTRY INVESTMENT FUNDS (SIIFs)

Potential sources of funds

Abundant liquidity and high savings rates provide a potential supply of funds to the development of China's SIIFs. In recent years, in the global background of excess liquidity, due to the appreciation expectation of the Renminbi (RMB) and the sustained trade surplus, a clear situation of excess liquidity appears in China. At the same time, China's savings rate keeps rising. Since 1996, for 5 consecutive years, China's household savings have been increasing at a high speed of 18% and savings rate is more than 35% (Tang, 2007; Ding and Wang, 2008).

In the end of January 2009, a balance of household savings in China surpassed 18 trillion Yuan, ranking first in the world saving rate with more than 10,000 Yuan per capita. In 2009, savings rate of China's enterprises was up to 30%, almost 20% higher than that of the United States, France, etc. and nearly 10% higher than that of Japan (He and Zheng, 2010). In short of investment channels, this big sum of asset is retained in the inefficient banking system and it is huge pressure for the banks. Being an innovative financial instrument, SIIFs has less risk than stock, futures, foreign exchange and other investment tools and its profitability is greater than bank savings investment. When SIIFs is relatively mature and stable, at the same time deposit rate changes, part of the rate-sensitive savings will leave the banking system

and turn to SIIFs.

In addition, with the full liberalization of China's financial sector in 2006, foreign banks can enter the domestic capital market by means of financial innovation of equity participation or trust. This will allow more foreign financial institutions, products and instruments into the country, which will become the effective supplement of the supply channel of China's SIIFs.

Market demand

With the reform and opening up deepened, China's sports industry develops rapidly and shows great potential for continuous growth, but the investment and financing system is still lagging behind, as a result lack of investment and financing difficulties happen and the objective requirements of the rapid development of sports industry cannot be met.

At present, the financing channel is single; the financial system of sports industry is unsound; investment and financing scale of sports industry is small; funding source is unstable and investment channel is narrow. The establishment of SIIFs can broaden the financing channel of the sports industry and reduce financial risks of sports industry investment companies.

National policy support

From 2003 to 2010, the development of IIFs has been paid more and more attention to and increasing IIFs are established with special approval. Already established Sino-Swiss Partnership Funds, China and Belgium direct equity investment funds and so on are established with special approval of the China's State Council. In the end of 2005, with approval of the China's State Council, submitted by the National Development and Reform Commission and launched in Binhai New District in Tianjin City, an experimental industrial investment funds was established, which is the first industry investment funds of public offering of Chinese capital and will also become the first relatively standard one.

The intention of government's special approval is clear that is, an experimental industrial investment funds was established first, then experience can be obtained, finally laws will be made to regulate it. It shows that China's government has clarified the attitude towards industrial investment funds and policy support has been in a substantive promotion phase.

In addition, the China's State Council will launch "management approach of initial public offerings and listing on the growth enterprise market" in the end of February 2009. It is estimated that the first listed companies will be twenty to thirty (Guo et al., 2011). This undoubtedly creates a good opportunity for the establishment and development of China's SIIFs.

THREATS ANALYSIS OF CHINA'S SPORTS INDUSTRY INVESTMENT FUNDS (SIIFS)

Operating threat

Operating threat refers to that during the operation of SIIFs and under standard operation, benefits decline because of factors that cannot be accurately predicted. Operating threat mainly consists of project selection threat and scale threat (Li and Ren, 2007). Project selection threat refers to damage caused by mistakes in selecting projects.

If the SIIFs have a smaller scale, the project selection will also be fewer so the funds companies and funds management companies can concentrate on the job. At the same time, if the SIIFs has a smaller scale, combined investment will have greater difficulty and operating threat is hard to disperse.

Some SIIFs has a bigger scale and has more flexible investment ways, as a result, it is beneficial for combined investment so as to disperse threat. But the downside is that large funds will bring difficulty to operation and management, with many projects to be screened one by one. The threat occurred by the scale of investment funds is called scale threat.

Financial threat

Many factors of risk work together. The results lie in: Whether the problem of insufficient capital for the sports industry business can be resolved; whether investments can be withdrawn and satisfactory profits can be obtained; whether there will be a higher default risk, liquidity risk and duration risk. Therefore, the invested enterprise should establish a sound financial system and strengthen financial management, so should SIIFs companies.

Legal threat

Rapid development of SIIFs must rely on a sound legal system. Involved in the management, SIIFs provide venture capital to companies and converse technological achievements to special investment in the realization of productivity. If China's government can establish a standard and sound legal system, it will greatly promote the innovation and development of SIIFs. Legal system related to SIIFs mainly include: (1) Regulating and improving the laws about intellectual property. (2) Drafting laws and regulations about the development of sports industry investment funds. (3) Drafting laws about monitoring market.

At present, there is not any legal system of SIIFs in China. The government and legislature has not yet promulgated the legal system of SIIFs in "Law of The

People's Republic of China on Securities Investment Fund". There is no authority bound in SIIFs and the establishment and operation of it lacks legal support. Some investment institutions are unworthy of the names. Obstacles exist when it comes to the financing channels of SIIFs.

CONCLUSIONS

During the establishment and operation, despite its weaknesses and external threats, China's SIIFs does have strengths and opportunities. Therefore, China's SIIFs should try to reverse its weaknesses and seize opportunities so as not to miss the opportunity. Moreover, seeing from the long-term funding resource, law and policy conditions, funds management team and withdrawal channels of its establishment and operation, it has a considerable possibility to establish China's SIIFs.

Long-term funding source needed to establish China's SIIFs is very ample, and shows great interest in it. Under "management approach of initial public offerings and listing on the growth enterprise market", good policy environment is set. Although, generalist professionals needed for establishment and operation of China's SIIFs are inadequate, some market-oriented groups of sports industry have had initial ability to manage it.

At present, the withdrawal channels of China's SIIFs are still limited but some effective ones can be found in practice. Moreover, with multi-level capital market in China gradually established and perfected, initial public offerings and property trading market should become the most important channel through which China's SIIFs can be invested and withdrawn.

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