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Corporate Governance of the Football Industry - the stakeholder approach towards the game's marketisation and professionalisation in China

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This thesis is submitted in partial fulfilment of the requirements of the degree of
Doctor of Philosophy

Declaration

I hereby declare that this thesis represent my own work. All sources of information have been acknowledged by means of references including web resources.

December 2013

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Abstract

Sports governance has been given greater consideration over the course of the last 30 years due primarily to the global trend of the increasing levels of sports commercialisation, and professionalisation. Despite this, there are varieties of sport governing models existing in different countries built against the difficult backgrounds of their own historical, cultural and economical development. The stakeholder approach has become a trend for improving not only corporate governance standards in many industries but also in sports worldwide. The application of stakeholder theory to sports governance ensures sports are developed within a necessarily transparent system and a balanced power structure. More importantly, it ensures that decisions are made based on the interest of the majority of stakeholders and for the best interest of sports. When this approach is applied to sport management, it helps a sports organisation increase commercial awareness in terms of addressing the needs of different stakeholders and thus benefits the organisation's overall goal development and its long-term success.

Alongside the rapid growth of the Chinese economy, sports development in China has also gradually attracted interest from the West. With regard to Chinese football - the most popular sport in the country, and the first sport to go the professional route under the market economy, the Chinese football market has been seen as an untapped territory with big business potential. It is not only attracting domestic investors but also global firms. This thesis explores the impact of transitional changes within China's football modernisation process and the governance structure, by looking at the Chinese response to the football development trend of professionalisation and commercialisation. It is a novel explorative study on Chinese football, employing the framework of stakeholder theory to illustrate the transitional process. The data collected from interviews with other sources available in both Chinese and English, was qualitatively analysed and the findings provide evidence of stakeholder relationships between the Chinese Football Association (CFA) and local football associations (FAs), between the CFA and clubs, and between clubs and fans, which identify modern conflicts, occurring within the current Chinese football industry during this development phase. The discussion, based on evidence, is also able to suggest appropriate governance responses for the Chinese game at different levels in order to face challenges ahead.

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Abbreviations

- AFC – Asian Football Confederation
- CCP – the Chinese Communist Party
- CCTV – the Chinese Central Television
- CFA – the Chinese Football Association
- CFIDC – China Football Industry Development Company
- CFMC – Chinese Football Management Centre
- COSCO – China Ocean Shipping Company
- CSL – Chinese Super League
- CSLC – the Chinese Super League Company
- CSR - Corporate Social Responsibility
- CSRC – the China Securities Regulatory Commission
- DFL – German Football League
- DRC – Dispute and Resolution Chamber
- ECA – the European Club Association
- ECF – the European Club Forum
- ECJ – the European Court of Justice
- EII – Earth Island Institute
- EPL – English Premier League
- EU – the European Union
- FIFA - Fédération Internationale de Football Association
- FIFPro - the Fédération Internationale des Associations de Footballeurs Professionnels
- GANEFO – Games of Newly Emerging Forces
- GFL – the Great Leap Forward
- IFRS – International Financial Reporting Standards
- IMG - International Management Group
- IOC – the International Olympic Committee
- LC - the League Committee
- NBA – the National Basketball Association
- NPESC – National Physical Education and Sports Commission

OECD – Organisation for Economic Co-operation and Development

NGO – None Governmental Organisation

PCC – the Professional Cycling Council

PFA - the Professional Footballers' Association

PLC - Public Limited Company

PRC – People's Republic of China

PRP - Performance-Related Pay

SB - Sports Bureau

SEM – the Socialist Education Movement

SETC – the State Economic and Trade Commission

SGSA – the State General Sports Administration

SLC – the Super League Committee

SOE – State Owned Enterprise

UCL – the International Cycling Union

UEFA – the Union of European Football Associations

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Chapter One: Introduction

Corporate governance can be conveniently understood as the set of processes, customs, policies, laws, and institutions that affect how a corporation or company is directed, administered, and controlled (Leusse *et al* 2009). Such consideration also takes into account the relationships existing among the many stakeholders involved and the objectives for which the corporation is governed. Corporate governance and its associated concerns had no bearing on Chinese industry management before its national economic reform. The subject was only discussed when the Chinese stock market was established. In China, corporate governance has emerged as a popular topic and is the subject of both political and economic debate.

This thesis examines the concept of corporate governance in the context of Chinese football, with regard to how the sport is governed in China for the purpose of gaining a clearer understanding than previously existed on the governance of Chinese sports and its football industry. This study seeks to contribute to the development of stakeholder theory as an important analytical framework in social science studies, especially in relation to countries with emerging economies. The wider background to football reform in China has been the “Open Door” policy and the economic reform that was introduced from the early 1980s. The government’s intention has been to make all state-owned enterprises more effective and efficient than they previously were by gradually introducing Western enterprise methods with a capitalist market approach (Chen 2003). Since football possesses the greatest potential for market value of all sports, it was chosen as the first to undergo Western style reform. The top league was made professional in 1994¹. Unlike other Chinese sports, football became subject to new and different sets of rules, enjoying more relaxed state control and marketing-orientated flexibility. In 1999, professional

¹ The market elements have been introduced into the Chinese game in the early 1980s when the marketisation process started. However, fundamental changes happened in 1994 when the top league teams started to play the Western-style home-away formation and the teams’ state ownership gradually transferred to non-state ownership. The state amateur model of the game became a Western-style professional model. This study uses the term “professionalisation” to refer to the development period of marketisation from 1994 onwards in order to keep the consistency with Chinese literature and existing Chinese football literature in English.

clubs were required to adopt a business model and to become independent companies with clear indications of their ownership structures. Clubs as companies are subject to both the Company Law and the regulations set down by the football governing bodies. Such ‘professionalisation’, combining the marketing approach and commercial activities, led to the further development of the football industry.

Traditionally, corporate governance places emphasis on two aspects: management and control. Studies have generally focused on interest alignment between primary participants of the corporate structure, such as shareholders, management and boards of directors. More recently, corporate governance concerns have shifted from being shareholder-centric towards a more balanced approach (Donaldson & Preston, 1995). Since other stakeholders can in many ways exert a significant influence on a corporation, their interests are afforded greater consideration during decision-making. Furthermore, in modern business management, corporate governance goes beyond merely complying with the appropriate rules; it is also about establishing mechanisms and supporting institutions to ensure the healthy development and long-term sustainability of firms (Harrison & Freeman, 1999). The concept has undoubtedly entered the philosophy of the modern football industry worldwide.

In Europe, there are already serious concerns over the governance of the European football industry, especially towards the apex of the football pyramid, which has “developed into a ‘business’ that has increased the tendency towards legal disputes and cultural clashes, as a result, football now exists in an environment of legal uncertainty”(Arnaut, 2006, p.iv). In China, the model for Chinese football professionalisation has followed that of Europe - especially at the top level, where elite teams have developed into club companies. This transformation has also led the Chinese football industry into similar development uncertainty. This environment, together with increasing commercialism, represents a threat to football’s long-term stability and success; it is therefore necessary that proper governance of the Chinese football industry be established in order to achieve legal certainty and financial sustainability. Moreover, such good governance can only be achieved through the joint efforts and strong

commitments of all stakeholders. The major contribution of this study stands as the fresh analytical insights have been generated by the application of stakeholder theory into the changing behaviour of different stakeholders and development of their relationships during the process of Chinese football professionalisation. Understanding the different needs of different stakeholders is essential for both governing bodies and clubs to maintain accountability and healthy development, and now it is time for these to be acted upon.

The overall aim of this study is to provide an insight into the corporate governance of the Chinese football industry after its transformation from the state amateur model to a Western-style professional model; to identify some problems within the current Chinese football industry through research; and consequently to make constructive suggestions for the improvement of its governance. This mainly qualitative interview-based study is designed to gain a better understanding of the Chinese football industry through different stakeholders' perspectives. It focuses upon the process of football professionalisation, with particular emphasis upon the overriding research question: "**How has professionalisation impacted on the governance and development of the football industry in China?**" This overriding question has been divided into six sub-questions, which have been discussed with different stakeholder groups separately during the research process, in an attempt to explain some perplexing features of Chinese football:

- 1.** What are the organisational structures of the Chinese FA and the Super League, and how have they facilitated the development of an increasingly professional football industry?
- 2.** How does the Chinese FA balance the needs of the professional football industry and grassroots development?
- 3.** How do professional football clubs manage relationships with multiple stakeholders?
- 4.** How has professionalism impacted the relationship between supporters and football clubs?
- 5.** How has increasing professionalism affected players?
- 6.** What are the key governance challenges facing the Chinese football industry?

In order to answer the above questions, a number of practical principles provide useful benchmarks, which are set as different themes for data analysis. Such as: managerial approach, conflict of interest, financial dependency, stakeholder relationships, and systematic sustainability. Moreover, the stakeholder framework serves as the theoretical guide to analysing the legitimacy of key stakeholders, their relationships with, and influences on, each other, and how these relationships have been managed by different stakeholders from their own perspective. With the unique accessibility the researcher gained, coupled with the stakeholder framework, this research offers an original contribution and insights to the empirical studies of corporate governance in the Chinese football industry in which very little research has been done in either China or the West.

1.1 Research context

There has been renewed interest in corporate governance in both the theory and the practice of modern corporations since mismanagement and poor practice caused the bankruptcies of a series of high-profile firms in the US, most notably, the collapse of the Enron Corporation in 2001. Similar corporate failures have also happened in the UK, such as the bankruptcy of Barings Bank, leading the US Government to pass the Sarbanes-Oxley Act in 2002², and the UK Government to produce a series of reports in order to counter mismanagement and financial fraud and to improve governance standards. Despite legislative efforts, governance problems have been highlighted once more by the recent global credit crunch, triggered by the bankruptcy of Lehman Brothers in September 2008 and the Madoff scandal of the same year, which showed the importance of and real need for appropriate governance in today's modern industries and financial services. Corporate governance mechanisms are designed to reduce business risk, to counter managerial inefficiency and to provide systems that are transparent to all stakeholders in order to establish public confidence. The principles of corporate governance good-practice include trust, integrity, responsibility, accountability, mutual respect, effectiveness, and efficiency.

²It is a US federal law set new standards for all US public company boards, management and public accounting firms after a number of major corporate and accounting scandals, enacted on July 30, 2002.

Corporate governance is an important aspect of modern industrial management where most research has been focused on conventional industries and stock-listed corporations. The sports industry has thrived on commercial development. However, there is a danger of over-commercialisation which can undermine the integrity and social value of sport. The lengthy debate over the peculiarity of the sport industry, especially in league sports, coupled with heavy discussions on the way sport has been commercialised globally over the last two or three decades, has shown up particular concerns on the corporate governance issues in the sport industry (Walters 2007). For instance, baseball, basketball and ice hockey in the US, and football in Europe. Good governance practices in modern sports management have been recognised as the necessary mechanism to ensure what is needed for financial sustainability and the sport's integrity (Hamil 1999, Hamil *et al* 2000). Notably, the Union of European Football Associations (UEFA)'s financial fair play rules kick in at the 2011/2 season, and address clubs' unbalanced spending power and restrains some clubs' irresponsible behavior. It is promoting greater financial responsibility amongst clubs, and the health development of the football industry. Currently, there are some different governance models of professional sport available in North America and Europe, each model having been developed over a period of time with its own characteristics.

Because of the high profile of sport in people's social life and what appears to be a successful adoption of sports commercialisation in both America and Europe, sports governance has become a subject of wide concern, especially the concerns of authorities and sports governing bodies. Football is so significant in terms of its worldwide popularity, with huge amounts of money involved at professional level, that the commercialisation seen during the last 20 years has changed the game to reach an even more significant level not only in Europe but also in the rest of the World. The game has been run very differently compared to 20 years ago, with too much money at stake, and with many stakeholders holding serious doubts over the appropriateness of the current governing structure and its ability to protect the game from losing touch with its traditional roots.

Professional sports leagues consist of several individual teams or clubs. At the top level clubs not only operate as individual firms, but also collectively act as cartels within their industries (Sloane 1971). Especially in Europe, a sports club is often operated as both a commercial entity and a local community hub simultaneously. Modern sports governance creates a number of questions: Do sports need to be treated differently compared to other conventional industries? Is commercialisation a good thing for sports' development in terms of its healthy development and long-term financial sustainability? Corporate governance in sports is about to set up mechanisms in order to balance its social and sports roles to protect its integrity from the inevitable trend of commercial development. Joes Luis Arnaunt (2006 p.iv), Chair of Independent Europe Sport Review stated: "Sport governing bodies must understand and accept the requests of political institutions towards sport governing bodies regarding the need for proper governance". In reality, European Union (EU), UEFA and Fédération Internationale de Football Association (FIFA) are working together for better governance in football, at not only international level, but also national and club levels, which indicates the need to protect football's sporting nature and social functions from increasing business orientation.

1.1.1 Corporate governance in the football industry

The contemporary literature on corporate governance in professional football draws attention to many areas - political interference, game regulators, revenue generation and distribution, competitive balance, investors' behaviour, management structure, fan involvement and so on. In the last two decades, development trend of professional game particular at the top level, it has become more of a business and less of a social institution. Therefore, corporate governance on the subject of football development has raised serious concerns from some economists, government officers and industry professionals. In particular, the issues of commercial approach, protecting the game's integrity, financial sustainability, traditional value, and long-term healthy development. As a highly commercialised entertainment industry with enormous amounts of money involved in today's professional game on a global scale, amongst the top European competitions and clubs, establishing a transparent system and better business practice within the football

industry is required, as The State of the Games (Football Governance Research Centre 2005, p.X) explained: “Good governance is particularly important for football clubs given the opaque world in which they operate, with football agents and others often trying to avoid openness and accountability”.

On a macro level, corporate governance is a key element in enhancing investor confidence, promoting competitiveness, and improving economic growth. On a micro level, corporate governance is important promoting football not only as a high profile social institution but also as an exciting entertainment industry. A transparent governing system with a balanced approach towards all stakeholders enhances the game’s sport value and social credibility at the same time as fulfilling the game’s ‘fair play’ spirit.

The prevalent view of football commercialisation and the establishment of the English Premier League has been the greediness of top clubs exploiting the game and driving its spirit away from the traditional values. The real danger is the ever-expanding financial gap between the rich Premier League clubs and the rest of the Football League clubs. As this continues, football starts to lose its cohesion, causing serious damage to the integrity of the game as a whole (Hamil *et al* 2000; Lago *et al* 2006).

Despite football being described as the “the people’s game”, under today’s business approach, “the people” are considered ‘customers’, the game more as the ‘product’ and the club a ‘brand’. The over-development of football commercialisation has led to the over-exploitation of its “customers”. Traditional fans are priced out, undermining the values of football clubs as a community based social institution. Hamil (1999) recognises the danger with the current commercial approach as it can erode the fans’ loyalty and football’s social value therefore putting the game at risk.

Another element which is shaping the modern day view of the commercial football industry is learning from crises which to offer its cultural readjustment (Elliott & Smith, 2006). Obviously, any physical unexpected disaster can be seen as a potential crisis for the club or even the industry (e.g. the Hillsborough disaster in 1989), and similarly, a

firm's underachievement and financial mismanagement can also be viewed as a crisis for the organisation. Ultimately, it affects its stability and sustainability. However, by the same token, a 'crisis' also provides opportunities for regulators to adjust or change regulations in order to protect the game's healthy status and to prevent incidents in the future. Crises such as Bradford in 1985 and Hillsborough in 1989 forced public inquiries and brought in government intervention. For instance, the Taylor Report resulted in millions of pounds being spent on modernising grounds in England and Scotland. As a result, stadiums became safer and football related crimes were reduced. Coupled with the introduction of the Football Spectators Act (1989), all such efforts made a positive impact to bring the game back from decline.

With this in mind, if stadium disasters, hooligans and the Taylor Report were the triggering events for the modern commercialisation on the English game, in the Chinese case, the triggering event was a long period of underachievement by the national team which precipitated a management crisis within the CFA, and eventually led to football reform, in other words, the advent of professionalisation.

China being one of the new emerging economic powers, not only its economic transition but also its sports development experience radical changes, largely due to the increasing influences of commercialisation. In terms of a research context, this thesis serves the purpose not only of revealing the corporate governance structure of Chinese football and of filling the research gap between corporate governance and the Chinese football industry, but also of applying the stakeholder approach as the analytical framework to bring fresh analytical insights to contribute to the field of Chinese corporate governance study.

The concept of corporate governance was not introduced in China until the 1980s, when its economic reform really took off. Clarke (2003) suggests Chinese corporate governance tends to cover systematical relationships amongst all parties by its Chinese definition, usually seeing shareholders as a particular important group and focusing almost exclusively on agency problems. Although Chinese government adopted the

Western style of governance framework for state owned enterprises, its agency problems are quite different in contrast to firms in other developed market economies. The real goal of Chinese corporate governance was never solely concentrated on maximising profits for shareholders; its initial aim was to make state owned enterprises more efficient and effective. In other words, by using a market approach whilst at the same time trying to keep state control over important industries.

China's Company Law (1994) was certainly set to promote non-state sectors and enterprise, nonetheless, corporatisation did not necessarily mean privatization. The state needs firms to run more effectively, and at the same time it also needs firms' help to keep employment levels at an acceptable standard. Generally speaking, the state withdraws some of its ownership from certain industries, but is committed to maintain control over important sectors. Therefore, in many respects, the Chinese style of corporatisation is very likely to conflict with shareholders' interests.

Against a background of general economic reform, football reform in China was influenced in a similar fashion. However, the football industry has its own specificity compared to other conventional businesses, and thereby a narrow sense of agency approach would not have been appropriate to define the complexity of the industry's development. Even though the marketing approach has been applied since the early 1980s, and was followed by the further creation of Club Companies in 2003, the ultimate governing framework of the industry has been kept largely unchanged. There are a few articles on Chinese football in English, such as, Five case studies – Algeria, China, England, France and Japan by Amara *et al* (2005); Football in new China by Dong & Mangan (2001). Both of them are quite chronologically descriptive of the development of football professionalisation, even though they outline some sports management frameworks, most of their data is nonetheless secondary and mainly comes from other articles published in Chinese or in newspapers, providing a rather shallow perceptions with managerial and governance issues give less cause for concern.

There remains a lack of analytical literature on China's football governance, possibly for a variety of reasons. Firstly, the weakness of Chinese football on the World stage results in less perceived interest in the West. Secondly, corporate governance has not, until recently, been addressed in China. Corporate governance issues are related predominately to state owned enterprises and listed companies, and there is rarely any research looking at the Chinese sport and the football industry from a view of point of the concept of corporate governance. Thirdly, articles about Chinese football both in the West and China are mainly descriptive, few of them going beyond the phenomenal surface. Despite football professionalisation having been introduced for over a decade, football governance lacks progress. As a result, there is a real need for having more research done on the subject of corporate governance in the Chinese football industry from various angles, especially as the current Chinese football market is getting more attractive for many global businesses. This research employs a corporate governance concept and stakeholder theory framework, looking at different perspectives from different stakeholder groups in order to unveil the complexity of the corporate governance of the Chinese football industry. It is not only to fill the research gap on the subject aforementioned but also to provide a better understanding and an in-depth exploration of Chinese football.

1.2 Theoretical context

Blair (1998) sees the shareholder-management nexus as important, however, corporate governance should not solely focus on the power relationships between shareholders and management, since it is not the only relationship within the corporation that is important to wealth creation. As a social institution, club management do not solely concentrate on shareholders' profit maximisation like some other corporate management models do, football clubs maximise their utility, coupled with the fact that the football industry has its own peculiarities, means that, agency theory is relatively narrowly applied to explain the complexity of the football phenomenon. By contrast, stakeholder theory addresses the principle of who or what really counts, and the stakeholder approach also explains the complexity of relationships amongst different stakeholders. It explains the state of the

game in China better. Moreover, the football industry has to reconcile its sporting nature and business performance, which requires stakeholder management and stakeholder management strategy.

Steurer (2006) argues that stakeholder theory has most commonly been used from a corporate-centric perspective in the research field, and in the case of Chinese corporate governance, most of the studies concentrate on state owned enterprises and listed big companies with a predominate agency theory approach (Clarke, 2003). In the matter of Chinese sport, there are some English articles and books available, however, few of them place an emphasis on the concept of corporate governance and management, never mind a stakeholder theory approach towards its football industry. As mentioned before, this research is not only can fill the void of corporate governance in the Chinese football industry, but also to adopt a different approach – a stakeholder approach towards the corporate governance in China, each element itself being able to demonstrate a major contribution to the research field, and a combination of the two plus further developed stakeholder analytical models making this study an even more sound research project.

The agency approach focuses on aligning the interests of principals and agents, reducing agency costs through mechanisms being the priority for a firm, with a strong focus on a single target – shareholders' profit maximisation. In the field of sports and the football industry, clubs not only have commercial targets but also have sport and social roles to fill. For example, even given that clubs are limited companies, the FA still took an initiative to protect the sport's heart of the game to ensure that the clubs did not become solely profit-oriented vehicles³. Due to the fact that they often operate as both business entities and local community hubs simultaneously, clubs are working on utility maximisation rather than shareholder profit maximisation. A stakeholder approach provides more comprehensive analysis than just a single target of profit maximisation, as it fits the overall profile of the football industry making it even more important for football clubs. The stakeholder approach helps the management of clubs to think of the

³ FA's rule 34 regulated the game until the late 1990s, it restricted the payment of club directors and the dividends of shareholders.

full range of communities from whom they need support and loyalty. Obviously, the need for loyalty from across the range of stakeholders, does not mean just from shareholders.

Steurer (2006) states a corporate perspective emphasis on how corporations deal with other stakeholders within its networks; a stakeholder perspective focuses on how individual stakeholders or stakeholder groups try to influence corporations. In terms of the football industry, corporations are clubs. With the high social profile the industry now enjoys, football is certainly more influential in a social context for the common good and social responsibility, an influence which stakeholder theory also recognises and reflects. Furthermore, a stakeholder approach offers a broader set of relationships rather than the narrow set of economic relationships which an agency approach does (Harrison & Freeman 1999). Therefore, stakeholder theory has the potential of being as an integrating theme in terms of how the business and social worlds interact, making it an appropriate framework for conducting research in the football industry.

In the commercial environment, an ideal position for a conventional firm is to be a monopoly in its industry in order to dominate the market. On the contrary, football clubs rely on each other heavily to be able to function well; clubs operate as cartels within a league framework to produce their joint product – football matches, a monopoly position is impossible for a football club to achieve (Quirk & Fort 1992, Mason 1999, Neale 1964). The interdependent relationship amongst participants in league sports is an important characteristic of the football industry, and a stakeholder approach offers better positions and multiple angles to look at the interdependent relationships amongst clubs, from both the competitive side and the co-operative side, in order to highlight the peculiarity of the industry. Although a monopoly position is impossible for a club to achieve, league competitions can be dominated by the few big clubs. A high level of dominance produces unbalanced league competition; unbalanced league competition reduces the outcome of uncertainty, which can arguably deterring supporters attending matches (Football Governance Research Centre, 2003, 2004, 2005). In order to protect competitive balance and to maintain a certain degree of outcome uncertainty, various mechanisms have been employed in both American and European league sports. For

example, the draft system in the National Basketball Association (NBA) and the revenue redistribution scheme in the English Premiership⁴.

More arguments have been raised recently about sport commercialisation and globalisation, there is a need for a better understanding of how professional sports are organised. Football has become a multi-million pound business; however, as a social institution, football clubs have significant social roles which go beyond sports performance, business profitability and organisational efficiency. Clubs are regarded as representationally symbolic of geographical locations. Relationship between clubs and their local communities demonstrate social bonds, and clubs can play important roles in the development of local identity, culture and a shared memory of living (Morrow, 2003). Therefore, the overall integrity of the game and stakeholder values should be valued even more. Morrow (2000) argues that the stakeholder concept has greater relevance for the football industry than for more conventional businesses because of the particular features of certain football club stakeholders, especially their demands for accountability.

Does the modern game run to accommodate and be held accountable for meeting the goals of multiple stakeholders? As Campbell (1997) argues stakeholder thinking should not be assessed by what value has passed amongst stakeholders; management should always make the company's purpose clear to both shareholders and other stakeholders before they commit themselves to the company. In the case of this study, to adopt a stakeholder approach shows the researcher recognises the multi objectives of the football clubs and the peculiarity of the football industry.

1.2.1 More than a business

In order to understand professional football, it is necessary to understand the relationship between a club and its various stakeholders. Due to clubs do not pursue a solely sports goal, they also pursue social goals which should be reflected in their governance process

⁴ The draft system gives teams with the worst record in the previous season a better chance of picking order for rookie players.

and business practices. As a result, stakeholder thinking is an essential element for a modern club to function as both a commercial firm and a social institution simultaneously.

In England, most football clubs are privately owned limited companies, and commonly owned by local businessmen. Owners and their clubs tend to have shared the same roots and culture, and originate from the same community. In the past, a club's profitability also came second to its traditional values. Both fan and club owner alike pledged their support to the club above all else.

However, in 1983 Tottenham Hotspur, with the FA's consent, became a public owned company. The FA was accused of being irresponsible and shortsighted by some observers after giving the green light. Tottenham's floatation transformed football clubs in England and the Public Limited Company (PLC) ownership emerged.

Football has changed beyond recognition since the 1990s when TV money poured in. Critics (Conn, 2007, Wheel, 2011) believe the commercialisation of football development has gone too far - clubs have lost touch with their communities, priced out ordinary fans and damaged the traditional value of social cohesion and inclusion which football sought to uphold.

In Spain, many clubs are owned by members. Real Madrid and Barcelona are the most well-known of the clubs where members democratically elect their presidents. Smaller clubs like Athletic Bilbao, are also owned by their members. In addition, in the case of Barcelona, the club represents a traditional Catalan value of intolerance of dictators throughout history. Barcelona's famous slogan "more than a club" clearly indicates the centrality of higher social values.

In Germany, the German FA maintains a policy that members of every Bundesliga club own at least 51 percent of their club. This ensures a connection between clubs and their local communities. Recently, league administrators voted to continue their ban on foreign ownership of clubs, therefore, the German league will continually remain a domestic

affair. German Football League (DFL) president Dr Reinhard Rauball stated “The Bundesliga thrives on its stability and balance, the protection of the competitions must be maintained” (The Independent, 2008).

In Italy, clubs are owned by businessmen who see clubs as prestigious assets reflecting their business images and representing their own personalities. Clubs have a far greater sense of materialism. Clubs such as Juventus and Milan are owned by corporations controlled by the Agnelli and Berlusconi families respectively. From their points of view football clubs are part of their lives and social images – making the clubs too valuable to sell.

The ownership structures of football clubs in Spain, Germany and Italy would make any acquisition difficult. By contrast, ownership models of English football clubs make English clubs easy targets, especially with big TV money ‘sweetening the deal’. The recent arrival of foreign businessmen in the Premiership shows a clear indication of this. The UEFA President Michel Platini has been aware of the phenomena and has said: “We are the guardians of European football. Our role is to protect the game from business”. “The US businessmen, buying your clubs today. They want to make money. I say, ‘take care’” (Conn, 2007). Platitni’s warning signaled the need to protect the true value of English football and its clubs as a social institution.

When the Glazer family bought Manchester United in 2005, the blatant business-like approach caused a rather hostile reception from the fans. Many fans believe that Manchester United, whilst under the Glazer family, cannot represent the club’s traditional values, and, as a result, the club will never be same again. Many who felt disillusioned and betrayed by the loss of the club walked out Old Trafford and formed a new club (FC United of Manchester) in order to represent the true value of their own culture. In many respects this goes to show that the clubs embody stronger social values and relationships than they do big business structures.

In the end it appears that football is not only to do with the actual game, but its social value as well. When Randy Lerner took over Aston Villa, he adopted a different approach, and by showing a respect for the club's heritage and community value, the fans shared a common platform with him. As a result, he had a much smoother start at Villa Park.

In terms of modern industry management, agency theory and stakeholder theory are the most popular approaches under the corporate governance framework. Agency theory concentrates on management and control, as well as interest alignment between owners and agents; stakeholder theory concentrates on relationships amongst a corporation and its stakeholders, which has broader concerns covering the wider interests of all stakeholders rather than the narrow interest alignment between owners and management. Campbell (1997) argues that purpose being something independent of shareholder value thinking or stakeholder value thinking, business purpose defines business model, and has implications for each stakeholder. Football is a modern industry, possessing its own peculiarities, whereby clubs are corporate entities with multiple objectives. A narrow agency approach would not explain well either the complexity of the club company model nor the relationships amongst stakeholders within the industry.

A football club is more than a club, a football business is more than a business. As Platini said:

“That is my philosophy, to protect the identity of the clubs. I like the system where Real Madrid and Barcelona belong to the members, the socios. The fans are the identity and history of the club and in England you have great clubs, great fans. If the money ever goes the new owners will leave while the fans will stay. It is for the FA and the government to do what they can to protect the clubs” (Conn, 2007).

The uniqueness of the football industry defines the way football management is different when compared to other conventional businesses. Stakeholder theory not only addresses the multiple objectives of football clubs, but also takes a modest approach towards a better understanding of complex relationships amongst different stakeholders within the

industry. In this case, a meaningful insight into the Chinese football industry and complexity of relationships amongst stakeholders can only be achieved through the stakeholder analysis framework. The research looks at the Chinese football industry from the perspectives of different stakeholder groups namely: the CFA, clubs, players and supporters, taking the research to address the complex relationship amongst them, as seen from their own points of view, to avoid a simple corporate-centric approach. Moreover, it provides analysis and fresh insights beyond narrow management issues such as organisational efficiency and effectiveness.

1.3 Thesis structure

This thesis consists of nine chapters. Chapter One sets out the main aim, introduces the overriding question, and presents an overviews of the structure of the whole project as well as to define its major contribution. The research context gives a general sense of the topic by gradually introducing the research subject - what exactly this research is working on, and why it is important. This chapter also unveils the theoretical context of the research by illustrating the peculiarity of professional sports, especially the peculiarity in league sports and the football industry. Then it justifies the question: why is stakeholder theory an appropriate approach to conduct research into the football industry generally as well as into the Chinese football industry?

Chapter Two starts to review corporate governance literature in general by looking at its two popular theories, namely agency theory and stakeholder theory. The starting point aims to introduce the modern management concept of corporate governance, providing general ideas on the question: What do corporate governance theories mean to conventional industries? The chapter places an emphasis on the stakeholder theory in order to lay down a foundation for later actual implementation. The review also tries to link the research questions to literature, it then narrows down to further justify why stakeholder theory is an appropriate framework for conducting research within the football industry, which shows how research questions flow from the account of stakeholder theory.

Chapter Three outlines the general background of Chinese economy development, and then it narrows down to focus on the areas of corporate governance in China and its sport governance in order to illustrate the research gap between corporate governance and the Chinese football industry. The purpose of this approach is to review corporate governance from a broad general concept to a particular Chinese concept as well as to a specific field of Chinese sport and Chinese football. Through a top down review, readers are not only helped to see a gradually more specific research field of literature systematically, but also provided with an easy way of identifying the research gap between corporate governance and the Chinese football industry. Ultimately, the aim is to highlight the need for conducting research on the topic of corporate governance in the Chinese football industry.

Chapter Four is the methodology chapter, it starts from epistemology - a branch of philosophy and its direct Greek meaning is the theory of knowledge. Epistemology is devoted to use a scientific way to find knowledge through research, which has to be guided by theory. It primarily addresses such questions: What is knowledge? How has knowledge been acquired? And also addresses what we know and how we know what we know? The chapter starts reviewing research philosophy from three dominant views in literature: positivism, interpretivism and realism, to outline the subject of any research approach that flows from the research philosophy (Saunders *et al* 2003). In terms of a theoretical approach towards research, within a theoretical framework, this chapter compares and contrasts the inductive and deductive research approaches in order to demonstrate a clear understanding. Then it steps on to the next layer - research strategy, quantitative and qualitative approaches within the strategy framework. The researcher gives a brief overview of both approaches, describing their advantages and disadvantages as well as the reasons for using them during research. The discussion of research strategy is a presentation of the researcher's acquired knowledge of the research process at the same time as showing the credentials of the researcher to undertake this project. Data validity, reliability, and limitation is the section that characterises the process of data collection and illustrates the importance of obtaining unbiased research. Moreover, this

chapter also explains the details of the researcher's own methods and the whole process of data collection and analysis. Finally, it demonstrates how the research is underpinned by philosophical, theoretical, and methodological consideration when it employing its particular methods, in other words, how this research is supported by the application of scientific methods.

Chapter Five reviews the Chinese sports system and its structure as well as its football development before professionalisation. It gives a general background on Chinese sports management and control since the communist takeover, and within this structure, the football system and its development model are emphasised. This background is a very important part for understanding the trend of later professional development in the Chinese football industry, providing historical information on Chinese sports and the football infrastructure as well as giving useful context for discovering answers to the main research question itself. In this chapter, studies are also carried out into the top hierarchy of football governance, mainly the CFA, and local FAs by analysing the CFA's dual governing status, development strategies, decision-making process and showing the governing insights. From a stakeholder's point of view, it reflects the governing bodies' perspective of the game's development.

Chapter Six provides a club's perspective of corporate governance in the Chinese football industry and works on the detailed questions derived from the overriding question. Analysis is based on data that is mainly taken from interviews with the senior club managers, supplemented by other sources to illustrate club governance and management strategies. The analytical focus includes operational practices, understood through looking at the operational design of clubs and goals; the decision-making process by looking at their ownership structures; conflicts of interest and accountability by looking at other stakeholders' involvement. From a stakeholder's point of view, it represents the view from the clubs.

Chapter Seven is angled from the perspective of players to look at governance and the football industry. Analysis is based on interviews with current and former professional

players to show analytical insights of the game from the players' perspective. It delves into the players' relationship with other stakeholders and how players manage their relationships with different stakeholders given the current structure of the industry.

Chapter Eight is from the supporters' perspective to explore the industry and its governance. Analysis is based on interviews with leaders from different fan associations. This chapter explains the insights how fans are organised differently and how they manage their relationships with other stakeholders according to their own circumstances.

Finally, Chapter Nine concludes research findings and provides discussion of how the stakeholder theory approach and research findings help to answer the research question. It offers some predictions and some suggestions based on findings.

1.4 Concluding remarks

The stakeholder theory approach argues that an ideal corporate structure should deliver value to its stakeholders in order to be in a healthy, sustainable condition. Recent studies on the subject of corporate social responsibility have paid more attention to the stakeholder approach, nonetheless, much more theoretical and empirical works still remains to be done, especially in new emerging market countries. Corporate governance in a Chinese context has been studied only recently, and these studies have concentrated mainly on agency theory and listed companies operating in conventional businesses, with the arguments focussing only on the appropriate structure of corporate governance. Despite the fact that the researcher spotted the absence of corporate governance studies into Chinese sport and the stakeholder approach to the football industry, we still need to bear in mind that China is a new emerging market economy and its marketing orientated economic status has not yet been fully developed nor recognised. There are institutional differences between the Chinese legal system and those of developed countries, so therefore, both theoretical and practical applicability need to be argued from the perspective of the Chinese context.

Chapter Two: Literature Review

2.1 Introduction

This part of the literature review focuses exclusively on corporate governance theories – in particular stakeholder theory and agency theory. It then justifies further why stakeholder theory can be used as an appropriate framework to apply to the football industry. By doing so, it not only provides for a broader understanding and background to the study of corporate governance but also points out that the stakeholder focus introduces a theoretical framework with which one can further develop the empirical research for this thesis.

In discussing the connections between corporate governance and sport, the review identifies a research gap, and the need for empirical investigation into corporate governance within the Chinese football industry. With this in mind, it tries to link the literature review to the research questions. The literature review demonstrates how the corporate governance theory, and particularly stakeholder theory, can be used as the theoretical framework for investigation into the Chinese football industry. The following sections will review corporate governance and its major theories in order to provide a broader conceptual understanding that will underpin the practical research within this thesis.

2.2 Corporate governance theory

Despite a long history dating back to the influential work of Berle and Means (1932), corporate governance has developed dramatically in the last 20 years and embraces many different academic disciplines. Berle and Means (1932) argue that the separation of ownership and control had major consequences for a modern corporation, compared to a traditionally-owned business, where, as the number of shareholders increases, and directors and management are prone to serve their own interests without effective scrutiny instead of profit maximisation for shareholders. Alongside the development of economic globalisation and industrial capitalism, corporate governance has become one

of the central topics in not only developed economies but also newly emerging ones. The concept of corporate governance is widely used in economics, management studies, law and finance. At a theoretical level, the two dominant corporate governance theories are agency theory and stakeholder theory. The two theories affecting the development of corporate governance should be viewed within their relevant contexts. For example, in different corporate governance systems and political environments, there are different legal safeguards to ensure investors get a return on their investment (Mallin 2004, Clark 2007, Shleifer & Vishny, 1997).

Studies of corporate governance have increased significantly in number since the emerging markets crisis in 1997(Campos *et al* 2002). Discussions of corporate governance feature mostly in British and American academic literature, supported by practical application and written commentary in Anglo-American corporate experiences (Sheridan & Kendall, 1992). The Cadbury Report (1992) is considered the most influential guideline in the development of corporate governance codes throughout the world (Mallin, 2004). It emphasised company structure, board-level structures, reporting and control of corporations, and, when introduced in 1992, applied to all listed companies in the UK on a ‘comply or explain’ basis. The Cadbury Report was replaced by the Combined Code in 1998. A series of additional reports provide best practice guidelines on which a firm’s performance should be benchmarked (e.g. OECD, 1999). The Organisation for Economic Co-operation and Development (OECD, 1999) Principles, although non-binding, nevertheless, provided common characteristics for good governance which included shareholders’ rights, stakeholders’ roles, and managerial transparency. The Cadbury Report (1992) and the Sarbanes-Oxley Act 2002, are direct government responses that aims to enhance corporate governance standards following financial scandals and big corporate collapses in the UK and US respectively. Corporate governance has been seen as one of the basic objectives and needs for governing a modern organisation or industry. The application of good corporate governance provides more credible operational systems and managerial accountability. Ultimately, good corporate governance can prevent financial collapses occurring and provides the stability and credibility within a financial system to maintain investors’ confidence.

The development of corporate governance relates to different political systems, as well as social and economic developments. Corporate governance can vary due to different legal, regulatory and institutional environments. However it is commonly referred to as a system with the objective of delivering credibility and accountability to modern organisations and industries. It concerns itself with the relationships and responsibilities amongst management, shareholders and other stakeholders within a regulated framework, dealing with issues such as ownership and control, as well as any potential conflict of interests between different parties.

Corporate governance is the relationship among various participants. It can be defined narrowly as the relationship between a company and its shareholders or, more broadly, in its relationship to society, as the system by which businesses and corporations are directed and controlled (Cadbury, 1992). The former President of the World Bank – James Wolfensohn states “Corporate governance is about promoting corporate fairness, transparency and accountability” (Financial Times, 1999).

Blair (1995, p3) sees the definition of corporate governance has been broadened from just questioning the structure and function of the board of directors and the rights and prerogatives of shareholders in boardroom decision-making to refer to “the whole set of legal, cultural and institutional arrangements, which determines what publicly traded corporations can do, who controls them, how that control is exercised and how the risks and returns from the activities they undertake are allocated”.

By contrast, other scholars define it differently, and in a narrower way: Corporate governance can also be seen as an institutional arrangement by which suppliers of finance to corporations assure themselves of getting a proper return on their investment (Shleifer & Vishny, 1997, p737). However, the definition of corporate governance is poorly defined because it potentially covers a large number of distinct economic phenomena. As a result, different people have come up with different definitions that essentially reflect their own special interest in the field. All definitions are concerned with the objectives of

corporations; stakeholders' interest and whose interest has priority to be looked after and how. How should stakeholders be taken into consideration and what are the corporation's priorities?

The broader definition of the concept offered by the World Bank is⁵: "Corporate governance is concerned with holding the balance between economic and social goals and between individual and communal goals. The governance framework is there to encourage the efficient use of professional resources and equally to require accountability for the stewardship of those resources. The aim is to align as nearly as possible the interests of individuals, corporations and society". Despite the lack of an all-encompassing definition in the literature, corporate governance does have real-world practical benefits.

The original purpose of corporate governance was to protect shareholder interest, enhance systematic transparency, facilitate effective board management and provide an efficient regulatory framework. Good governance provides not only performance measurement to balance the differing interests of various participants in order to achieve business success, but also to enhance industry accountability and transparency and to ensure the fairness of the resulting wealth. Clarke (2004, p153) sums it up nicely "corporate governance is about wealth generation and risk management, these duties require continuous and simultaneous performance".

Monks and Minow (2001) defined three primary participants in the corporate system which they invest in, work for and direct, namely the shareholders, the management and the board of directors. Good governance can improve corporate performance by minimising the total cost of aligning managers' and shareholders' incentives and of self-interested managerial behaviour (Jensen and Meckling, 1976).

In the Anglo-American economy, it is very common for a corporation to have widely dispersed ownership, therefore, this raises concern about the board of directors who may

⁵ Sir Adrian Cadbury in "Global Corporate Governance Forum" World Bank (2000).

place self-interest over company interests during the decision-making process. In many European and developing countries, corporations are mostly dominated by concentrated ownership and the major shareholders have effectively got the controlling position on the board, therefore, the possibility exists for them to abuse their positions for their own benefit to make decisions at the expense of the small shareholders' interests. In management studies, corporate governance is seen as focusing on balancing differing interests between owners and the people who manage the corporation - building better practice within their organizations for improving corporate performance.

Cadbury identifies three levels of company responsibility. At the primary level, companies must meet their basic material obligations to their stakeholders. In other words, companies are required to maintain a certain degree of economic profit in order to carry out normal operations. The second level of concern is making the correct use of a community's human resources and avoiding environmental damage. The third level is a blurred one, in which companies' responsibility concerns the relationship between business and society in a wider sense (Monks & Minow 2001, p44).

A corporation is created for a specific purpose, and a good corporation allows different participants to contribute capital, labour and expertise in a transparent system for the maximum benefit of all. Therefore, a corporate system should promote a structure of fairness, transparency and accountability for the good of not only primary participants, but also all stakeholders.

Clarke (2004) states a single analytical lens offered by most existing theories of corporate governance cannot fully explain the complexity of the changing phenomena. The lack of a common definition of corporate governance leaves room for multiple approaches in this field of research. The next sub-section will review academic literature on both agency theory and stakeholder theory to understand how businesses are governed.

2.2.1 Agency theory

Agency theory concerns the relationship between a principal (resource holders or shareholders) and an agent of the principal (company's managers). The principal delegates the decision-making authority to agents and the agents act on behalf of the principals (Mallin 2004). Agency theory is a common topic within the field of management studies as it deals with a variety of issues, such as agent opportunism, and self-interested agent behaviour. From an agency theory standpoint "the central issue of corporate governance is how shareholders (as principals) ensure that self-seeking executives (as agents) act in the shareholders' interests rather than their own" (Hendry 2005, Ps55).

Although agency theory was first formalised as an academic theory in the 1970s, the concepts adopted and refined already have a long established history. Berle & Means (1932) stated that as markets developed and countries industrialised, family ownership made way for the rise of 'salaried managers'. As a result, a separation between ownership and control started to emerge. With this in mind, a modern shareholder can be seen as possessing a direct property right in the firm (Aglietta 2000), whereas the managerial control of the firm, as ascribed under agency theory, is a means of protecting the shareholders' interests (Jensen & Meckling 1976). Furthermore, where a director of a firm makes decisions based on a delegated authority, one cannot assume that they would act in a same way if they were the owners of the company.

Jensen (1983) discusses the development of agency theory along two lines: positivist and principal-agent. The positivist line concentrates on the relationship between owners and managers of large corporations. It is particularly concerned with the governing mechanisms that can reduce agency problems. Positivist writers almost exclusively focused on the owner/CEO relationship in the large corporation (Eisenhardt 1989). By contrast, the principal-agent line concentrates on the theoretical implications behind agency theory. It has a broader focus and greater interests in general, as Eisenhardt (1989) argues, the principals-agent relationship can be applied to a wider range of commercial relationships: employer-employee, lawyer-client, and buyer-supplier.

A key issue within agency theory is the potential for conflicts of interest between agents and principals. It is based on the assumption that principals and agents are self-interested groups. This self-interested behaviour has been raised as a significant problem within commercial organisations. Generally, directors and managers can operate with their own self-interest in mind, rather than in the best interests of shareholders. It is a common view that all cooperating parties will have different goals and visions, this is especially true if one party delegates work to another (Eisenhardt, 1989). In large corporations, agency conflicts can be quite significant because managers generally own little, or no, company stock.

Agency theory also emphasises the risk-reward trade-offs. It has raised issues of risk sharing between principals and agents, as well as their attitudes towards risk (Lawler 1981). If a firm is fully owned and managed by the owner, then evidently the owner-manager will seek to maximise his own interest and make the business as profitable as possible. Jensen & Meckling (1976) call this a zero agency-cost firm. If the manager owns less than 100% of the firm, there will be an agency conflict. A salaried manager, by contrast to the shareholder, has a greater incentive to shirk and not perform in the best interest of the business (Fama 1980, Ang *et al* 2000).

The principal-agent model assumes not only different goals exist between the principals and agents, but that agents always possess more information than their principals (Waterman & Meier 1998, Eisenhardt 1989). This is known as information asymmetry. Under the condition of incomplete information and uncertainty, two agency problems arise in management - adverse selection and moral hazard. Adverse selection is where principals cannot be certain that agents are competent to do the job for which they are being paid, while moral hazard is where principals are not sure whether agents have put their maximum efforts into completing a task or job (Eisenhardt 1989). This relates to another issue in agency theory – agent behaviour can be difficult and expensive to monitor (Carr & Brower, 1996).

Eisenhardt (1988 p489) states, “agency theory focuses on the need for measurability of performance and for performance criteria that employees can influence”. There are two options available for principals to control these agency problems. Firstly, by investing in information systems to determine an agent’s productivity. Eisenhardt (1989) determines that a work based information system can be regarded as a commodity which can be invested in by a business to act as a deterrent to agent opportunism. Secondly, agents can be tied into performance-based contracts (Eisenhardt 1988). In the context of corporate control, agency theory views corporate governance as the mechanisms essential to monitor agent behaviour and to reduce agency costs of the firm (Mallin 2004).

2.2.1a Interest alignment

Blair (1995) argues managers must be monitored in order to make sure they do not abuse their power. Because of self-interested behaviour, institutional arrangements must be put in place in order to prevent agency problems. Various mechanisms have been used to align the interests of the principals and agents to encourage agents to act with their principals’ best interest in mind.

1. The board of directors

The board of directors is the link between managers and investors. The structure and function of the board is an essential mechanism for overseeing management and holding them accountable (Hendry 2005). The accountability of managers to company shareholders is clearly outlined in the Combined Code on Corporate Governance (2003) and the late refined UK Corporate Governance Code (2010). The Code further states that the roles of chairman and CEO are preferably separated to ensure no one individual is too powerful. It also suggests that the board should consist of a wide range of executive and non-executive directors – thereby enabling independent advice and additional expertise.

Furthermore, a mixed boardroom will allow for a more balanced structure, allow for the monitoring of individual directors and ensure that the board make decisions that are in the interests of the shareholders (Mallin 2004, Hendry 2005). In addition, Fama (1980) argues that at the senior level, if there is competition among the top managers themselves,

their individual ambition, reputation and personal interest, make them the best ones to control the board of directors as they are the most informed and responsive critics of the firm's performance. Hendry (2005) argues that the occasional limited competence of certain agents will no doubt cause problems for the company. An inefficient agent is not necessarily immediately noticeable, and the board itself is by no means a perfect governance mechanism either - it can only overcome the problem by learning with time.

2. Performance-based incentive plans

When shareholders hire top executives, fixed wages are not the optimal way of rewarding them. A fixed wage creates an incentive for agents to shirk. Agents are likely to take fixed salaries for granted since even a lacklustre performance can be met with a reward (Eisenhardt 1985). Therefore, performance based incentive plans are used to reduce shirking and effectively curb agent opportunism. For example, commissions and profit-sharing schemes have been adopted in order to align the interests of both principal and agent. A performance-based contract also reduces the difficulties for principals to monitor agents, and ensure that they are performing to the best of their abilities. Since a principal may lack the necessary knowledge to ensure that the agent is performing his/her job efficiently, performance based pay will entitle the agent to a bonus for good performance, rather than requiring the principal to police the agent. Furthermore, the incentive of performance-based pay will encourage agents to endeavour to benefit shareholders returns at the same time.

However, one problem with a performance-based scheme is simply the fact that the external managerial labour market will continually exert pressures on the firm, therefore, in order to avoid a manager being head-hunted by another company, the firm's reward system and performance-based pay scheme will have to be attractive and reflect the managerial performance of the director (Fama 1980). Therefore, a pivotal issue of agency theory lies in determining the 'optimal contract' that governs the relationship between principals and agents (Eisenhardt 1988).

3. Shareholders' direct intervention

Major shareholders, or institutional investors, can meet the firm's managers to offer their opinions regarding the company's operation. Moreover, they can also raise issues at annual shareholders' meetings and use their voting power to enforce policies.

4. Job threat

It is difficult to remove the top layer of management in big corporations as the ownership is widely spread between shareholders. However, there are means by which shareholders may act to remove top management. Furthermore, there is always the risk that poor performance and inadequate management can lead to hostile takeovers, in which top management are normally dismissed. The constant threat of losing one's job aligns agents' interests with principals'.

5. Employee share ownership

Barney (1988) argues that employee ownership of a company aligns the interests between principals and agents. When an employee owns shares in a firm, he effectively becomes a shareholder. According to Jensen & Meckling's (1976) study of agency theory, their conclusion was that agency-cost is negatively related to the managers' share ownership. Therefore, the higher the percentage of the managers' share ownership, the lower the agency-cost. Ang *et al* (2000) analysis of 1,249 companies confirms that companies with high turnover are less likely to be managed by non-managing shareholders.

Employee share ownership can be viewed as an outcome-based contract - it aligns the interest of shareholders and agents. Eisenhardt (1989, p68) make another point, "Managers who have substantial equity positions within their firms were less likely to resist takeover bids". This is due to the fact that the new company is expected to be more efficient, and it can therefore align the interest between the principals and agents more effectively. Moreover, it is also the case that when a company is taken over, managers are likely to get a premium for their shareholding.

2.2.1b Risk shifting

Eisenhardt (1989, p61) argues, “The heart of the principal-agent theory is the trade-off between the cost of measuring agent behaviour and the cost of measuring outcomes and transferring the risk from principals to agents”. Agency theory uses the metaphor of a contract to describe the principal-agent relationship (Jensen & Meckling 1976, Keeley 1980). As an outcome-based contract would curb agent opportunism and shift business risks from the principals to the agents. Therefore, it favours the principal rather than the agent – much like performance-based pay schemes. For example, top managers of big corporations are typically on outcome-based contracts. They are heavily incentivised, and an easily measured outcome enables the principal to shift the investment risk onto agents. By contrast, a behaviour-based contract with a fixed salary is more favourable to agents rather than principals.

From an organisational viewpoint, agency theory concerns itself with a system based on risk and reward trade-offs between the principal and the agent. Despite being engaged in cooperative behaviour, they have different goals and different attitudes towards risk (Eisenhardt 1989). Principals and agents will prefer different actions and make different decisions because of their misaligned risk preference. Agents will always be more risk averse, particularly so if there is no accountability put in place (e.g. performance monitoring). The uncertainty associated with commercial outcomes and the willingness to accept this uncertainty from both principals and agents determines the relationship between the two sides. An agent is considered more risk averse than the principal, particularly because the success or failure of the business is more of an investment loss than for the principal. Agents are focused on fulfilling their employment contracts, whereas principals are merely focused on expanding the business and diversifying the company’s investments. Ultimately, the agent stands to lose his job, whereas the principal stands to lose an equity share if the business is unsuccessful (Fama, 1980, Carr & Brower 1996, Eisenhardt 1989).

2.2.1c Effective monitoring

Effective monitoring is a good mechanism for reducing the adverse agent selection and moral hazard. It has always been difficult for principals to monitor agents’ behaviour and

to verify exactly what the agents are doing. Therefore information and information technology is considered an important element in controlling and monitoring managers' behaviour. The more information available to principals, the better aligned the interests of both principals and agents (Fama 1980, Fama & Jensen 1983). In a sense, the agent is essentially forced to align with the principal's interest.

Effective monitoring and good flow of information can be pursued through different methods, such as adding extra layers of management, or building a more appropriate board structure. Fama (1980) argues that each manager naturally monitors other managers directly above and below him as he has a stake in their performance. Fama & Jensen (1983) see the board as one of the devices through which the agent can be monitored, and argue that when the board is provided with better information, agents are more likely to engage in shareholders' interest. Furthermore, the inclusion of outside directors stimulates that competition amongst the company's top managers (Fama 1980). In addition, Ang *et al* (2000) argue that the vigilance of the non-managing shareholders and related third parties can monitor managers' expenditure on personal consumption and pre-requisites. For example, banks require a firm's manager to report results honestly and monitor the firm's business performance, to safeguard their investment.

Generally speaking, lower-skilled repetitive jobs cost less to monitor, as the agent's behaviour is predictable, and can be observed and evaluated easily. The principal knows exactly what an agent has done and the outcome of the job can be easily assessed. In the same way, if an agent engages in complex work with an uncertain outcome, the monitoring cost for the principal will be much higher. Monitoring is a controlling mechanism, which derives from a goal conflict between the principal and the agent (Carr and Brower, 1996). Through monitoring, the principal is trying to reduce investment risk, and control agent opportunism and other lacklustre behaviour that will affect the company. If there is no goal conflict, agents will act in the principals' interest regardless of whether they have been monitored or not. The less goal conflict, the more interest alignment exists between the principal and the agent. From this, the choice between employing an agent on a performance based contract or a behaviour based contract will

depend on the trade-off between the cost of monitoring and the cost of transferring the risk (Eisenhardt 1988). Indeed, in a competitive environment, a firm with low-cost monitoring mechanisms is likely to survive.

2.2.1d Theory implication and limitation

Carr & Brower (1996) argue that principal-agent theory has evolved from the issue of why organisations form and the purpose of an organisation. Furthermore, principal-agent theory has narrow assumptions regarding principal and agent motivations. Agency theory is more relevant in situations in which the principal and the agent create a contract that involves goal conflict, outcome uncertainty and risk shifting. It provides the framework for a better understanding of principal-agent relationships in organisations as well as an understanding of self-interested behaviour. An ideal scenario is to study organisational behaviour of both principals and agents through contractual engagements between the two parties. These types of arrangements between principals and agents confirm the firm's organisational behaviour and managerial mechanisms are in place.

Carr & Brower (1996) argue that apart from self-interested actions, agency theory provides little information about principals' behaviour and motivation. For example, it presumes that agents always take advantage of principals, but it was never considered from the position of a principal itself. Principal-agent theory is limited to answering questions about what organisations do, and how they do it. Proponents of this theory argue that agency theory is a bilateral activity and should therefore be analysed accordingly. At present, in any agency theory analysis, self-interested behaviour seems to be the only motivation binding the principal-agent relationship. However, in any one organisation you are likely to have a coalition of members pursuing certain interests with multiple goals. At present, agency theory is limited to analysing unitary organisational goals. For instance, the reality of many organisations is that it is difficult to identify a single principal who is totally in control, and it is common for multiple principal-executives, and multiple legislative bodies to pursue different directions and different priorities when they execute policies. Therefore, the organisation's short-term operational goal could conflict with its long-term development goal. However, "The agency model

treats all non-sanctioned behaviour as shirking and does not differentiate between acts that breach organisational goals and those that challenge organisational procedure but support the goals” (Carr & Brower 1996).

Waterman & Meier (1998) argue that the two assumptions (1. that a goal conflict exists between principals and agents; 2. that agents have more information than principals) of agency theory do not always hold. The principal-agent relationship is viewed as dynamic, and not static. With this in mind, agency theory is not a catch-all for determining the relationships in all particular social environments (whether commercial or not). There are various kinds of relationships that exist in the political sphere which differ to the commercial one. The relationship between principals (politicians) and agents (bureaucrats) in a political context does not always present goal conflicts to the two actors, nor do the bureaucrats always possess more information than politicians. Indeed, agency theory, as Eisenhardt (1989) stated, is unable to account for the process of negotiation and bargaining when resolving certain goal conflicts in a political model. Ultimately there is a limitation with agency theory in that it cannot be successfully applied to all situations.

Finally, agency theory has further limitations in determining certain principal-agent relationships. For example, in complex organisations, managers will play a dual role, both as principals to their subordinates and as agents to their supervisors. Therefore, there tends to be a more complex array of goal conflict at the managerial level. In fact, managerial decisions and the actions of both principals and agents are based on a business reality rather than purely self-interested motivation.

2.2.2 Stakeholder theory

Stakeholder theory provides a different understanding of the objective of the corporation compared to agency theory. Indeed, it was designed as an alternative to shareholder-orientated theories of organisations (Freeman 1994). The term “stakeholder” was used in contrast to the dominant economic logic of the stockholder notion, which emphasises the stockholder’s priority. Agency theory is based on shareholders (as owners) interests first.

Stakeholder theory promotes the idea of the common good and considers the corporation within a broader environment, consisting of a range of stakeholders in addition to shareholders. It suggests other stakeholders' interests can be easily overlooked if the corporation only concentrates on maximising shareholders' values. Therefore, all stakeholders' interests should be recognised in order to achieve superior performance (Freeman 1984, Friedman & Miles 2002, Laplume, *et al* 2008).

A stakeholder was defined in the seminal text by Freeman (1984: p46) as "any group or individual who can affect or is affected by the achievement of the organisation's objectives". This definition is broad – it assumes that any group or individual can be a stakeholder of an organisation as long as they can affect or are affected by the achievement of the organisation's objectives. More recently, stakeholders have been defined as "those groups without whose support the organisation would cease to exist" (Freeman, cited by Sternberg, 1997, p3) and as those groups "on which the organisation is dependent for its continued survival" (Freeman & Reed 1983, p91 cited by Mitchell *et al*, 1997 p856). Since then, the stakeholder concept has gained wide recognition in multiple subjects and has developed in the fields of strategic management, corporate governance and corporate social responsibility (CSR) since (Laplume *et al* 2008, Turnbull 1997).

Traditional capitalist firms are profit driven organisations representing the value of true capitalism, such as greed and aggression. Neo-capitalist firms are managed with a new approach and new desire to be accountable not only to shareholders but also to all the stakeholders involved (Clarkson 1995). The new approach does not disregard a firm's profit as an important element, on the contrary, it takes a new perception to conceive that a firm's profit should be generated in a long term sustainable healthy process, and every stakeholder involved should benefit from the firm's sustainable development (Freeman 1984, Hillman & Keim 2001). Moreover, social issues and ethical concerns have gradually became a part of mainstream management literature, in practice the stakeholder approach has certainly become a trend for a firm's management to pay attention to, and

investors have begun to make investment decisions on the basis of both economic and social responsibility (Harrison & Freeman, 1999).

Stakeholder theory is closely linked to the concept of CSR, both of them having the same ‘normative core value’, something which is widely recognised in current mainstream legal thinking. The American Law Institute report, Principle of Corporate Governance (1992) states that the central corporate objective is to enhance corporate profit and shareholder gain, however, it also indicates “Even if corporate profit and shareholder gain are not thereby enhanced, the corporation must abide by law and may take into account ethical consideration and engage in philanthropy” (cited by Donaldson & Preston, 1995, p82). This stakeholder-thinking concept has also been adopted in many other countries, the so-called codetermination laws of Germany require employee representation on second-tier boards of directors; the Companies Act (1980, 2006) in the UK requires corporate decisions made by board directors to include the interests of employees, and to act in the interest of stakeholders. Even in an emerging economy like China, the Chinese Communist Party (CCP) issued a doctrine at the 6th plenum of its 16th Central Committee in 2006, indicating that social cohesion should not be sacrificed in the pursuit of economic development, so facilitating social harmony in order to enhance the ability to counter risks and better cope with international challenges (Central Committee, CCP, 2006). The development of legal systems in favour of stakeholders emphasises the legitimate interests of stakeholders rather than simply taking a corporation’s or shareholders’ interests for granted. A stakeholder approach became the way of thinking for value creation, due to its analytical power offers a broad set of stakeholder relationships rather than a pure economic relationship, and it is able to address the interest of the full range of communities as a whole (Harrison & Freeman, 1999). The stakeholder model is becoming a common characteristic of the contemporary managerial approach for many organisations (Post *et al* 2002, Rowley 1997). Donaldson & Preston (1995) argue that stakeholder theory is first and foremost a managerial concept. However there is an overlap into organisational theory including business ethics. Furthermore, stakeholder management constitutes a combination of attitudes, structure and practices. Donalson & Preston review the theory from descriptive, normative and instrumental

aspects, ultimately relying on the normative base and moral philosophy to provide the ultimate justification for the theory.

Laplume *et al* (2008) review the theory from five themes: stakeholder definition and salience; stakeholder actions and responses; corporation actions and response; corporation performance; theory debate, the five themes cover multiple research fields. From a managerial point of view, the section below focuses on stakeholders' identification, stakeholder relationships and managerial implication, elaborating on why it is important to distinguish different stakeholders and their diverse interests; what strategy the firm can adopt to respond to stakeholders' influences according to the relationships the firm has with its stakeholders.

2.2.2a Stakeholders' identification and legitimacy

Critics argue that stakeholder theory is weak in identifying who could be considered stakeholders and in which capacity they are to be included. Furthermore, it has been argued that stakeholder theory provides no guidance on how to balance different interests amongst stakeholders (Argenti, 1997; Sternberg, 1997). Freeman's definition about stakeholders is considered too broad in practice regarding stakeholder management, as it virtually includes everything, everyone and everywhere. On a practical level therefore, it becomes an impossible task for an organisation to be run for the benefit of all its stakeholders.

Clarkson (cited by Mitchell *et al* 1997) treats stakeholders as voluntary and involuntary risk bearers. Voluntary stakeholders invest some form of capital and bear a certain degree of business risk; "involuntary stakeholders are placed at risk as a result of a firm's activities. But without the element of risk there is no stake" (*ibid* p857). In his terms, a stake is interpreted as something which can be lost, consisting only in the form of a legitimate claim and omitting any power element or urgency claim. Donaldson & Preston (1995, p85) see it as following: "stakeholders are identified through the actual or potential harms and benefits that they experience or anticipate experiencing as a result of the firm's action or inaction".

Clarkson (1995) introduces concepts of primary stakeholder groups, which the corporation depends on to survive, and secondary stakeholder groups, which the corporation is less engaged with, the latter being groups that are not essential for the corporation to survive. He argues that the interests of primary stakeholder groups have priorities which need to be met by the corporation, a consideration which does not apply to secondary stakeholder groups, while failure to satisfy primary stakeholder groups results in the failure of the whole stakeholder system. He sees the corporation as a system of primary stakeholder groups, which, including employees, customers, investors and suppliers, governments and communities are identified as primary stakeholders as they provide the legislative framework, the location and possess the executive power to shape the infrastructure of the corporation.

Stakeholder identification and legitimacy literature argues the principle of who or what really counts. Scholars such as Freeman, Mitchell, Clarkson, Donaldson and Preston believe a stakeholder-firm relationship should be built on the basis of a ‘moral core’. Philips (1997, 2003) considers stakeholders should be identified under the principle of fairness. This provides an explanation of the obligations due to stakeholders. Philips’ approach is similar to the normative approach espoused by Donaldson and Preston (1995); they also believe that a normative component of stakeholder theory is the foundation for the concept of stakeholder legitimacy, therefore it seems to present a stronger platform for identifying legitimate stakeholders. Stakeholders can be limited to those individuals or individual groups who have a more legitimate claim and appeal to a normative core for stakeholder theory (Philips 2003; Donaldson & Preston 1995, Suchman 1995).

Phillips (1997, 2003) first widened the debate on stakeholder legitimacy into a concept of broad vs narrow, ultimately favouring the narrow concept. A broad definition such as that given by Freeman (1984) can be argued to be a meaningless term to identify stakeholders. However, the moral principle sets the tone for stakeholder legitimacy (Phillips, 2003). For Phillips, stakeholders are only those groups or individuals to whom a moral obligation is owed. Still, this narrow version of stakeholder legitimacy has been criticised,

as it omits groups that could have an impact on an organisation but do not have a legitimate claim, such as terrorists (Schweickart, 2006). Under Phillips's (1997) principle of fairness framework, stakeholders are voluntary members of a co-operative scheme for mutual benefit, therefore terrorists are not included as stakeholders.

Phillips (1997) categorises stakeholders as normative stakeholders, derivative stakeholders and non-stakeholders. Normative stakeholders are those groups to which an organisation has a moral obligation. Derivative stakeholders are those groups that their interests an organisation must consider due to their actions may have a major impact upon the organisation itself. The organization can ignore non-stakeholders in a process of managerial decision-making. Despite the differences between stakeholders, he sees all stakeholders within the context of the fairness framework; they are rather partners than competitors in achieving mutual goals, and one's success is integrated with the success of all others (*ibid*). According to Freeman (1984) and Phillips (2003), stakeholder status and an organisation's obligations can change across both time and issues; non-stakeholders can become derivative or normative stakeholders, thereby affecting the organisation.

In business practice, legitimate stakeholders are identified by the existence of contracts, explicit or implicit between stakeholders and the firm (Donaldson & Preston, 1995). Mitchell *et al* (1997) introduced another narrow concept of stakeholder, based on legitimate links, such as contract, legal right, and moral interest, which not only identifies stakeholder status, but can also explain to whom the management of an organisation pay attention to. They argue the stakeholder-firm relationship can be addressed by three key attributes: power; legitimacy and urgency. A stakeholder can impose its will in the stakeholder-firm relationship through its power; legitimacy gives a stakeholder a legitimate status. Mitchell *et al* (1997) use the term 'stakeholder salience' to describe the attitude with which management treat the firm's stakeholders. Managers give different priorities to competing stakeholder claims and pay different attention to each claim according to its power of enforcement. The more attributes a stakeholder possesses, the more managerial attention it gets (Mitchell *et al*, 1997). Agle *et al* (1999) study Mitchell's stakeholder salience from a CEOs' perception and point out that a stakeholder

who possesses more attributes of power, legitimacy and urgency is likely to have higher salience compared to a stakeholder with less attributes. Parent & Deephouse (2007, p3) argue “a greater understanding of stakeholder salience can be gained by focusing on individual managers”. Agle *et al* (1999) explain managers’ attention towards stakeholders as depending on two elements:

1. The control power of a stakeholder over critical resources. Stakeholders who control more critical resources gain more attention from CEOs;
2. A manager’s own perception and values. CEOs’ own values influence their decision-making and attention given to the stakeholder.

What is clear within the literature on stakeholder identification is that different stakeholders possess different attributes which can determine stakeholder salience and managers’ level of attention. Nevertheless, their importance for the firm is not static, because a stakeholder’s access to means (information or power) is not in a steady state (Parent & Deephouse 2007). Freeman (1984) recognises environmental ‘shifts’ for stakeholders both internally and externally, and that there is a need to categorise different stakeholders in order to understand more about their interests and behavior. However, stakeholder groups are not homogenous - there can be several sub-group stakeholders within one stakeholder group (Low & Cowton 2004), and each of them has their set of interests. A good manager needs to be aware of the priorities of the organisation as the status of different stakeholders can change under different circumstances, and despite the fact that, at some point one stakeholder may be more important than another, a balanced consideration of various stakeholders is required during the decision-making process (Phillips 2003, Clarkson 1995).

2.2.2b Stakeholder Management

Stakeholder management is one of the central themes of recent business and social studies (Carroll & Bucholtz 1989). Donaldson and Preston (1995) point out that stakeholder theory has been advanced and justified on three grounds: descriptive accuracy, instrumental power and normative validity. They argue the stakeholder model

is descriptive and serves as a framework to test empirical claims; it is also instrumental in setting up a framework to examine the connections between stakeholder management and the firm's performance goals; normative aspect is the fundamental base for stakeholder theory and stakeholder management. All stakeholders' interests have intrinsic value, therefore stakeholder management requires simultaneous attention being given to legitimise the interests of all stakeholders.

Should stakeholders be taken care of equally by a corporation? Clarkson (1995) argues managers should pay more attention to primary stakeholders, place their interests above interests of secondary stakeholders. Beaver (1999) and Argenti (1997) argue different stakeholders possess different positions and have different relationships with the corporation, therefore they should not be treated equally. Moreover, shareholders are the owners of corporations, they expect a financial return on their investment and demand their voices be heard first, therefore they are the superior ones amongst stakeholders and they deserve priority. Sundaram and Inkpen (2004) see more than one objective as causing confusion for management during the decision-making process. Practically, in order to reduce agency problems, many corporations align interests of management and firm by issuing shares to top management to create stronger connections between management and the firm in order to forge a special relationship which other stakeholders or shareholders do not have.

In contrast, Campbell (1997), Freeman *et al* (2004), believe the stakeholder approach is the attitude corporations should have towards stakeholders and their surrounding environments. Even though each stakeholder has a different relationship with the corporation, a corporation should treat all stakeholders equally. Firms need to win loyalty from stakeholders to survive, therefore it is necessary for a firm to build good relationships and trust with stakeholders. It is hard to gain the loyalty of other stakeholders if a firm's only purpose is to maximise the wealth of shareholders. Campbell (1997) argues managers should think about the full range of communities from whom they need loyalty instead of only thinking about shareholder value and it is a vital point for thinking about business. As an alternative to the shareholder approach, the

stakeholder approach values the full range of stakeholder relationships as well as those stakeholders' interests, providing managers with more resources and a greater scope to deal with business challenges (Freeman *et al* 2004). Freeman argues that the reality is complicated; to have a single objective ignores the complexity of the environment in which the firm operates, by solely emphasising shareholders' interest the moral high-ground can be easily lost and it is more likely to foster unethical behavior as well as tunnel vision. A good management approach is to not make a decision to distribute surplus spoils without due regard to a firm's long term ability of generating profit, benefit distribution, concentrated solely on shareholders, is unwise behaviour for a firm's future development (Campbell 1997).

In terms of stakeholder practice, Low and Cowton (2004) suggest two steps of practice towards proactive stakeholder management: engagement and participation. Engagement is the technique used by a corporation whereby regular contact with its stakeholders is made in order to keep them well informed but distanced from decision-making; participation is the technique which allows stakeholders to have a more active involvement in a corporation's decision-making process and governance structure, therefore to offer more transparency and greater accountability. Despite these mechanisms of stakeholder management, there are also various problems which are recognised during practice, including the explicit identification of stakeholders, their capability and how representative they are in the governance structure. More importantly, a major problem lies in how to get the right balance and an appropriate approach for managing stakeholder relationships. The subsection below looks at three different stakeholder relationship models, and each one provides a useful tool for understanding why a specific managerial approach ought to be employed by firms (according to a specific stakeholder relationship). These models are implemented within this study, therefore guiding and underpinning the data analysis of the research.

Understanding Stakeholder Relationships

The relationships between different stakeholders of a firm have been seen as a nexus of contract under stakeholder theory framework. Friedman & Miles (2002) recognise two

types of contract amongst stakeholders, explicit and implicit contracts, which provide different degrees of freedom to different stakeholders. “Implicit contracts fill the gap between social relations which are not characterised by explicit contracts (*ibid* p7)”. As figure 2-1 shows, they distinguish four types of stakeholder relationships based on two distinctions:

1. The compatibility of stakeholders’ own values and interests associated with social structure. In other words, a compatible relationship indicates stakeholders have common values and similar interests and an incompatible relationship means the opposite.
2. The necessity of stakeholders’ business connections and ideas. In other words, stakeholders with connected ideas or internal organisations within the same framework are considered to have a necessary relationship, if they are different external organisations or disconnected, which means a contingent relationship.

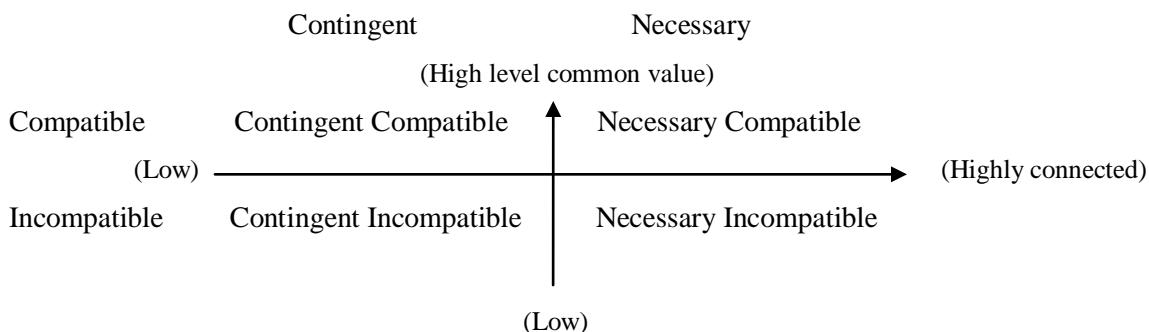


Figure 2-1 Stakeholders’ relationship model (based on: Friedman & Miles, 2002, p8)

Friedman & Miles (2002) illustrate that relationships between organisations and stakeholders can be viewed as Necessary Compatible, Necessary Incompatible, Contingent Compatible and Contingent Incompatible, each particular combination representing different relationships between stakeholders which require a certain type of approach to manage.

In a Necessary Compatible stakeholder relationship, all parties have an interest to strengthen the existing structure in order to benefit from the relationship, therefore

explicit contracts are expected to be in place between stakeholders, as for instance, in the relationships between a firm and shareholders. Although different values and interests between stakeholders exist within a Necessary Incompatible relationship, organisations are expected to answer the claims of stakeholders, since stakeholders and organizations may have incompatible ideas but compatible interests or vice versa. For example, a relationship between a firm and its customers. Implicit contracts are recognised amongst stakeholders under the Contingent Compatible structure, where there are potential opportunities for stakeholders to develop further relations, for example, a relationship between a firm and its local community. Divergences of interests exist between organisations and stakeholders within a Contingent Incompatible structure, in which the relationships amongst stakeholders are often intense.

These four types of structures explain stakeholder relationships with different dimensions and also demonstrate that stakeholder relationships can change over time. This model helps organisations predict a developing trend of a particular stakeholder relationship according to changes in values of the stakeholder and the overall business approach, thereby enabling organisations to effectively manage the relationship between the company and the stakeholder. Furthermore, this model also allows us to develop a better understanding of stakeholder theory beyond an exclusive organisational perspective.

Understanding Stakeholder Environments

Network theory sees stakeholders interact, cooperate or form an alliance (Neville & Menguc 2006, Rowley 1997). Rowley argues that organisations do not often respond to each stakeholder individually. He analyses relationships between different stakeholder groups, looking especially at stakeholder interactions and the focal organisation's position, in order to explain how an organisation responds to stakeholders' influence within a network environment. A model is developed on two distinctions; the density of the stakeholder network and centrality of the focal organisation. Stakeholder density characterises the number of ties linking all stakeholders, which allows information to flow amongst all members. Density is a mechanism that can represent the effectiveness and efficiency of communication between stakeholders within the network. Centrality

refers to the power of a focal organisation and its ability to control information flows amongst stakeholders. In a high density network, stakeholders who have more connected ties between them are able to communicate efficiently allowing them more power to push their claims forward. It can also be explained by Mitchell *et al*'s (1997) 'stakeholder salience term'. Through efficient communication linkages, sufficient stakeholder power can be accumulated by forming an alliance amongst different stakeholders; the combined stakeholder salience can increase pressures on a focal organisation (Neville & Menguc 2006, Frooman 1999). A centrally located position provides a focal organisation with the strength to resist stakeholders' influence and pressure. Therefore the focal organisation can play a more commanding role in the network.

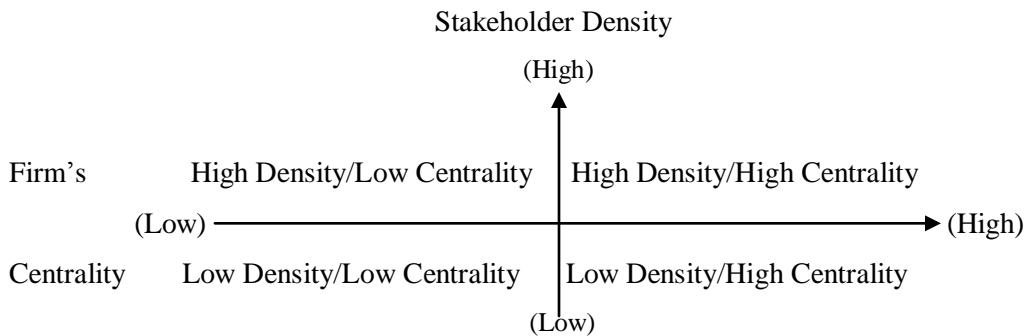


Figure 2-2 Stakeholder influences model (based on Rowley 1997, p901)

Figure 2-2 demonstrates such a model. In a High Density/High Centrality stakeholder environment, on the one hand, stakeholders possess efficient linkages to influence an organization; on the other hand the firm has a centralised position and therefore has the power to ignore certain stakeholder demands. As a result, a compromise approach is likely to be adopted by both parties and a position of mutual satisfaction is likely to be negotiated. In a High Density/Low Centrality environment, stakeholders are able to speak collectively from a superior position; a focal organisation is likely to comply with stakeholders' demands. In a Low Density/High Centrality environment, without an efficient communication system, stakeholders are peripheral to the focal organisation and a focal organisation is able to dictate the relationship and is more resistant to stakeholders' influence. In a Low Density/Low Centrality environment, even though the focal firm is not in the central position, it does not face intensified claims from the poorly

connected stakeholders either. The focal firm is likely to pursue its interests without significant scrutiny from stakeholders.

From the firm's perspective, there are managerial strategies to gain support from stakeholders. Building trust and giving fair treatment to stakeholders are valued as effective ways to achieve stakeholder support (Jones 1995). Scott & Lane (2000) argue for increasing organisational communications; enhancing stakeholders' affiliations; integrating stakeholders into the organisational community are the three tactics to win stakeholders' support. Stakeholders use a network formation to increase their influence over the focal firm. The focal firm also employs the same strategy to increase its stability, especially in an inter-organisational network, an efficient communication mechanism provides a competitive advantage for the firm to overcome uncertainty and become adoptable, flexible with a quick response to challenges (Gulati 1998, Hage & Alter 1997). Since the 1990s network analysis has been seen as a powerful tool and a useful framework to gain a better understanding of a firm's behaviour and stakeholder relationships (Grandori & Soda, 1995).

Understanding Corporation Responses

Frooman (1999) sees the stakeholder concept as crucial for strategic management. Corporations and stakeholders may potentially head towards conflict because of their different interests; stakeholder theory is the framework for managing these potential conflicts. He analyses stakeholder relationships from a resource dependence concept and argues that if organisation A is dependent on organisation B⁶, then B possesses power over A. Yet simply controlling resources is not the only route to pursuing stakeholder influence. Apart from the direct influence, the influence of one organisation over another can be achieved indirectly via the third party. Stakeholders use direct strategies when the firm depends on them and indirect strategies when it does not (Laplume *et al* 2008). In order to influence the focal organisation, a stakeholder has two options to control

⁶ A's resources are dependent on B, for instance, B supplies or consumes a large proportion of the input or output that A needs, or both.

resources: withholding and usage⁷ with direct or indirect managerial approaches at its disposal according to its level of stakeholder interdependence with the firm. Figure 2-3 below indicates how stakeholders influence firms with appropriate managerial approaches under the resource dependence framework.

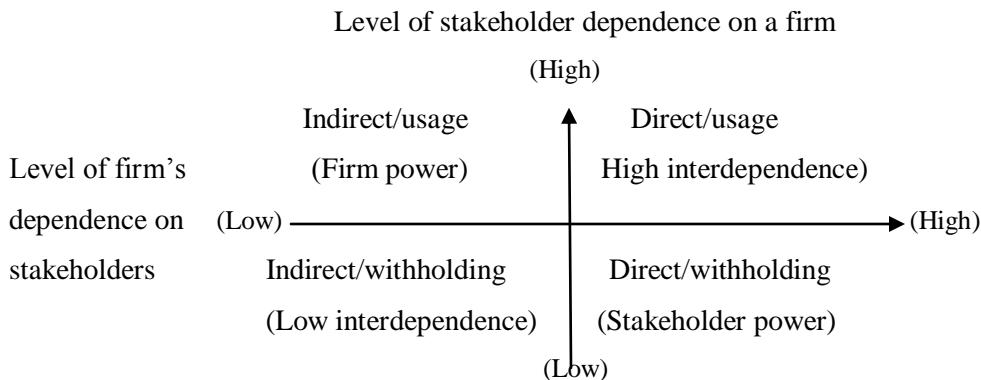


Figure 2-3 Stakeholders' & firms' managerial strategies (based on Frooman 1999, table 1&2)

With a low level interdependence, the indirect approach is likely employed by stakeholders to pursue their influences over a focal organisation while a direct approach is used where there is a high level of interdependence. A stakeholder who has a high level of controlling power over an organisation is likely to adopt the resource withholding method to get its message across, therefore a usage method is used in a low resource dependent relationship. Frooman's model provides managerial options for stakeholders who try to influence a focal organisation based on their interdependence status. Even though the model focuses on stakeholders' actions, it also illustrates firms' managerial responses under different stakeholder relationships and provides a better explanation of how the interaction between stakeholders can influences a firm's decision-making process. Firms should be aware of changes in their stakeholder environments as there are some stakeholders who are willing and capable of mobilising to enhance their bargaining position by combining their power and legitimacy (Rowley & Berman 2000, Laplume *et al* 2008).

⁷ Keeping the original resource dependence relationship with attached conditions.

All three stakeholder relationship models can be represented in a similar configuration as showed above. All of them are developed under stakeholder theory, and they are able to explain and predict stakeholder relationships under different circumstances. Friedman and Miles (2002) use Greenpeace as an example to analyse the relationship ‘shift’ within corporations from a Contingent Incompatible position to a Necessary Compatible one over the course of development. The argument is based on elements such as the material interests and social values of different stakeholders.

Rowley’s (1997) argument is based on the concept of a stakeholder environment. It charts the physical linkages between stakeholders and the controlling power of focal organisations, so gaining a deep insight into how organisations are embedded within a stakeholder network and how an organisation’s position affects its response to stakeholders’ influences (Neville & Menguc 2006). The model is a combination of stakeholder theory and social network analysis with two dimensions: stakeholder influence and a firm’s resistance. The two elements interact in a stakeholder network and explain how they restrain each other.

Frooman (1999) develops stakeholder theory from a resource dependence dimension; the model identifies not only relationships between stakeholders but also states which managerial strategy the stakeholder would choose to influence in a focal firm’s decision-making. He uses an environmental group, Earth Island Institute (EII) campaigns against StarKist as an example of analysing relationships between stakeholder power and a firm’s managerial strategies. Stakeholder relationships and their status inside any model are not static; for instance, in Figure 2-1, the goals of different stakeholders can change, therefore their relationships with other stakeholders shift from compatible to incompatible, and vice versa; in Figure 2-2, the centrality of a focal organisation in a network can change from a central position to a less central position according to the number of linkages it has with other stakeholders and its ability to control information flows, and vice versa. Figure 2-3 explains how stakeholders can achieve their goals by adopting different strategies according to their level of ability to control resources. More importantly, stakeholder theory is applicable a wider range of business fields (Harrison & Freeman,

1999), and the three models mentioned above set a suitable foundation for analysing stakeholder relationships, firms' behaviour, and managerial strategies across different industries, especially an industry with many highly interdependent stakeholders involved, such as the football industry.

Steurer (2006) expands stakeholder theory further with a triple-perspective typology approach. The three perspectives are: a corporate perspective, stakeholder perspective and conceptual perspective. He argues business-society relationships should not be considered from a corporate-centric perspective exclusively, as stakeholders have a view towards more of a network base within relational and process-orientated circumstances (Andriof & Waddock 2002 cited by Steurer 2006 p56). A corporate perspective provides the managerial approach of the focal organisation; the stakeholder perspective analyses various relationships between stakeholders and how stakeholders try to influence the focal organisation; the conceptual perspective explores some particular incidents and business-stakeholder interactive practices which are tested against principles of 'sustainable development' or 'common good'. The triple-perspective provides a more comprehensive way to approach research subjects when evaluating stakeholder relationships, therefore setting the theoretical context for this thesis too. The triple-perspective typological approach underpins not only the empirical work carried out in relation to the Chinese football industry but also naturally has a triangulated function to enhance the data's validity, and coupled with the three stakeholder relationship models aforementioned, together they provide a solid analytical framework and theoretical guidance for this study in its answers to research questions.

As Laplume *et al* (2008, p1173) state: "It (stakeholder theory) has received reasonable attention in management fields and specialty niches, such as sports and recreation and urban affairs, where researchers have tested and extended some stakeholder arguments". In terms of sports management, stakeholder theory can be used to identify an organisation's legitimate stakeholders; to determine the "stakes" of selected stakeholders; to evaluate stakeholders' relationships and their importance to the organisation; to formulating an organisation's business strategies relative to different stakeholders as well

as in monitoring the implementation of those strategies. The section below will gradually discuss stakeholder theory and the football industry as well as further justify why the framework of stakeholder theory is the appropriate approach for analysing the football industry.

2.2.2c Theory implication and limitation

Stakeholder theory was developed from the field of strategic management and grew into organisation theory (Clarkson 1995; Freeman 1984; Frooman 1999). However, its empirical validity has not been established, as the theory questions the conventional assumption of the corporation's objectives of profit maximisation, which contradicts some deeply rooted values (Jones 1995).

On the one hand, stakeholder theory developed to the term of maturity around the late 1990 with a significant increase in attention, on the other hand, it has always been under attack from advocates of shareholder primacy (Laplume *et al* 2008). Jensen (2002) sees stakeholder theory not only as an affront to traditional economic theory and research but also can be employed by special interest groups who wish to use the firms' resources for their own benefits. Others argue that stakeholder theory exacerbates agency problems and at the same time attempts to develop a 'special' moral theory as an alternative in the business environment, in which stakeholder management is considerably difficult to implement. In fact, implementation of stakeholder management creates mismanagement as it enables managers to have more power to distribute shareholder wealth in questionable ways (Gioia 1999, Laplume *et al* 2008, Humber 2002, Sundaram & Inkpen 2004).

From the perspective of practice, Gioia (1999) questions practicability and the "just do the right thing" approach of stakeholder theory and argues that its ethical ground is not credible enough to adequately represent its complex social and economic reality. Moreover, it is not practicable for managers to weight all stakeholders' interests equally (Sundaram & Inkpen 2004). Having more than one objective function can create confusion during the organisations' decision-making process. An analysis of Laplume *et*

al (2008)'s study based on 179 articles, suggesting a lack of substantiating evidence of stakeholder management "works" shows that the theory is delivering something less than the claims made. Margolis and Walsh (2001) concluded their research based on 95 empirical studies by pointing out that any positive relationship between firms' social performance and financial performance needs to be treated with caution. Also Griffin and Mahon (1997) state that no consensus exists between such a relationship of firms' social performance and financial performance as the conclusion of 51 studies over 25 years.

2.3 Stakeholder theory and the football industry

Many debates within corporate governance literature have centered on the shareholder model and the stakeholder model. The shareholder model advocates individual shareholder interest over and above other stakeholders in contrast to the stakeholder model which places an emphasis on broader concerns and wider interests from different stakeholder groups. Over the course of the last 20 years, governance in sport has been given greater consideration due primarily to the increasing levels of commercialisation and professionalisation.

Henry and Lee (2004) explain sport governance using three key approaches – systemic governance, corporate (or organisational) governance and political governance. Systemic governance concerns the academic and policy related business environment and the legal framework. Organisational governance is a sports term of corporate governance used for sporting organisations by Henry and Lee. They see sports organisations as having a wider set of goals than traditional business firms and are concerned more with ethically related business practices. Political governance refers to governing bodies and governments who use laws, regulations and policies to direct sports development into desired paths. The three approaches to governance are interrelated, with the latter two included in the framework of systemic governance (*ibid*).

The stakeholder approach has become a trend for corporate governance development in many industries - including sport. The stakeholder approach ensures sports are developed

with a balanced power structure and with the necessary transparent systems in place. More importantly, decisions are made based on the interest of the majority of stakeholders and for the best interest of sport. For instance, the creation of the Athletes' Commission in the International Olympic Committee (IOC) provides a link between active athletes and the IOC body. Similarly, the introduction of the European Club Forum (ECF)⁸ within the UEFA structure aims to strengthen the relationship between European clubs and the European football governing body. The implementation of stakeholder theory in sports management helps sport organisations increase awareness in addressing the needs of different stakeholders and thereby benefits the organisation's overall goals and long-term success. Governing bodies are in a privileged position to oversee the interests of stakeholders and to promote balance among them, as Ducrey *et al* (2003, p100) point out: "sports need an internal regulator to accommodate the interests of all stakeholders involved, and the best institution to assume the role of regulator is the governing body".

Research into sports management has focused primarily on organisational theory and subsequent studies have placed more emphasis on the efficiency and effectiveness of sports organisations. Frisby (2005) suggests a more critical sports management research strategy is needed, to avoid a narrow academic approach. The research needs to be more concerned with the organisational goals and the wider interests of workers, athletes, and volunteers, rather than just profit maximisation and the organisation's overall efficiency. In short, "stakeholder theory does not necessarily presume that managers are the rightful locus of corporate control and governance" (Donaldson & Preston 1995, p67). It is therefore relevant for the study of sports management to embrace stakeholder theory and stakeholder values in order to better understand a range of issues from a wide variety of stakeholder perspectives (Steurer, 2006).

Stakeholder theory can be used in sport management to identify an organisation's legitimate stakeholders; to determine their "stakes"; to evaluate a stakeholder's relationship and its importance to the organisation; to formulate an organisation's

⁸ The ECF became the European Club Association (ECA) on 21 January 2008.

business strategies towards different stakeholders; and to monitor the implementation of those strategies. Finally, stakeholder theory can be used to analyse the governance of sports organisations (Walters, 2007).

The direct result of sports commercialisation is that the significant amount of money at stake within professional sports has caused significant conflicts of interest between different stakeholder groups and an unbalanced governance structure. Therefore proactive thinking and actions are needed to fix the situation before it is too late. At the international level, The creation of the Athletes' Commission by the IOC in 1981; the Professional Cycling Council (PCC) by the International Cycling Union (UCI) in 1999 and the ECF by UEFA in 2002, are good examples of how stakeholder initiatives have been implemented by sports governing bodies to tackle conflicts of interest and unbalanced governance structures in modern sports management. In the Chinese case, the overarching research question of this study focuses on the impact of professionalisation (commercialisation) on the governance and development of the Chinese football industry, and employs stakeholder theory as the analytical framework to look at how football governance in China reacts to the global implication at different levels.

The stakeholder approach helps a sports organisation to improve communication with its stakeholders and take multiple interests into account in a decision-making process, so minimising conflicts between stakeholders (Walters 2007, Ducry *et al* 2003). Moreover, it also has been recognised in research focusing on the governance of the football industry at both national and international levels. At the international level, Sugden (2002) argues that access gained by the media and multinational corporations to football has established their overriding influence in the global development and political control of world football by becoming partners with FIFA and thereby transforming the game into Network Football. Ducry *et al* (2003), and Holt (2006, 2007) illustrate the complexity of a stakeholder network in Europe, and how key stakeholders are able to influence the game's governance structure and how stakeholder management has been practiced by the game's governing bodies. "The 'football business' is not a passive player within the

network, rather it is a proactive and increasingly aggressive stakeholder” (Sugden 2002 p75 cited Conn 1997).

At the national level, Armara *et al* (2005) explain the different football governing systems in five countries at national level within a stakeholder context, including China. Having a similar approach, the first two sub-questions of this study focuses on the CFA and national leagues, at this level and how these organisations facilitate football professionalisation by utilizing stakeholder management in order to face new challenges. Stakeholder theory addresses business-society relations, and the new forms of football governance (made up of a network of stakeholders), exemplify the trend in football development. Boon (2000) depicts a ‘hub and spoke’ stakeholder diagram at football club level and illustrates the need for clubs to build mutually beneficial relationships with their stakeholders. Walters (2007) presents a stakeholder map from a football club-centric perspective. In this study, the sub-questions three, four and five look at the development of football governance with a more balanced approach at the club level from clubs, as well as fans’ and players’ perspectives respectively. The stakeholder analysis provides not only industrial insights and a bigger picture of its governance development but also unveils different stakeholder relationships within the Chinese football industry. Just as Steurer (2006) argues the full spectrum of business-society relations should be looked at from various points of view, therefore, stakeholder management can be approached from the corporate, the stakeholder, and the conceptual perspectives simultaneously.

Especially within the football industry, without the revenue generated by elite competitions, the whole football system would collapse. In the new network based governance model, governing bodies are no longer capable of dictating to their own sports, furthermore, without the co-operation of major stakeholders, they will not be able to successfully carry out the task of developing the sport. This key shift in the way that sport is organised has been explained by Henry and Lee’s (2004) systemic governance approach, and such a shift is, in part a reflection of sports globalisation and commercial

development trends. The recent governance crisis of FIFA⁹ demonstrates that lack of an inclusive approach and transparency at the decision-making level can damage integrity of the game; and the modern football industry certainly needs to be placed under examination from a number of different stakeholder perspectives.

Due to the emergence in the field of large commercial sponsors, investors, agents, civil regulatory bodies as well as illegitimate betting organisations and criminal individuals, the top-down traditional model has developed to a stakeholder interacted neo-liberal model, demonstrating a systemic governance shift. The vertical channels of authority have gradually transformed to a structure of network governance (Henry and Lee 2004, Garcia 2011, Rhodes 1997, Holt 2007). As a result, the implications of the new forms of systemic governance have been clear - significant policy changes can only be achieved by negotiations between a wide range of stakeholders in the network. In this study, football governance in China has also raised the same concerns from governance crisis of the governing bodies and corruption at different levels which involved CFA officials, club management and players. Despite both the government and the CFA launched stakeholder initiatives in order to improve governance standards and to clear up the overall football environment, the final result remains to be seen. The sub-question number six explores those challenges facing the Chinese game with further discussions based on research findings.

In a nutshell, it is evident that the football governance model has been shifting at both macro and micro levels, globally, continentally, and nationally. As a result, the stakeholder approach has been widely recognised as an appropriate framework for the analysis of football governance at different levels both theoretically and practically. As Morrow (2000, 2003) states that the stakeholder concept has greater relevance for the football industry due to the particular features of certain stakeholders and their demands for accountability. The organisational perspective of sport governance is clearly interrelated to business ethics. Henry and Lee (2004) discuss the connection from seven

⁹ A series of bribery allegations involving some FIFA executive members during the process of the World Cup bid (2018/2022) and its Presidential election campaign that left the world football governing body's reputation at an all-time low.

key principles – transparency, accountability, democracy, responsibility, equity, effectiveness and efficiency. All these principles are in effect normative ethical guidelines, providing a checklist on how sport organisations should operate. Echoing the good practice principles of corporate governance mentioned previously.

2.4 Football governance and Europeanisation

In terms of European political governance, the EU steers European sport development rather than through direct action and control (Henry and Lee 2004). On the one hand, the EU project and the single market create new opportunities for industrial transformation and cross-border mergers. On the other hand, the EU seeks to protect the new European values and principles through various forms of European social policy and laws as the EU does not want to see sport ‘subverted’ by commercial abuse, reflecting the moral concern of political governance (Niemann *et al* 2011, Henry and Lee 2004). The most notable EU contribution to the transformation process of football was highlighted by two cases – the Bosman ruling and broadcasting policies.

European football has experienced a remarkable transformation as a result of both EU policies and economic market forces over the past two decades. The game’s strong commercial and economic developments influence its governance development at the domestic level. This has not been perceived as only “one way traffic” in the process, and such a development pattern of Europeanisation is described by Niemann *et al* (2011) as top-down and bottom-up. In other words, European football development at the state level does not just passively absorb European level pressure (legally binding EU policies) as local political and cultural elements also play important roles shaping the game domestically.

Before the Bosman ruling in 1995, players were traditionally employed under the registration and transfer systems in their respective governing bodies with nationality quotas applied to each club. Although the Fédération Internationale des Associations de

Footballeurs Professionnels (FIFPro)'s legitimacy is recognised by FIFA and UEFA, players have been fighting for more rights in the decision-making process at the national level. For example, in England, the retain and transfer system existed, even though the 'retain' aspect was modified after 1963 and the 'transfer' aspect remained until 1995. In France, clubs could tie up players until the age of 35 (Lanfranchi & Taylor 2001); in Spain, a right to retain system also existed. Despite some small differences around transfer rules in different countries, transfer fees were normally required when players changed their clubs, even when their contacts had expired. Moreover, nationality quotas applied for foreign players in different European domestic leagues. Such practices prevented the free movement of players until 1995 when Jean Marco Bosman won his personal case at of the European Court of Justice (ECJ). At the political governance level, the verdict sent a clear message that sport was regarded as an area of trade (Henry & Lee 2004). Gammelsæter & Senaux (2011, 2013) refer to governance as government which entails the notion that a governing body defines its domain by competing, adjusting and cooperating with other organisations. The outcome of the Bosman case forced UEFA (even FIFA) to abide with EU law and weakened the sport's own regulatory bodies by restricting their abilities to control the sport.

Out-of-contract transfer fees were abolished soon after the ECJ's decision, which demonstrated the impact of political governance from the 'top-down' direction. By contrast, transfer systems have been amended gradually at the national level as more national factors have contributed to this 'bottom-up' modification in different countries (Garcia et al 2011). During the transformation process, even the top state politicians campaigned for a steady restructuring. For instance, a joint statement was issued by the British Prime Minister, Tony Blair and the German Chancellor, Gerhard Schröder in 2000 to express their concerns over a radical change in the football governance system without proper consideration of the game's own peculiarity and cultural backgrounds in different countries (Brand & Niemann 2011).

The Bosman ruling also brought down the nationality quota that existed in the EU members, as the ECJ saw such regulations discriminated against players from EU states. As the market became liberalised, more foreign players joined the top European leagues for better financial rewards. By January 2014, they were 60.4% foreign players in the Premier League compared to eleven foreign players in 1992 (Gibson 2014, Grant 2004). In the 2007/8 season, 33.4% foreign players played in French leagues, and the figures were 46.5% for Germany and 36.5% for Italy (Ranc & Sonntag 2011). In terms of ‘bottom-up’ response, the UK government responded in 1999 and changed work permit rules for non-EU nationals who would need to have played in 75% of their countries’ ‘competitive’ international matches in the previous two years in order to play in the UK professional leagues. In Germany, the restriction was lifted not only for EU nationals but also expanded to players from UEFA member states. However, the ruling was applied to the top two Bundesliga tiers only. The French and Spanish leagues had a tradition of employing foreign players before the Bosman ruling. Subsequently, the ECJ’s decision has not led to a significant increase of foreign players in both countries compared to other major European leagues (*ibid*).

The broadcasting sector has also transformed European football significantly. Alongside the gradually enlarged European market, state monopoly of the broadcasting industry in each member state could not be maintained. As private providers entered the market, many commercial media corporations have seen live football as their core business models for revenue generation, a practice that consequently transformed the football industry in Europe. As a result, broadcasting rights have become the largest revenue source for football. Since EU intervention is less constraining on how national governing bodies sell their TV rights, both the collective selling model and the individual selling model exist in different countries.

The EPL model is based on TV money, especially for networks who aim to attract subscribers to sign up for their services. The sale of rights is centralised and shared by all

Premier League clubs in England. The domestic right of EPL was sold exclusively to BSkyB from 1992. However, the practice was challenged by the European Commission, arguing this was a monopoly on TV rights. Therefore, the domestic right had to be split into several packages from 2007, with at least one package having to go to a different broadcaster.

The EPL, the German Bundesliga, the French Ligue 1 and many other countries also employ the collective selling system. The collective selling model ensures more balanced revenue distribution and survival of the financially weaker clubs (Brand & Niemann 2011). By contrast, TV rights of Spanish, Portugal La Liga and Italian Serie A are sold by each club individually. Such a model creates a clear revenue difference between big clubs and small clubs, which is more likely to reduce the leagues' overall competitive balance and financial transparency. Although the European Commission does not directly prevent clubs doing deals with broadcasters individually, at the national level, the Spanish government plans to introduce a new law that will give the league control over the collective selling of TV rights. The ultimate aim is to improve competitive balance and governing standards. For the same reason, in Italy, from the 2010/11 season, Serie A negotiated a deal collectively worth over €900m per annum (Deloitte 2011). In fact, sport was considered as a special commodity in 1997 when the EU introduced Television without Frontiers to protect European citizens' access to selected sport events on terrestrial TV. This included football tournaments such as the FIFA World Cup, and the UEFA European Championship (Henry and Lee 2004).

The transformation of European football is due to a combination of different factors; it is the combination of systemic governance, organisation governance and political governance, with economic market forces playing the most significant role in the process (Henry and Lee 2004, Niemann et al, 2011). As Garcia et al (2011) state, football Europeanisation touches on some serious EU issues, such as freedom of movement, migration policy and competition policies. The top-down dimension has greatly

liberalised the labour market by abolishing nationality quotas within the EU states. This has resulted in a fundamental change of the transfer system (Parrish 2011). The bottom-up dimension has shown that individual states have not taken EU policies as given, as certain counter-measures have been employed by national football associations to mitigate the top-down impact. In a nutshell, despite football Europeanisation in its various forms in different countries, the transformation reflects the EU single market development, based on market principles and neo-liberal ideology. As Gammelsæter & Senaux (2013, p159) state: “the transformation in Europe football came out of largely intended political, cultural and socio-economic transformation of the society.” Moreover, different countries offer different models of football governance; as the most important global football force in the modern era, national differences are not simply domestic as they can be imitated elsewhere in the world.

2.5 The peculiarity of the football industry requires the stakeholder approach

A monopoly position is the ideal market position for a firm in a conventional business to maximise its profit. However, it is not one which would yield any progress or efficiency. Therefore it is a position which is unlikely to be achieved in most developed capitalised countries, where competition law and regulations are set in place to prevent a single firm’s monopoly or dominance. In the case of football, a monopoly position cannot be achieved by the individual clubs themselves. However, a natural monopoly does appear when you take account the fact that all clubs in a sporting league will be working cooperatively in order to produce league games.

Nevertheless, there are differences between professional sport leagues in America and Europe, and in terms of operation, they have many things in common. Neale (1964) argued that professional league sports have a strong tendency towards monopoly and a single league structure. League sport is a unique market in that a total monopoly is unthinkable - competitors are needed in order to prosper. Ultimately, it is the uncertainty of match outcome that adds so much attractiveness to a league, and hence the need for competitions (Meier 2005, Madrigal 1995). Because of league sports firms collectively

produce a joint product - league matches, a single club alone cannot do so. Ultimately, it needs other clubs in order to secure its own existence. In a rather counter-intuitive sense, on the one hand, teams are competing for resources and market dominance but at the same time they also cooperate together in order to produce matches. In effect, the league becomes the monopoly firm; it becomes the decision-making unit for all the teams within it. The decisions are joint ones, and will affect all members that fall within its umbrella (Mason 1999). Because the business of sport is a peculiar one in both production and consumption, as a result, it has always been highly regulated (Scully 1995, Meier 2005).

The challenges of corporate governance in sports, especially in team sports, are substantially different from other conventional businesses. The section below uses the English football industry as an example to provide a better understanding of the relevance of stakeholder theory and football governance.

At the club level, the nature of a football club has two objectives – winning on the pitch and making profits. However, most clubs in England have been loss-making entities for a considerable time, and there are no clear signs to indicate this situation will change in the foreseeable future. Sloane (1971) argues that compared to other conventional enterprises, football clubs are less profit oriented, performance on the pitch often outweighs clubs' financial interest, and that clubs are utility maximisers rather than profit maximisers. In terms of governance control, agency theory emphasises shareholders' investment return and firms' profit maximisation. By contrast, stakeholder theory emphasises firms' overall well being, sustainable development and balanced stakeholder interest. Therefore stakeholder theory provides an ideal framework to analyse corporate governance in football clubs as utility maximisers, as well as social and cultural institutions.

McMaster (1997) even argues that the economic features of the professional football clubs do not point to any agency problems. For instance, in terms of on field performance, players and coaching staff have an interest which aligns with their clubs' success, as it is a performance link with their reputation as well as market valuation. Moreover, despite

players' performance being assessed on the basis of team success, each individual's contribution is easy to judge, and therefore playing staff are unlikely to shirk or to take a free ride (*ibid*).

In addition, supporters are a special type of customer. Their loyalty to a particular club is different compared with normal customers' loyalty to a particular brand of product in a conventional business. Most fans are life-long supporters of a particular club and this special relationship leaves them in a vulnerable position to clubs' financial exploitation. Therefore, fans deserve special consideration in football governance and their demands need to be addressed.

On the one hand, most English clubs are privately owned companies. Although the chief executives may have considerable authority, club owners have the true power, therefore the typical agency issues arising from separation of ownership and controls do not apply (Farquhar *et al*, 2005). On the other hand, for publicly owned clubs, utility maximisation still applies. However, as social institutions, underperforming financial results and shareholder dissatisfaction are unlikely to trigger clubs' owners to sell their shares or allow takeover bids from other investors (Szymanski & Hall, 2003). Club owners have greater non-economic objectives for owning clubs, and there is a lack of a market for corporate control in football (Farquhar *et al*, 2005).

Football clubs are organised in a league structure, consisting of several tiers of professional leagues and armature leagues with promotion and relegation throughout the hierarchy. The whole system of football governance demonstrates a particular form of mutual interdependency and cohesion within the football industry, which could be viewed as a network arrangement, and so requiring a model of network governance and a stakeholder approach to analyse it (Sloane 1971, Farquhar *et al* 2005, Szymanski 1997).

For instance, within the English football network, there has been a widening of the revenue gap between the Premier League clubs and the Football League clubs. The growth of inequality has caused serious concerns not only about the integrity of the game,

but also clubs' overspending tendency in both the Premier League and the Football League. Moreover, the number of clubs entering into administration in the recent years indicates financial problems with English clubs and also suggests that the football industry needs to be better governed. The increased financial inequality between clubs decreases the structural stability of leagues (Farquhar, *et al*, 2005). In order to address the financial inequality and sustainable development issues, the Premier League distributed £189.4m in the 2011/2 season to other stakeholders outside the league – including solidarity packages and parachute payments (Gibson, 2013).

Alongside further commercialisation, good communication between different stakeholders became an important issue to address their relationships for existing models of corporate governance in the football industry at all levels. Such governance relationships include international relationships between different governing bodies, between international law and courts; domestic relationships between national governing bodies and clubs, between clubs and supporters and so on. In this network based governance structure, stakeholders are interdependent and the stakeholder approach is essential for each individual stakeholder to cooperate in order to underpin the balance of the whole governance system.

2.6 Summary

A stakeholder approach unveils the bilateral relationship not only between principal and agent, but also more the complex relationships amongst other stakeholders. Compared to agency theory, a stakeholder approach can penetrate deeper into areas concerning stakeholder motivation and the way they manage their relationships with other stakeholders. Especially in the football industry, football clubs, leagues and FAs are organisations which have more varied aims than solely shareholder maximisation. Therefore, when analysing the relationship between different stakeholders in order to gain a better understanding of the industry, stakeholder theory is a more suitable approach.

This chapter provides the overview of the current literature on corporate governance, with a particular focus on agency theory and stakeholder theory. It draws particular attention to stakeholder theory as it underpins the principal analysis of this thesis. The justification for doing so was discussed during the chapter and research questions were linked to literature review. The literature line was drawn based on the general field of corporate governance in sports and the football industry. Reviewed works of Szymanski, Hamil and Oughton provide a comprehensive overview of the modern football governance - in terms of its financial, social and economic underpinning. The next chapter will review the concept in the Chinese case.

Chapter Three: Chinese Economy and Sports Development

3.1 Brief history of the Chinese economy and sport development since 1949

This chapter outlines the development patterns in the Chinese economy and sport since the establishment of communist China, setting an overall background for the thesis. It aims to provide a bigger picture for readers to gain a better understanding of the football industry within the Chinese context.

Communist China's influence in the world economy was minor until the late 1980s. Since the Chinese government adopted the 'open door' policy launching economic reform in the later 1970s, China's economy has been growing rapidly for 30 years with an average annual growth rate around 10 percent, including during the recent financial crisis, with growth still continuing at a strong pace (World Bank 2011).

In December 1978, the Third Plenum of the 11th Congress of the Central Committee of the Chinese Communist Party (CCP) marked a watershed in communist China's 60-year economic development history. The government adopted economic reform policies and declared that the top priority was economic reconstruction and achievement of the Four Modernisations¹⁰ by the end of the 20th century. Reform policies set a clear goal for China's economic development, despite its gross domestic product (GDP) per person remaining small, with the latest data showing China already becoming the world's second biggest economy in 2010 (*ibid*).

3.1.1 The pre-reform era

The CCP was a fully Marxist party, when it took power in 1949, its priority was solving economic problems that had worsened since the Second World War and the Chinese Civil War (1946-1949). However, economic development was further delayed by the Korean War (1950-1953). By the early 1950s, in material terms, China was very poor, its agriculture sector produced about 50 percent of GDP and provided 80 percent of

¹⁰ Industry, agriculture, defence, science and technology modernisations

employment, which posed great challenges for a social transition to an industrial economy (Bramall, 2009). Per capita GDP in 1953 was \$552, by 1955 it was still a little below the 1937 level¹¹ (Davies *et al*, 1994; Maddison, 2003).

At the beginning of the communist era, most of the industrial resources and distribution facilities were still in private hands, which the new government could not take over immediately, therefore private enterprises were permitted in the interest of production, but would be subject to government control (Hughes & Luard 1959). As centralised management and control of the national finances were introduced, the government not only controlled the profits generated in industry but also controlled the allocation and pricing of the outputs and inputs of industry, both of state-owned and privately owned enterprises (Gabriel, 1998b). According to Premier Zhou Enlai, capitalism was only utilised to rebuild the economy, and it would be finally merged into communism (Spencer, 1999).

When the first Five-Year Plan (1953-1957) was announced, development priority was given to heavy industry. Mao Zedong believed the best way to finance industrialisation was for the state to take total control of agriculture, thereby ‘collectivisation’ was made mandatory in the countryside, farmers being obliged to work in the communes, and all the surplus generated was under the control of the state (Kueh 2006). Jing (2009) argues that collectivisation failed to provide incentives to farmers. Despite Mao indicating that the economic transition period (from a mixed model to the socialist model) was a long process, by 1956, the mixed economy had changed into a highly-centralised planned economy, and collectivisation was completed in both the countryside and urban areas.

The central plan provided an expedient means for raising revenue and controlling inflation (Gabriel, 1998a). Official data suggested that the growth rate was encouraging and performance was far superior compared to that of the republican era (Bramall, 2009). As a result, the first Five-Year plan basically achieved its goals. Unfortunately, Mao took these achievements for granted and launched an even more aggressive Second Five-Year

¹¹ A full scale Japanese invasion occurred in 1937.

Plan (the Great Leap Forward (GLF)), which was scheduled for 1958-1963. The plan set unrealistic targets for both industrial and agricultural sectors, as Mao assumed that high productivity could be achieved by a massive supply of manpower without the need for a big investment by the state (Kueh 2006). In reality, collectivisation provided no incentive for the farmers in the countryside, and was coupled with a series of natural and human-made disasters, which resulted in large-scale famines throughout the country from 1959 to 1962. Consequently, there was no appreciable surplus from the countryside for the government to sustain its rapid industrialisation: the growth was simply unsustainable, the GLF failed miserably, with the resulting loss of tens of millions of lives as the failure affected China in the years that followed (Li 1998).

The period between 1963 and 1978 is viewed as a coherent whole as its key structures and policies were kept consistent to ensure the non-restoration of capitalist - collective farming and state agencies were to meet peoples' basic needs in both the countryside and the urban areas respectively (Bramall, 2009). Bramall argues (2009) that during this period, Mao attempted to transform the superstructure¹² of society rather than being desperate to retain his power. This process kicked-off from the Socialist Education Movement (SEM) in May 1963, and was followed up by the Cultural Revolution in 1966. The SEM initially sought to curb corruption in the countryside, however it became a movement to purge cadres. The Cultural Revolution was used by Mao to insist on enforcement of his orthodox Marxist ideology and at the same time to crush people¹³ who were taking 'the capitalist road'. The movement plunged both the education and the political system into deep chaos, eventually leading to widespread social violence and persecution. As much economic activity was halted, GDP growth (indexed to 1990 prices) per annum was only 5.1%, per capita reached only 2.6%, and 250 million people lived below the poverty line (*ibid*). These figures are rather shameful considering China's low starting point in 1949, as a result, Mao's initial economic development strategy – to tackle the inequalities between urban and rural areas through industrialisation were not realised. The whole period is now considered as a 'lost time' for economic development.

¹² The sum of the system of law and government, the process of cultural production and ideology (Bramall 2009, p171)

¹³ The pragmatists such as Liu Shaoqi and Deng Xiaoping.

3.1.2 Deng's economy reform

Since 1978, China has been engaged in a massive transformation of its economy, gradually dismantling the command economy. Deng Xiaoping realised that China cannot be self-limited by orthodox Marxism, and Mao's development model was gradually abandoned. Deng knew the Chinese-Soviet system was poorly structured for entering the global economy, and he was convinced that excessive bureaucratic control stifled changes and efficiency (Lieberthal 1995). Deng (1980) stated: "our leading organs at various levels have taken charge of many matters which they should not or cannot handle effectively. These matters could have been easily handled by the enterprises, institutions and communities at grass-roots level". As such, it was necessary to decentralise power and control in order to encourage the adoption of market principles.

As Marx argued that capitalism had to precede socialism, so Mr Deng invented the phase 'primary stage of socialism' to serve as the substitute for capitalism within the Chinese context, which provided the theoretical framework to underpin China's economical experiment. In the development period of this "primary stage of socialism", a range of material incentives and social inequalities were recognised as necessary elements for raising productivity (Bramall, 2009).

The reform started in the countryside in 1979. Individual economic family farming units were encouraged, and the collective farming model was gradually abolished with communes eventually being terminated in 1985 (Gabriel, 1998a). Grain output shot up from 303 million tonnes in 1978 to 407.3 million tonnes in 1984, with application of new technology and fertilisers, achieving the 500 million tonnes mark by the late 1990s (China Statistical Yearbooks, 2009). The real per capita growth rate of farmers' income reached 15 percent per annum between 1978 - 1984, which created conditions for growth of township/village enterprises and capitalist social relationships amongst farmers (Gabriel, 2006). In the urban industrial sector, the government gradually devolved control over surpluses and enterprises were allowed to trade a proportion of surplus outside the

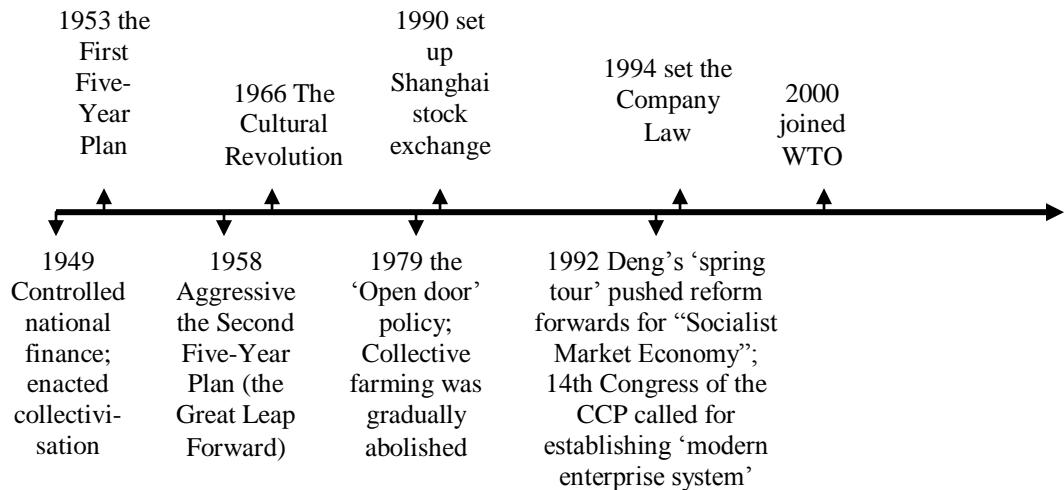
state plan once they had met the state targets. Despite decision-making and fiscal power being decentralised, price-setting remained in state hands¹⁴.

After 1982, controls on private industry were relaxed, and price controls were lifted. As Deng (1985, p152) stated: “It is clear now that the right approach is to open up to the outside world, combine a planned economy with a market economy and introduce structural reforms”. By 1987, the private sector was legalised as a ‘complement’ to the public sector, and became a component part of the socialist economy (Su 2009). When the ‘contract system’ was introduced, it signalled the first step towards creation of a capitalist labour market.

Before 1992, China only partially integrated into the world economy, its tariffs remained high and the private sector remained small. The phase of the “socialistic market economy” kicked in after Deng’s ‘spring tour’ to southeast China in 1992. Den urged pushing reform forwards in order to increase the growth rate, however the socialist status quo had to be secured by means of authoritarianism and state ownership of the key industries (Bramall, 2009). The tour made a big impact both politically and socially, and against this backdrop, the fourteenth Congress of the CCP called for the establishment of the “modern enterprise system”, and the government introduced the Western corporate governance concept to promote modern management and to improve the performance of state owned enterprises. As a result, the labour market was mobilised and transferred to a capitalist model, and SOEs were floated on the financial markets, which dramatically accelerated China’s rate of integration into the world economy. A further integration was achieved by China became a full member of World Trade Organisation (WTO) in 2000.

The volume of foreign direct investment (FDI) being attracted into China increased significantly, and China was receiving more FDI than any other country by 2003 (World Bank 2005, p342/3). Foreign-invested enterprises contributed 58% to exports in 2005 (Chan *et al* 1999), when foreign trade was worth \$851billion (Zhang, 2005), both factors being important elements for Chinese economic growth.

¹⁴ State Bureau of Commodity Prices still exists even today.



3-1 Chronological chart – Economic & political policy

3.1.3 Summary

The first 30 years of Chinese economic development under the communist rule achieved a little in terms of both GDP growth and improvement in peoples' living standard. The backwardness in the 1950s was simply due to the process of recovery from the Second World War and the Civil War; the slow development pace from late 1950s to late 1970s was due to a combination of its own closeness to the world, the Western embargo, and more importantly, Mao's disaster policies of the GLF and the Cultural Revolution. By 1978, the per capita income of farmers was ¥133, which had increased by 1.8 percent compared to 1952; per capita grain output in 1977 was roughly the same as 1957 (Huang, 1998, p35). China accounted for less than one percent of the world economy in 1978, and total foreign trade was worth only \$20.6 billion (Zhang, 2005).

By contrast, Deng's open door policy, the Four Modernisation Programme, and establishment of Special Economic Zones are testimony to his own theory – the socialist state with Chinese characteristics, which has been the engine for Chinese economy growth for the last 30 years. The Chinese economy now stands in a different league

compared to the pre-reform era. In the agricultural sector, grain output reached 528 million tonnes in 2008 (China Statistical Yearbooks, 2009). According to the World Bank data for 2008, China's GDP reached \$4.33 trillion and accounted for more than seven percent of the world economy. China's total foreign trade was \$2.1 trillion in 2009 (CIA World Factbook).

Despite the consistent growth of capitalism, the bulk of the industrial sector remained in the hands of the state. The phase of 'primary stage of socialism' does not feature in Marxian theories, and China interprets Marxism with flexibility in order to fit its economic transformation. Development involves costs, however it is difficult to argue that costs outweighed the benefits, therefore the government is being careful in how far it goes in deregulating markets to ensure economic growth in a sustained fashion. As the transactions from planned economy to market economy is always likely to generate social problems, Chinese leaders considered it was necessary to keep a certain degree of control over these process of transitions by behaving in a risk-averse manner with risk aversion. Mr Deng's phrase depicts it as: – Crossing the river by feeling for stones.

3.2 Corporate governance in China

Corporate governance is a developing concept in China. Chinese economic reforms began in the late 1970s and its economic structure gradually took shape shortly afterwards. The Chinese economy made gradual institutional changes towards a market-oriented system by accepting some capitalist concepts and values. However, the Western concept of "property rights" was never properly altered from its traditional Marxist ideology and communist values (Clarke & Du 1998). One of the main goals of Chinese reform was to establish a corporate governance system which could provide incentives for investment, adequately restrain and monitor management, and promote the optimal use of resources for wealth creation (Chen, 2003). In 1990, China set up a stock exchange in Shanghai, and became the first communist state to do so. The stock exchange triggered ownership reform and a process by which the separation between government and enterprise could be realised. In the early 1990s, a wide range of reforms were introduced

in the state owned sectors and by the end of 1998 24,000 - 10.1% of state owned enterprises (SOEs) had been either privatised or corporatised (People's Daily, 1999).

3.2.1 The law and regulation framework

Law and regulation are essential for corporate governance as it defines the responsibilities of stakeholders in firms, and shapes the way firms should be controlled and run (Liu 2005). The legal framework of corporate governance in China is based on 1994 Company Law. This legislation specifies two types of company, the limited liability company and the stock listed company. Both types signal the transition to a 'socialist market economy' (Kirby, 1995). Another major legal development was the 1999 Securities Law, which aimed to regulate the trading of securities. Both these laws set the basic operational structure to ensure a fair, healthy and lawful relationship between firm's stakeholders. Company Law has the purpose of promoting effectiveness and efficiency by accepting the Western concept of a 'company' and promoting the growth of an independent non-state sector. Nonetheless, despite this, it does not completely embrace a capitalist understanding of property ownership. Even though the Chinese economic model has moved away from the traditional Marxist one, the authorities have maintained aspects of socialist ideology.

According to Clarke (2003), research into corporate governance in China tends to focus on SOEs and listed companies, in which agency issues are almost exclusively the subject. Liu (2005) argues the system of law and institution is not complete in developing countries, and China is certainly no different. On the one hand, the Chinese government wants SOEs to be run effectively; on the other hand, it does not want these firms to develop into solely profit-oriented enterprises. Therefore, the government maintains full or controlling ownership in key industries and large firms. By contrast, in less important sectors and relatively small enterprises, the government tends to relax its control.

With the introduction of Western capitalism in China, the government brought in a UK/US board room structure to many of its companies (Chen, 2003). According to 1994

Chinese Company Law, the number of Directors on the Board should between 5 and 19, and the China Securities Regulatory Commission (CSRC, 2001) requires listed companies to have at least one third of their board of directors independent. However, in contrast to recommendations of the Financial Reporting Council in the UK, it is common practice that one individual combines the two key organisational roles - Board Chairman and General Manager/CEO. In addition, directors are normally from a holding company or appointed by the government. The CSRC (2001) code is enforced by the government department – CSRC and the State Economic and Trade Commission (SETC). Compared to the UK, “it is more a question of regulations rather than a matter of market-led principles or recommendation” (Chambers, 2005, p100).

By combining the roles of Chairman and CEO, which seems to increase a firm's efficiency, it also weakens the function of Directors as checks on CEO power. From a Western perspective, close ties between directors and management can lead to conflicts of interest and prevent the board from undertaking its role as a mechanism for monitoring accountability. The Cadbury Report (1992), Higgs Report (2003) and the latest UK Corporate Governance Code (2010), suggested a greater role and involvement for independent non-executive directors during the decision-making process in order to protect the interests of all shareholders.

The Company Law reflects the state's willingness to impose a Western corporate governance approach on its enterprises by structuring the board size and regulating the amount of reinvestment of profits. However, there are still no regulations governing the internal structure of a company's subsidiary, nor does it provide a clear indication of how shareholders can effectively act together against incompetent directors. Indeed, “The Company Law speaks only of a duty of loyalty, it is far from clear that shareholders could successfully sue for a breach” (Clarke, 2003 p504).

There are several features of Chinese economic reform which are related in the context of the corporate governance system.

- China's approach to corporate governance was limited to its ideological position. The transition from a planned economy to a market-orientated economy was adopted as a solution for promoting effectiveness and efficiency for its state owned enterprises, however for the state, collectivist and socialist values remained essential features.
- In terms of ownership reform, for small to medium SOEs, privatisation did take place, with large SOEs, there was systematic corporatisation.
- In the Chinese stock market, shares of listed, large SOEs often consist of three parts: state owned shares, legal person¹⁵ owned shares and tradable shares. State owned and legal person owned shares cannot be traded in the market. These shares account for most of the capital, and therefore, technically the state remains in control of the enterprises.

Although the state has varied its ownership structures in many Chinese firms, it has nevertheless maintained its control over large SOEs and important sectors. For example, SOEs issue a significant proportion of shares to the government when going public (Cheung & Jiang 2010). As a result, a typical enterprise's behaviour is often based on the combination of non-market structures and market incentives. Indeed, Clarke (2003, p497) states: "the policy of corporatisation does not involve a renunciation by the state of its ambition to remain the direct owner of enterprises in a number of sectors, this ambition makes no sense if profits are the only objectives". It is the role of the state, not the market, to control the development of corporate governance and its implementation as both the major shareholder and regulator of the firm simultaneously (Liu, 2005).

3.2.2 Corporate governance implementation

The system of Chinese corporate governance depends on its institutional implementation. The economic reform aims to separate corporate ownership and control, reducing

¹⁵ Defined as enterprises or economic entities with legal status, the state controls the legal person who in turn controls the firm, so ultimate the owner is the state (Liu & Sun, 2005).

government interference in order to increase corporate efficiency. However, Clarke (2003) questions the conflict of interest between the state as controlling shareholder and other shareholders. The state can be seen as using its position to serve its own interests at the expense of others.

According to Tam (2000) the corporate governance process in practice is dominated by government ministries and the Chinese Communist Party (CCP). The involvement of the state in enterprise has taken place at both central and local government levels, with government appointed officials acting as the equivalent of the board of directors. This is referred to as “state corporatism” by Qi (1992 cited by Kirby, 1995). Tam (2000) states that state representatives are normally appointed to the board as directors to newly formed corporations, therefore, the old links between government and enterprises are not disconnected, and these directors are not capable of serving the broader stakeholder interests. From a commercial point of view, there is doubt over the capability and skills of the state appointed agents in understanding the complexity of real business activities. Moreover, the executive managers are generally not subject to effective monitoring by the board of directors, nor do they operate in a transparent and accountable manner (Tam, 2000; Liu & Sun, 2005). As Holstein (2008) describes the Chinese corporate governance system - China is noise-free but biased, you can get a clear story but the story is not always right.

Even though state ownership is spread across different shareholders, the government is still in a dominant position with direct or indirect controls over large enterprises in key sectors (Clarke 2003). Ong & Baxter (1999) argue that the state adopts a managerial approach towards companies to ensure its power and control via centralised management (state appointed directors). The directors of SOEs are neither shareholders’ agents nor stakeholders’, but a formal extension of the state. Most decisions they put forward are based on the interests of the state alone. Indeed, the Chinese government justifies its interference on the basis that in any transitional economy, a certain degree of government impetus can promote effectiveness and efficiency. Furthermore, “extensive Chinese state control safeguards socialist objectives and prevents uncontrolled capitalism” (*ibid*, p48).

China's corporate governance structure is modelled on the Anglo-American model (Tam 2000, Young 2010). It is a system based on a competitive external market with a strong judicial system. However, at this particular stage of development, the Chinese economy is still in a transitional state and the government has not yet established the necessary social institutions in order to successfully mirror the Anglo-American model. Therefore, corporate governance restructuring has yet to yield a strong benefit from the transition. In reality, shareholders – both the state and minor individuals - are unable to exercise their control rights. Even the right to attend a general meeting is not necessarily guaranteed. The Chinese corporate governance mechanism needs more effective representation of state ownership, as well as institutional arrangements between stakeholders, for the system to function properly. Clarke (2003) points out that in the matter of state ownership, due to the absence of an ultimate owner, the state is practically incapable of monitoring the enterprises. Furthermore, its agents lack incentives to perform their duties, as nobody is entitled to any profit that the company makes (Clarke 2003, Conyon & He 2011). In other words, because they're not shareholders, they're not entitled to benefit from any profit increases.

In summary, the implementation of corporate governance under Chinese Company Law was designed to dilute state ownership in order to promote economic efficiency and effectiveness. Because of the ideological influence and the sharp differences in property rights compared to the West, profit maximisation has never been a priority for the Chinese state. In important sectors and large SOEs, the state can exercise its controlling power either through a formal shareholder voting system (as a major shareholder) or through an informal political influential system by infiltrating the board. Therefore, the interests of minority shareholders are never served. Fang (2000, p40, cited by Clarke 2003, p500) made the point “The whole Company Law is pervaded with the attitude of ‘making decisions on behalf of the people’”. It gives too much power to controlling shareholders, and as a result, the state can easily abuse its dominant position and exploit the interests of minority shareholders.

3.3 Brief history of Chinese sports development since 1949

The word ‘sports’ in Chinese terms covers a wide range. It can mean physical exercise in both a competitive and non-competitive sense, and it can also be understood as physical education within the school system. Since the establishment of the PRC in 1949, the CCP introduced a new governance philosophy, as Kolatch (1972, p75) explains: “Every activity is defined as to how it will be conducted and as to what its exact role is within the entire system”. Not surprisingly, Chinese sports was considered a part of the socialist construction and deeply attached to socialist ideology.

Mao was a strong proponent of the value of sports and saw sports as a tool for ideological education and national rejuvenation (Kanin, 1978). He believed the value of a highly centralised sports programme can strengthen the physique of the Chinese people and develop a strong national unity. Mao was keen to eliminate China’s weakness and earn it respect in the modern world. When power changed hands, Mao had an opportunity to put his philosophy into practice - improving people’s health and developing strong physical ability in all Chinese people became a priority of the new government.

China has been a highly centralised country for thousands of years. The CCP inherited this tradition and developed its own centralised administrative hierarchy. The CCP’s governance system operates from the national level down to county and district level. In the early days of the People’s Republic, the government worked hard in order to erase China’s old image – the sick man of the Far East. As Mao believed that “the national spirit was to be awakened by means of strenuous physical activity” (Kanin, 1978, p264), the primary function of sports was to enhance the people’s fitness level.

In October 1949, the All-China Sports Federation was created, it was the only national sports organisation with branches at the provincial, city and county levels (Wu & Que 1990). The Federation was responsible for development of physical culture within the country, and it also functioned as “the Chinese Olympic Committee” until 1958. After the creation of the National Physical Education and Sports Commission (NPESC) in 1952,

the All-China Sports Federation mainly focused on sports development in various industries and trades (*ibid*).

3.3.1 The top-down administrative structure

The People's Republic applies the Soviet model of highly centralised sports administration. Before the reform era, the government funded all sports activities and guided sports development with policies, decrees and plans, this practice enabling the government to effectively utilise all the resources available in order to achieve its goals in a relatively short period (Kanin, 1978).

The NPESC was at the top of the administrative hierarchy with ministry status under the State Council. The NPESC also functioned as the association of all national sports governing bodies with the power to appoint leaders of any individual sport governing body, including its president. The first minister was Marshal Helong - concurrently a Vice-Premier of the State Council, and a Vice-Chairman of the Central Military Committee, a situation which demonstrated the importance of the NPESC in Chinese political life (Wu & Que 1990). Following the creation of the NPESC, local commissions were organised not only at the provincial, city and county levels but also in trade unions and the army. The NPESC was responsible for guiding, developing and governing all China's sports activities at both elite and amateur levels. At the provincial, city and county levels, local commissions played the same role within their geographical boundaries. Although the local commissions were supervised by the NPESC, they were part of their local governments and served local interests simultaneously.

Given this administrative structure, state policies could be easily implemented within the sport system throughout the country. In terms of an individual sports, top level decisions were reached down to lower administrative levels through the related governing bodies.

In the reform era, alongside Chinese economic development and political decentralisation, the NPESC has been experiencing a series of changes in order to meet the demands of the

market-oriented economy. A major internal reconstruction took place in 1997, as a part of political decentralisation and the State Council reform, which saw 40 ministries cut to 29 in early 1998, consequently, the NPESC no longer held ministry status, and was downgraded to become the State General Sports Administration (SGSA). It delegated its power to twenty¹⁶ newly created management centres, responsible for all training and competitions in their sports at national level, and these twenty management centres covered over eighty sports (Reekie, 1999b). Due to the SGSA having various training centres for each sport, different national teams are managed directly by related management centres or governing bodies under the market economy. For example, some national teams' athletes are accommodated on site and train together all year round as they used to be, such as ping-pong, gymnastics; some teams are not, such as football, and basketball.

Football Management Centre	Martial Art Management Centre	Boxing & Taekwondo Management Centre	Auto & Moto Management Centre
Basketball Management Centre	Weight-lifting, Wrestling & Judo Management Centre	Small Balls Management Centre	Bicycle & Fencing Management Centre
Volleyball Management Centre	Handball, Hockey, Baseball & Softball Management Centre	Climbing Management Centre	Swimming Management Centre
Aqua Management Centre	Tennis Management Centre	Shooting & Archery Management Centre	Chess & Cards Management Centre
Gymnastic Management Centre	Fitness & Qi Gong Management Centre	Athletics Management Centre	
Ping-Pong & Badminton Management Centre	Winter Sports Management Centre	Aeronautical & Radio Models Management Centre	

Table 3-1: All sports management centres under the SGSA (Source: the SGSA website)

¹⁶ The Football Management Centre was created under the NPESC in 1995, and the Basketball Management Centre and the Volleyball Management Centre followed suit in 1996. The Fitness & Qi Gong Management Centre, Auto & Moto Management Centre were created in 2001 and 2002 respectively.

3.3.2 Sports policies

The development of Chinese sports and sports policies mirror the Chinese socialist society, in which political principles serve as guidelines. Mao's sports policy had to be aimed at mass sport, for the purposes of reeducation of the population and national defence (Kanin 1978). As Mr Feng Wenpin, the inaugural president of the All-China Sports Federation stated concisely: "the new physical culture to be national, scientific and mass, the new democratic physical culture's motto is to develop sports for people's health, new democratic construction, and the people's national defence" (Kolatch, 1972, p88).

In the early days of the Mao era, when local PESCs were established throughout the country at different levels, they effectively facilitated mass participation in both traditional sports and western sports. Under Mao's sports policy, on the one hand, the authority paid attention to developing Chinese traditional sports, such as a simplified 24-form Tai Ji Quan; yet on the other hand, the government also made big efforts to popularise western sports, such as basketball and football. Furthermore, the National Training Programme set up national standards¹⁷, encouraging all Chinese people to advance their performance so as in turn to raise the national fitness level as a whole (Kolatch 1972, Reekie 1999a).

On the international stage, sports policies were underpinned by ideological purpose. Communist China stood with the Soviet Union in the early days of the Cold War, and America cut off Chinese trade with the West to the maximum extent possible, especially after the Korean War (Lieberthal, 1995). As a result, on the international stage, opportunities for Chinese athletes to compete were limited to the Soviet Bloc countries, and "Friendly First, Competition Second" was the leading guideline of Mao's era. Winning events was not prioritised, the process that brought Chinese athletes and their opponents together being more important because "the Chinese recognise that their opponents do not react with awe and admiration every time they are defeated" (Kanin, 1978, p267).

¹⁷ Standards for Master of Sports, 1st Class Sportsman, 2nd Class Sportsman, and 3rd Class Sportsman.

In terms of the Olympic Movement, China was battling with Taiwan (ultimately the United States) over the legitimacy of the Chinese seat in the IOC. As both Taiwan (Republic of China) and communist China (PRC) refused to accept the “Two Chinas” policy¹⁸, the PRC did not participate in the Olympic Games, eventually, withdrawing from the Olympic Movement in 1958.

The Sino-Soviet relationship turned sour from the early 1960s. At that time, China focused developing relationships with “Third World” countries before the Cultural Revolution, ties which were strengthened via the first Games of the Newly Emerging Forces (GANEFO), held in Djakarta in 1964 (Whitby 1999). However, the GANEFO movement was not able to continue, as both external and internal environments were changing¹⁹.

As the Sino-American relationship improved after the Vietnam War, China gradually came back to the international sport arena. After Mao’s death, Deng Xiaoping’s flexibility and the “open door” policy led to China’s return to the IOC in 1979. Since then, China has been fully engaged with the international community (*ibid*).

The new sports slogan “Break Out of Asia, Advance on the World” replaced the old “Friendly First, Competition Second”, which characterised the direction of Deng’s policy towards the development of elite sports. Moreover, the NPESC launched the Olympic Strategy after the 1984 Los Angeles Games in order to further strengthen the national system for competitive sports, and as a result, the NPESC spent 90 percent of its budget on competition-related activities (Reekie, 1999a). For example, new steps were taken to revamp the sports programmes, the National Games and long-term training schemes for national teams in line with the Olympic Games (Ren, 1999, Yang *et al*, 2004). As Mr Wu Shaozu – Minister of Sports (1990 – 2000) once claimed: “The highest goal of

¹⁸ Both Taiwan and Mainland China claimed that they were the only legal representative for the whole of China and both parties refused the PRC and the ROC being recognised at the same time internationally.

¹⁹ Externally, a military coup in Indonesia in 1965, and Egypt (the planned host for the second GANEFO) did not prepare for it, then, it involved in the 1967 Middle East War; Internally, China entered into the Cultural Revolution.

Chinese sport is success in the Olympic Games. We must concentrate our resources on it. To raise the our national flag at the Olympics is our major task” (Fan & Mangan, 2004, p55).

On the one hand, the new policy had a positive impact in improving China’s performance at the Olympic Games; one the other hand, it disadvantaged development of traditional sports and non-Olympic events. Moreover, with limited investment available for mass participation and sports popularisation, more people became spectators rather than participants, generating debate on the purpose of sport development and the worthwhile of gold medals.

In the 1990s, alongside governance decentralisation and separating the government agencies from sports administration, there were corresponding changes to Chinese sports organisations and sports policy. The Sports Law was promulgated in 1995, setting a new framework of sports development (Theodoraki, 2004). As a result, the government reduced its direct involvement and financial support to some elite sports. Individual governing bodies were left to take more responsibility to develop their own sports as well as to finance their programmes. Therefore sponsorship became an important element in financing elite sports development. In addition, the sports lottery plan was given special permission²⁰ to go ahead by the State Council in 1994, providing extra funding for overall sports development (Liu, 2009).

3.3.3 Mass Participation

In 1950, Mao declared “Let health be first” at the First National Middle School Conference (Li, 1956); in 1952, Mao officially called upon the Chinese people to “promote physical culture and sports, and strengthen the physique of the people”. This endorsement is often used in combination with the slogan “train the body, defend the nation”, which clearly demonstrated Mao’s belief.

²⁰ According to Chinese law, gambling is illegal.

In response to Mao's call, the state introduced the first set of calisthenics in 1951, and it was widely practiced in both urban and rural areas, with people engaging in "broadcast exercises" every morning throughout the country. Moreover, the first National Training Programme was devised in the early 1950s for schools, factories, farms and the army, modifying the Soviet "Ready for Labour and Defence" scheme, but reflecting the position in China at the time (Reekie, 1999a). As a result, the number of people involved in regular exercise and sports activities increased significantly, and by 1956, nearly a million people achieved standards set by the National Training Programme. Moreover, efforts were made to promote sports amongst state employees, sports associations being formed in trade unions, regular competitions organised, so that by the end of the 1950s, there were more than four million active members (*ibid*).

Although the NPESC was responsible for overall sports development, school sports were managed by the National Education Commission through its own vertical administration at local levels. Physical culture was also regarded as an important means of education by the CCP, as Mao pointed out in 1957 "Our educational policy must enable everyone who gets an education to develop morally, intellectually and physically and become a cultured socialist-minded worker" (Chen 1962, p98). Physical education classes are now mandatory for Chinese students from primary schools to universities, and there are also after-school programs available for further development. Apart from improving students' fitness standard, sport has been used as a tool for ideological education. For example, the Chinese PE curriculum places great emphasis on collective efforts and the virtue of unity, students being required to prepare and collect equipment before and after class, which in a way fosters their sense of morality and social responsibility (Xie, 1990).

The Cultural Revolution (1966-1976) put an end to all mass sports programmes completely²¹, and it was not until 1971 that the number of people participating in regular exercises started to pick up gradually. Mass participation boomed after the Cultural Revolution, and it was partially encouraged by China's full participation in the

²¹ The Cultural Revolution emphasised class struggle in stead of social development; Mao used the Cultural Revolution to purge dissidents.

international arena. Foremost in this was the Chinese women's volleyball team who won the World Cup in 1981, and China's outstanding performance in 1984 Olympic Games²². Traditional sports were also promoted by the state during this period, for example, Qi gong – crane style spread rapidly throughout the country (Reekie, 1999a).

In the 1990s, rapid economic growth provided more opportunities for mass participation to develop. On the one hand, the State Council launched the National Fitness Promotion Programme in 1995, which has since been implemented throughout the country with government financial support (Ren, 1999). On the other hand, with improved income and the newly introduced five-day working week²³, people were more willing to participate in sports activities, therefore business-oriented sports clubs emerged, providing privately-funded facilities for public use.

3.3.4 Elite sports

Elite sports are based on a strong, multi-level sports training system directly supported by the government through the sports commissions at all levels. The goal of each city and district sports commission is to identify athletes to compete in the provincial games, and each provincial commission to train the provincial team to compete at the National Games. The NPESC is responsible for the Chinese national teams' participation in international competitions and the Olympic Games. Sports officials are judged according to their teams' standing in the respective medal tables.

Athletes are developed through a long process of training and selection in a Soviet style pyramid structure. At the bottom of the pyramid structure, some primary and middle schools possessing adequate facilities and strength in a certain sport are appointed as key sport schools by their local sports commissions (Jones 1999a). In those key schools, young athletes are trained after school hours by PE teachers under the supervision of local sports commissions. Local sports commissions also have their own spare-time

²² The first PRC full participation. Boycotted by the Soviet Bloc, China came fourth in the medal table with 15 Gold, 8 Silver and 9 Bronze.

²³ The five-day working week was gradually introduced in 1994.

sports schools staffed by full-time coaches. Better athletes selected from the same catchment area are able to develop their skills in these spare-time sports schools. Key sports schools and spare-time sports schools normally major in a single sport event only²⁴, and form the base of the elite development pyramid.

In the middle of the fostering system, each provincial sports commission has a central sports school. It is equipped with boarding facilities, and staffed by full-time coaches and academic teachers. A provincial central sports school accommodates athletes from various disciplines (like an Olympic training camp), each sports team selecting the best athletes from key sports schools and spare-time sports schools within the provincial boundary. Athletes study and train together²⁵ for five or six days a week, and the best athletes in a provincial sports school have opportunities to progress to the provincial team, and becoming full-time athletes (Whitby, 1999).

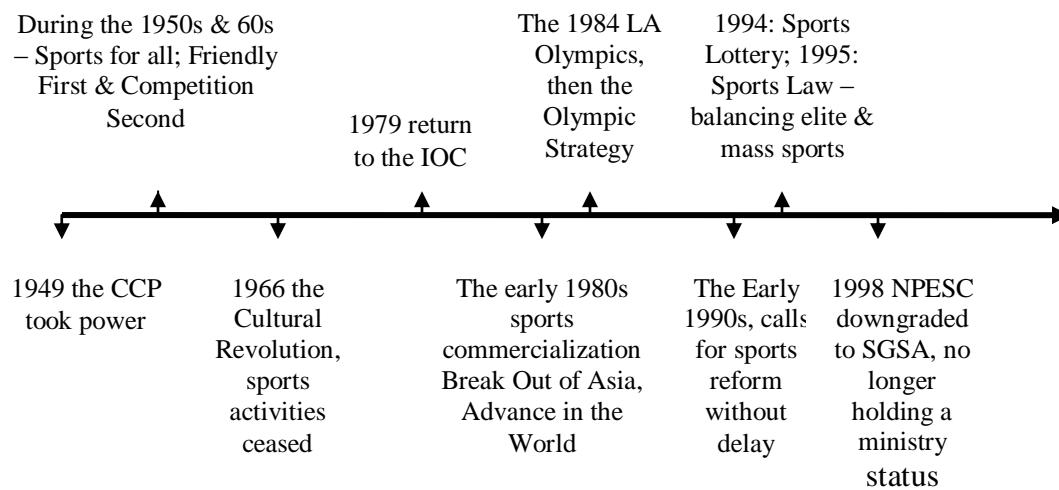
Provincial teams are at the top of the pyramid. Full-time athletes accommodated and paid by their provincial sports commissions. The best athletes have opportunities to become coaches following their careers as active sportsmen. National teams select their players from different provincial teams throughout the country. Chinese athletes are expected to be social role-models, being fostered through this pyramid system from a young age by the state. They are educated to compete for “the motherland” and “to win glory for the socialist state”, they must be public in their expressions of gratitude and delight over the generous of the state (Kanin, 1978).

National teams used to be directly managed by the NPESC, however this pattern has slightly changed since the 1990s. For example, as Western style professional football was introduced in 1994, the national football team players no longer trained together in Beijing, with basketball and volleyball following suit shortly afterwards. Now, players are fully involved in league competitions and stay with their own clubs.

²⁴ Athletics (track & field) is considered as a single sport.

²⁵ Normally, study in the mornings and training in the afternoons.

Although the Soviet-style elite development model has shortcomings, the overall process provides good links between different stages of an athlete development within the system, and good cohesion exists to guarantee quality athletes being produced systematically. Furthermore, state funding ensures some unpopular sports (with no/little market value in the market economy, but which are Olympic events) can be developed to a high competitive level. For example, shooting, weightlifting and so on.



3-2 Chronological chart – Chinese sports' policy development

3.3.5 Why Chinese sports were re-constructed

As the Maoist economic development model was gradually abandoned after Deng Xiaoping seized power in 1978, China moved towards a more diverse and market-oriented economic development model. Although the Western capitalist concept of economic development has been embraced by the Chinese government, the process of transition from a centrally-planned structure to a market socialist system was more gradually introduced - step by step and slowly but surely. The reform has been subsumed by a well-known phase – socialism with Chinese characteristics.

Despite modern sports being primarily Western phenomena, deeply embedded in the Western culture, Chinese experiments with capitalism, as well as Marxism have led it to

assimilate forms of Western culture (Kanin, 1978, p263). As Brownell (1995, p62) points out: “modern sports have occupied a definite place in the Chinese moral order, but that place has been constructed differently at different times in history”. There is no doubt that, in Deng’s reform era, Chinese sports were re-constructed, including football, and this re-construction is inseparable from China’s rapid economic development, social transition and changing position in the global political economy.

Sport is used as a tool in ideological education by the CCP, which ensures its popularity and maintains its close relationship with government policies. This section describes the unfolding Chinese reform policies, the economic development pattern, and the sports reconstruction process after the ‘open door’ policy, in order to explain the reasons why Chinese sports and football were re-constructed.

Economic reform affects sports

In December 1978, the Third Plenum of the Eleventh Central Committee of the CCP laid the groundwork for a new phase in Chinese political and economic development. Deng Xiaoping was convinced that China’s straight bureaucratic control and centralised plan system harmed both farmers’ and workers’ initiatives, stifling efficiency and impeding China’s economic development as a whole. In Deng’s (1980) speech, he demanded relaxation of state control, an increase in the efficiency of the SOEs, and promotion of the principles of the market economy. A fundamental reform was carried out to encourage flexibility and productivity. Developing the forces of production were given priority, which coupled with the adoption of the ‘open door’ policy, resulted in the process of political decentralisation being gradually introduced.

Bear in mind, as Bramall (2009, p326) points out: “policy changed in many respects after 1978. For one thing, the post-1978 era was one in which economics, rather than politics, was in command”. The government introduced the Four-Modernisation Programme to guide economic development. Due to a highly centralised system certainly cannot meet the needs of modern economic development, state control has been gradually relaxed.

Special Economic Zones²⁶ were also established, once the price control was lifted, commodities increased both in production and variety, China became increasingly commercialised. Although China opened its doors to the ‘cultural’ influences of capitalism, Deng had no desire to promote Western-style democracy, and insisted promoting the four cardinal principles during the reform, given voice in his speech – “keeping to a socialist road; upholding the people’s democratic dictatorship; upholding the leadership of the CCP; and upholding Marxism-Leninism and parts of Mao Zedong’s thought” (Deng 1984, p339). Consequently, Chinese reform had to occur within the ‘comfort zone’ of the CCP without challenge to its hegemony. The Chinese reform was a gradual process compared to that in the former Soviet Bloc countries, starting only in the late 1970s, and still largely behind the Western definition in terms of privatisation and full market economy status. The logic behind this was that Deng felt that “even with economic reform and a wealthier society, China would have to be ruled solely by the CCP” (Lieberthal 1995, p127).

The development of sports has been accompanied by economic reform, its modernisation necessitating a new ideological interpretation of sport (Hwang & Jarvie, 2003). Following China’s return to the IOC in 1979²⁷, sports were widely promoted. The Chinese Women’s Volleyball Team immediately created a major success story on the world stage, winning China’s first ever World Cup in 1981, and hugely boosted the popularity of sports in general and volleyball in particular throughout the country. Furthermore, the Women’s Volleyball Team went on to win major world titles four more times - making it five in a row²⁸. The legendary victory played an important role in the construction of the national consciousness, and strongly promoted nationalism after the Cultural Revolution.

²⁶ For example, Shenzhen, Zhuhai in south China, enjoyed different taxation and export policies.

²⁷ This development came with China’s overall political environmental change, which was highlighted by the famous ‘Ping-pong Diplomacy’ and Nixon’s historic state visit in 1972. As the ‘Two Chinas Problem’ has been solved, China returned to the UN and the IOC in 1972 and in 1979 respectively.

²⁸ Football, Basketball and Volleyball are considered as ‘Three Big-Ball Games’ in Chinese sports. Successes achieved from such sports make far more impact to society compared to other sports. The five major world titles were: the 3rd World Cup (1981); the 9th World Women Championship (1982); the 23rd Olympic Games (1984); the 4th World Cup (1985) and the 10th World Women Championship (1986).

In the early 1980s, Chinese sports authorities suggested that China should become a world sports power by the end of the twentieth century, and all sports personnel should strive for the realisation of this goal (Liang, 1990). Despite the definition of ‘a world sports power’ consisting of many dimensions, such as competitive sports, mass sports, sports sciences, and so on, it was generally interpreted by Chinese people and media as: placing China amongst the most successful nations in competitive sports and developing outstanding sports facilities for both mass sports and elite development (*ibid*). Four primary sport ideological elements were emphasised, namely competition, high-performance sports, sporting ethic, and scientific sport. ‘Break out of Asia, advance on the world’ became the leading sport slogan, underpinned by the strong political purpose of Chinese nationalism in the international arena (Hwang & Jarvie, 2003).

In Theory, mass sports’ participation has been an important part of Chinese sports development. Due to the lack of funds and access to facilities, it was largely ignored before middle of the 1990s. The majority of the sports’ budget was spent on the so-called national system for competitive sports to realise China’s ultimate goal of becoming ‘a world sports power’.

The gold rush

Alongside the growing marketisation and commercialisation in the sport field, elite sports were encouraged to team up with sponsors in order to improve their own financial circumstances. By the early 1980s, many provincial elite teams managed to sell their naming rights; at the national level, the 1983 National Games was also introduced to commercial elements and the market approach for the first time (Guo 2009).

The 1983 National Games’ poster below provides some details of the paradigm shift of Chinese sports in the early days of the reform era (The right bottom sign is advertisement of the sponsor; the main background is the Chinese Women’s Volleyball team; the bottom slogan is – Winning glory for homeland, revitalise the Chinese nation). Moreover, relaxed state control coupled with extra funds from enterprises allowed some elite teams

to operate according to their own perceived needs. For instance, they were able to train in better conditions and to compete in more tournaments.



Source: Guo (2009)

The Chinese delegation overtook Japan on the medal table for the first time ever in the 1982 New Delhi Asian Games, demonstrating that the overall competitiveness of Chinese sports had improved. In the 1984 LA Summer Olympic Games, the PRC won 15 gold, 8 silver, and 9 bronze on its debut, a good enough performance to put China in fourth place on the medal table (Ren, 1999). The excellent results hugely boosted China's image and national pride, leading the NPESC to launch the Olympic Strategy shortly after the LA Games as a guideline for elite sports development.

At the top level, government funding only for those sports unable to attract major sponsors, such as diving, shooting etc, left sponsors supporting the rest, such as football,

basketball etc; and for competitive sports, only the Olympic events had access to state funds (Jones 2000). On the one hand, this imbalance indicated a strong political purpose of the Chinese government and its sports focus, whereby it wished to make the nation's priority quite obvious (*ibid*). On the other hand, the Olympic Strategy "also brought a degree of negative influence on those non-Olympic events and teams sports, such as football, basketball and volleyball, which maybe deemed to be less medal-intensive" (Ren 1999, p206).

Countries	Gold	Sliver	Bronze	Total
China	61	51	41	153
Japan	57	52	44	153
South Korea	28	28	37	93

Source: Olympic Council of Asia – 1982 Asian Games Medal Table

Table 3-2 The New Delhi 1982 Asian Games Medal Table (top three)

Countries	Gold	Sliver	Bronze	Total
United States	83	61	30	174
Romania	20	16	17	53
West Germany	17	19	23	59
China	15	8	9	32

Source: IOC – LA 1984 Medal Table

Table 3-3 The LA 1984 Olympic Games Medal Table (top four)

The Olympic Strategy strengthens the national system for competitive sports, its ultimate task being 'Winning glory for homeland' on the international stage, especially at the Olympic Games. Under the new guideline, the National Games and Provincial Games were re-constructed (in terms of both time and events) to align with the Olympics. For example, boxing was restored after years of prohibition as a "bourgeois" sport, the reason behind this was the fact that boxing rewards numerous medals in the Olympics (Brownell, 1995, p301).

Despite enormous efforts being made by the NPESC, the Chinese team had a rather disappointing performance at the Seoul Olympics in 1988²⁹, winning merely five gold, eleven silver, and twelve bronze (Ren, 1999). Such a bad result was deeply reflected, and led to the sack of Mr Li Menghua – the Head of the NPESC at that time. The new administration (under Mr Wu Shaozu) emphasised further the Olympic Strategy, however, it had a different approach compared to the previous administration. Medal-hopeful events were guaranteed to receive sufficient funds, whereas team sports, especially football and basketball, were pushed further towards the market in order to reduce their shares in the whole sports budget³⁰. This new approach assured the Chinese team of two splendid performances in the 1990 Beijing Asian Games and the 1992 Barcelona Olympics.

Countries	Gold	Sliver	Bronze	Total
China	183	107	51	341
South Korea	54	54	73	181
Japan	38	60	76	174

Source: Olympic Council of Asia – 1990 Asian Games Medal Table

Table 3-4 The Beijing 1990 Asian Games Medal Table (top three)

Countries	Gold	Sliver	Bronze	Total
Unified Team	45	38	29	112
United States	37	34	37	108
Germany	33	21	28	82
China	16	22	16	54

Source: IOC – Barcelona 1992 Medal Table

Table 3-5 The Barcelona 1992 Olympic Games Medal Table (top four)

In the big picture, political policy determines the pattern of sports development. Chinese sports re-construction followed political changes and economic reform in order to meet

²⁹ The partial reason was the Soviet Union and East European countries took part in the Seoul Games. The Soviet Block did not take part in the 1984 LA Games as retaliation for the US-led boycott of the 1980 Moscow Games.

³⁰ “The Chinese government doesn't release meaningful sports-budget statistics, but national expenditure is surely many times greater than the \$130 million that the United States Olympic Committee spends each year. This has led some Chinese intellectuals to openly question whether a developing nation like China should spend so much on something so trivial as gold medals.” (Forney 2008, P. A23).

the needs of the state. On the one hand, China was using sports to improve Sino-Western relations in order to serve its national interests; on the other hand, Western capitalists have gradually set up sports-related businesses in China since the late 1980s. Including “Trans World International (IMG/TWI) in sports marketing and sports television, News Corporation in broadcasting, Nike and Adidas in sporting goods, and some multinational sponsors, especially from the tobacco, beverages and communications industries, amongst them Philip Morris, British American Tobacco, Coca-Cola and Ericsson” (Hwang & Jarvie 2003, p84).

Against this backdrop, was the changing social behaviour of organisations, and sports were not immune to that change (*ibid*). Following the pattern of political decentralisation, increasing commercialisation, and improvement in people’s living standards, sports re-construction occurred naturally, gradually, and inevitably.

After 1995, sports re-construction was determined by the tenets of the Sports Law (1995). The new guideline of sports reform was to commercialise certain sports and to integrate sports into people’s daily life. In terms of practice, firstly, its aim was to balance elite sports and mass participation – the ‘Fitness for All’ project was introduced; secondly, it focused more on Olympic events; and thirdly, it pushed certain sports to go over to a Western style professionalism – fostering a club system and promoting the sport’s commercial market potential (Fan 1997). Chinese sports’ reform and football re-construction were driven by a government determination to succeed. Even if that meant bringing more market forces into the game, and reducing the influence of the state (Jones, 2004). As a result, the administrative style was shifted towards a more professional and expertise-oriented characteristic, underpinned by formal regulation and law (Theodoraki, 2004).

In the reform era, there were two main reasons for re-constructing Chinese sports. Firstly, the nature of the sports management reforms - sports needed to be re-constructed in order to fit in with the new political environment, and to meet the demands of the ‘open door’ policy. The national system for competitive sports was restored after the Cultural

Revolution, and the Olympic Strategy was implemented in the 1980s. Secondly, the reconstruction process followed economic development and the trend of commercialisation. Therefore sports were encouraged to operate with flexibility in order to discover market opportunities.

It is fair to say that Chinese sports have moved away from the original Soviet model. However, sports' re-construction has not switched away from a medal-winning orientation. On the one hand, private sponsors are encouraged to invest in mass participation, with participants required to bear a certain degree of their own costs. On the other hand, the reform pushes certain sports into the market, especially team sports with marketing appeal. By doing so, the NPESC further reduces its financial burden in order to focus on more Olympic events (Ren 1999). For example, football and basketball teams having a large number of athletes, but only a few medals available to these events in the Olympics. By pushing some team sports into the market, the NPESC is able to invest even more in other Olympic events (the ones lacking marketing appeal but with a haul of several medals available). Such a balance between elite development and mass participation, between state plans and market forces, was facilitated by the introduction of the Chinese Sports Lottery in 1994, which has substantially increased the size of financial pie for both elite development and mass participation. Moreover, it has become an important resource of funding for overall sports development in China.

3.4 Corporate governance in Chinese sports

In the Chinese sport sector, the governance structure has been moving towards a more decentralised model since the Chinese economic reform. More power is now in the hands of sports associations such that they can act more independently and following a more commercially orientated approach (Jones, 1999a). One of the purposes of this reform was to promote efficiency by separating functions between government administration and business practice in the public sector. As a result, decentralisation was employed by government for both SOEs and sports organisations. By relaxing control over SOEs and sports governance, the state not only reduced centralised bureaucratic practices but was

also able to shift some responsibilities and financial burden onto individual organisations. Against this backdrop, both SOEs and sports associations needed to become more market-oriented dynamic organisations.

Xu *et al* (2005) found the reform's success positively affected by the lessening of political control, increasing the firm's flexibility in labour deployment and introducing more effective corporate mechanisms. Since the 1980s Chinese sport has developed more of its commercial activities, however, it was not until 1994 that the fundamental structure changed with the launch of the new professionalised football league (China, 2006). The so called "state amateur" teams have gradually transformed themselves into Western style "professional" club companies, in which they are regulated by both of Company Law and Sports Law. Indeed, Liang (2003) states that in the Chinese case, the level of state control related to the level of playing competitiveness was one of an inverse relationship - less state control related to a higher level of competitiveness.

3.4.1 The legislative framework of Chinese sport governance

Prior to economic reform, the Chinese sports system was a replica model of the Soviet style centralised model whereby the state provided all necessary financing. Dong & Mangan (2001) saw not only the Chinese sports administration, but also the entire Chinese society, as being built on a vast hierarchical pyramid with power channelled down from the very top. At the top of the sports system sat the NPESC, a ministry within the State Council. The NPESC is responsible for drafting and implementing sports policy; to promote sport at all levels, as well as to liaise with other government ministries.

In Mao's era (1949-1976), sport was developed under communist ideology and state policy. Sport was identified as a cultural activity and as a means of promoting peoples' health without any commercial involvement. According to communist ideology and China's socialist sports policy, the purpose of sports development is to promote socialist spiritual awareness and to enrich the cultural life of the people (Brownell, 1995). Both

domestic and international exchange programmes were implemented, reinforcing the ideology made famous by slogan “friendship first, competition second”.

Economic reform brought not only the recognition of capitalist ideals but capitalist ways of practice to sports. Under the new “Open Door” policy, many sports were commercialised and the state gradually relaxed its control in order to push sports towards a more market-orientated model. Consequently, football was chosen as the first pilot sport to under-take the transformation.

The Sports Law was introduced in 1995 – the year after football professionalisation. Nafziger & Li (1998) argued that this law represented a systematic transition in Chinese thinking. It encouraged the establishment of market-oriented Western style sports associations to carry out state sports policy, as well as to set objectives for Chinese sports’ development. On the one hand, it shifted the state day-to-day control to sports organisations; on the other hand, it confirmed state control and political ideology over sports development.

The Sports Law provides a new legal framework for sports commercialisation as it sets several major objectives both in terms of elite sport and mass sports development under the market economy. It shows a clear anti-doping policy and delivers guidelines for creating dynamic sports organisations.

The Sports Law contains eight chapters³¹, and mainly outlines five major points

- The state promotes overall sports’ development and sports’ reform.
- Local governments and trade unions are encouraged to promote and to organize mass participation and traditional sports.
- Both youth athletes and national team athletes are encouraged to achieve excellence and win honours for the nation in competitive sports.

³¹ Chapters 1-8 are: General Provisions, Community Sports, School Sports, Competitive Sports, Sports Associations, Supporting Conditions, Legal Liability and Supplementary Provisions.

- Commercial activities and sponsorship are welcomed in order to raise funds for sports' development.
- Drug abuse, fraud and violation of rules shall be sanctioned.

Despite the Sports Laws demonstrating the state's commitment to sports, Nafziger & Li (1998) see this development as merely a pronouncement of policy rather than the enforcement of strict rules - the Sports Law appears to rest on a more bureaucratic foundation rather than anything tangible. From a stakeholder perspective, the operative elements of the legislation fail to assign any direct rights to individual athletes and deny them the chance to contest the governing bodies over disputes. On this point, in the creation of the Sports Law, there was never an intention to promote a more Western-style capitalist individualism, furthermore, the state athletes were a product made entirely by the state in order to achieve glory for the 'socialist motherland'. In that sense, any individualism clearly reflects a social aberration which stands as an affront to socialist collectivism.

Apart from a failure to address any rights for athletes, the Sports Law did not explicitly protect the rights of either athletes as individuals nor clubs as organisations to challenge sports associations' decisions - despite the existence of an arbitration body. Although it addressed some emerging problems of sports commercialisation, it failed to clarify the penalties for sports related crimes (e.g. match fixing, gambling, drug offences etc...).

The Sports Law was introduced in a broader political setting wherein the Chinese state was concentrating on economic construction. Both Company Law and the Sports Law encouraged the development of the market economy by transforming the ownership of SOEs and reforming sports organisations respectively. Sports organisations were reconstructed with a more dynamic structure and a more commercial approach.

Alongside Company Law, Sports Law placed emphasis on the transitional environment and commercial development in sport. Overall, it aimed to transform sport from a purely cultural activity to a profitable entertainment industry, under the guidance of a more

dynamically structured sporting association. With this new market-oriented approach, government funds were no longer the sole financial source for sports development. Many professional teams were required to fund themselves, particularly through sponsorship deals and other commercial activities. As a pioneer sport, football teams reformed under the Sports Law with the ownership structure changing from state owned work units to effectively Western style club companies.

Sports associations at all levels were reconstructed with a more Western style structure in order to take profit-orientated initiatives. Indeed, new financial resources from the private sector and commercial activities poured in. Due to the change in structure, sports associations are now able to operate with fewer restrictions imposed by authorities, as well as to be more active in terms of adopting commercially orientated strategies – something which would previously not have been an option with limited government funding. Despite such improvement in the associations, the Sports Law failed to address how governing bodies could achieve a balanced development of mass participation and elite sports with improved financial power.

Any effective corporate governance system relies on the institutional systems of other sectors for its implementation (e.g. legal institutions, auditing institutions, accountancy firms, etc). A single legislator (e.g. CFA) alone has limited scope to enforce regulations. However, the reality faced by many Chinese clubs in terms of the environment in which they operate, is far removed from the professional services and institutional systems that exist in its Western counterparts. In a transitional economy like China, the legal system is still incomplete and underdeveloped in some areas – particularly with regard to more commercially-oriented areas. Furthermore, there exists a strong linkage between government and SOEs, as well as club companies. Hence, despite the adoption of the capitalistic corporate structure - the governance system is still very much determined by the state rather than the market.

The Chinese state plays a dual role both as a major shareholder and as an industry regulator. Corporate governance based on the Western model cannot be copied and

applied in the same way. Clarke (2003) states that corporate governance is not about simply getting the law in place, it is about ensuring that institutional systems across different sectors work together, with a degree of accountability. In effect, China needs comprehensive institutional reform across both the political and economic spectrum in order to make corporate governance function well.

Nevertheless, the Chinese football industry has not yet provided an attractive financial return. Its potential market size still holds unfulfilled appeal for investors. If China presently needs better corporate governance in order to raise the level of its commercial enterprise to a modern standard, then the football industry is an ideal place to start - not only due to its position as a pioneer sport in Chinese sports' reform, but also due to the game's popularity and high social profile. Better corporate governance within football would also set the tone for commercial development within other Chinese sports.

3.5 Summary

This chapter reviewed the application of corporate governance in China and Chinese sports, which serves to emphasize the striking lack of study between corporate governance as a general theory, and its application within the Chinese football industry. In a transitional economy like China, the application of corporate governance in either conventional business or sport is not adequately addressed. Even studies on SOEs and listed companies merely seems to focus on the agency theory perspective – never mind trying to apply corporate governance research in the football industry with a stakeholder approach.

By applying managerial theory to the business of football provides not only an insight into football as a competitive sport and social institution but also as an entertainment industry. The corporate governance concept provides a legislative framework for this thesis to explore the football industry in China. It allows one to apply a modern managerial approach that incorporates a wider range of differing stakeholders.

Chapter Four: Research Methodology

The aim of this chapter is to explain the specific methods used in this research, the techniques used to collect the data, and the strengths and limitations of each method undertaken. Furthermore, it outlines the main philosophical and methodological reasons for adopting those particular research methods.

4.1 Methodology and epistemology

With any research topic, the aim is to determine a particular reality that exists within that particular field of research (Usher, 1997). With that in mind, to determine the basis of any research topic, one must look towards an epistemological and ontological assessment of the research topic.

Epistemology is regarded as a major branch of philosophy, which studies the nature of knowledge. In particular, it addresses the philosophical problems surrounding the theory of knowledge - such as its foundations, scope, and validity. Epistemology addresses questions such as, "What is to count as knowledge?", and "How is knowledge acquired?" Epistemology can be seen as defining a set of universal rules or a scientific method for conducting research.

However, an epistemological research programme must also be seen and understood as a reflection of both a cultural artifact, and a historically located paradigm. In greater depth, as Usher (1997) states, rather than see an epistemological research paradigm as a technical philosophical procedure – “it is better understood as a particular way of understanding the world and acting within it through research” (*ibid*, p4). Hence, any research is subject to being value-laden, which will have an implication on how research is carried out.

Saunders *et al* (2003) advocates positivism, interpretivism and realism as the main philosophical approaches towards social research.

“Positivism is an epistemological position that advocates the application of the methods of natural sciences to the study of social reality and beyond” (Bryman, 2001, p12). Positivism has often been seen as a search for “the truth”, where there is a reality that can be studied or quantified. Objectivity in social science is defined within the positivist nomenclature as being tantamount to the study of natural science. It is a philosophy that claims knowledge can only come from the positive affirmation of scientific methods. For positivists, the scientific method is objective and value-free. In this sense, science is seen as the only way to get to the truth and to better understand the world. Positivism is the culmination of that basic premise, and therefore a positivist research paradigm is built on experimentation as the key method for discovery.

With the positivist approach, the method of investigation is to produce a set of ‘true’, precise and wide-ranging ‘laws’. This will enable researchers to generalise human behaviour and social phenomenon based on those observations (May, 1993). A positivist research programme assumes that the role of the researcher is independent, and that is neither affects nor is affected by the subject matter of the research (Remenyi, *et al*, 1998).

Positivism includes elements of both a deductive and inductive approach. In addition, a positivist research is predominately quantitative - using hypothesis to test theory and the gathering of facts to develop universal laws. The positivist believed in empiricism - observation and measurement was the core of their scientific endeavors, and the best method for limiting a biased perspective is to triangulate and make use of multiple perspectives.

Another major epistemological position is interpretivism. Unlike positivism, it argues the social world of business and management is far too complex and therefore cannot be fully explained by a series of law-like generalisations. As Bryman (2001) states, reality is socially constructed, and therefore requires the social scientist to grasp the subjective meaning of social action. Interpretive epistemology argues that “the test of knowledge should not be generalisation and prediction but interpretive power, meaning and illumination” (Usher, 1997, p5).

By its very nature, study of the social sciences focuses on people, institutions and human behaviour, which, as Max Weber argues, should not simply quantify what actually happens in social situations. A study of social sciences should provide an interpretation of how people are involved and aim to understand their actions in social phenomena. Therefore, an analysis of a social situation includes both explanation and understanding. On the other hand, a series of law-like generalisations would in fact reduce the complexity of the social world and therefore limit one's research.

Interpretivism claims that research objectives and techniques, suited to the natural sciences, are not necessarily appropriate for the social sciences. Ultimately, this is because the observational field of social reality has a specific meaning and a relevant structure for the subject living, acting and thinking within it (Bryman & Bell 2003). As Schwandt (2003, p296) states "To find meaning in an action or to say one understands what a particular action means, requires that one interpret in a particular way what the actors are doing". Interpretivism tries to gain knowledge through an individual's experience and involvement in the social phenomena. It is more interested in finding the motivation that lies behind people's actions. In addition, an interpretive stance can provide surprising findings in comparison to positivism.

Realism shares common features with both positivism and interpretivism. It argues that a reality exists independent of human beliefs, social objects or phenomena, and this can affect the way people perceive their world (Bryman, 2001). Realists also believe that the truth consists of a belief's correspondence to reality, and that every new observation brings us closer to understanding reality. Whatever we believe now is just an approximation of reality. Although positivism, interpretivism and realism carry three different views on the research process, they are not mutually exclusive (Saunders *et al* 2003).

4.1.1 Research paradigm

In “The Structure of Scientific Revolutions” Kuhn (1962) presents an analysis of scientific progress, however, his approach is radically different from any other standard historical treatment of scientific development. In contrast to others, Kuhn sees the development of science as a sequence of periodic ‘revolutions’, where each scientific period is governed by a series of specific rules and methodological truths. Kuhn refers to these specific research periods as ‘paradigms’. To elaborate, a paradigm is a set of practices that define a scientific discipline during a particular period of time. Usher (1997 p6) furthers this point: “Paradigms are frameworks that function as maps or guides for research communities, whether in the natural or social sciences. They provide ways of looking at and ways of working in the world.” For Kuhn, a paradigm is a logical framework within which theories are created. In his book, Kuhn takes specific scientific discoveries, for example, the discovery of atomism or the Copernican revolution, and then focuses on conceptual issues such as “what ideas were thinkable at the time?” and “what strategies were available?”.

Research paradigms consist of a diverse array of conceptual and philosophical elements (ontological, epistemological, methodological, and axiological), which drive the development of science (Curd & Cover, 1998). Any research paradigm has its own epistemology - its own way of asking questions. As such, any research community will each have its own research paradigm that will shape and determine its work. In essence, it is a disciplined process built on a particular methodology. In each research paradigm, a unique methodology is considered appropriate for producing a particular vision of the world.

Kuhn (1962) claims science can only progress based on the development of paradigms. Individual theory is couched in these research paradigms, thereby making them a fundamental entity for scientific research. From this starting position, scientific development occurs during the successive transition from one paradigm to another, via what Kuhn termed ‘scientific revolution’. These scientific revolutions occur when the theoretical and empirical evidence is inconsistent with existing theories. As a result, the

research paradigm begins to collapse, a scientific revolution occurs, and a new paradigm replaces the old one. Each time this occurs science is said to progress (*ibid*). According to Kuhn, a paradigm change involves conceptual changes at three particular levels – cognitive, ontological and methodological. Kuhan views these changes as simultaneous transitions – unlike Laudan (1984) who sees them as a sequential change.

Kuhn (1962) argues that different paradigms will have different ontologies. Each will espouse a different set of cognitive goals or ideals. As such, one paradigm is effectively at odds with the methodologies of any other competing paradigm. For example, Kuhn regards Roentgen's X ray discovery as paradigm breaking, because it required physicists to revise the way they practised and interpreted their research with cathode ray tubes (Curd & Cover, 1998).

Furthermore, Kuhn states that paradigms are incommensurable - two paradigms cannot be reconciled into one. There is no baseline for comparison between the two, as each paradigm will employ different scientific standards. At stated above, the process by which one paradigm replaces another is a simultaneous event: - "Just because it is a transition between incommensurables, the transition between competing paradigms cannot be made a step at a time - like the Gestalt-switch, it must occur all at once or not at all" (Kuhan 1962, p149). As a result, researchers need to revise the way they conduct and interpret their experiments from one network of scientific commitment to another.

By contrast, Laudan (1984) states paradigm changes can occur individually at any level (cognitive, ontological and methodological). Changes at one level do not necessitate a change at another. This is a point which Kuhn flatly disagrees. For Kuhn, the language of each paradigm is quite distinct (Curd & Cover, 1998). Laudan's (1984) view of a paradigm model is reticulated rather than hierarchical, and scientific change is more 'piecemeal' than 'holistic'. He argues the various components of a paradigm are individually replaceable and negotiable, and that paradigm transition is a step-by-step process - requiring none of the wholesale shifts advocated by Kuhn. Moreover, an important feature of the reticulational model is the fact that it allows for rational debate

and scientific justification. Scientists are able to accept or reject the components of paradigms in a piecemeal fashion (Laudan 1984). As such, for Laudan, scientific revolutions can be resolved by rational argument – based on shared evidence and shared rules.

Clarke & Clegg (1998) state that the concept of paradigm has been widely received in management. However, in the social sciences, paradigms are far more flexible in comparison to natural sciences field. Different paradigms co-exist together and each of them reveals different facts about our understanding of management (Clarke & Clegg 2000). As modern organisations have multiple purposes and are subject to different rules, research studies typically go beyond the boundaries of a particular paradigm. In fact there is a risk that each paradigm is too “narrow” for the purposes of management research and there is a further risk that one is locked into a particular concept, thereby limiting the avenues for research.

Furthermore, due to the fact that management research is a relatively new scientific field, there is a greater degree of commensurability between different paradigms. Therefore, Kuhn’s research paradigm becomes problematic when it is applied to social science studies. Although it allows us to analyse certain things, it would be impossible to analyse events that do not ‘belong’ within the paradigm (*ibid*). For example, during business practice, opportunities can be missed if managers are locked into a particular set of practices (paradigm) without a flexible approach.

4.1.2 Theory and research

Ultimately, theories exist in order to provide logical explanations. Theory is the framework through which we can inform our thinking, which helps us to understand findings and to make sense of data. Research employs different methods that are closely linked with different visions of how social reality should be studied.

May (1993) argues that on the one hand theory enables us to break-free from everyday thinking, allowing us to have a perspective on our social universe. On the other hand he maintains that some theories lack a universal generality, such that researchers can effectively determine a perspective in relations to particular areas of society. Indeed, the role of research is to test theories in order to provide material for the development of general laws, and, as Williams (2003) points out, to establish academic legitimacy and act as a powerful explanatory tool.

Williams (2003) argues that theory and research are rarely processed smoothly. Confirmation and rejection of part or of the whole theory can occur during any period of the research stage. To generate a new theory we often begin with pre-existing ones. Theory building and testing are interactive. May (1993) argues that in practice, existing theories are difficult to reject even if they have been falsified by empirical evidence. Ultimately, such a rejection must be sufficient before a new theory can be proved. Until that point, pre-existing theory is likely to assist us in explaining social phenomena.

4.1.3 Inductive approach

Induction is a form of reasoning that makes generalisations based on individual circumstances. Social scientists begin constructing a theory by observing aspects of social phenomena. They then seek to discover patterns that may develop into universal principles (Babbie 2007). An inductive approach moves from specific observations to broader generalisations and theories. This is also known as a “bottom up” approach.

Inductive research begins with specific investigations. From this, we can gradually establish a pattern of regularly re-occurring social events from which we can devise hypotheses, and thereby enable researchers to explore a final result and generate an overall conclusion. Inductive research uses a specific proposition to infer a general proposition. In a broader sense, it produces conclusions for unobserved matters on the basis of what has been observed from present knowledge and evidence. This is evidenced in most scientific discoveries. Single observations and reasoning from specific examples

are developed into general principles. As William & May (1996) state, the experiment is pointless unless it makes a general claim.

Most inductive research derives from the tradition of grounded theory (Bryman 2001). Inductive research uses the grounded theory approach to analyse data and at the same time generate theory (Glaser and Strauss, 1967). In the context of social science, the inductive approach begins with data collection to examine particular aspects of social life, and derives theories from resultant data. In research practice, induction is more commonly associated with qualitative methods and proves advantageous in addressing three practical purposes (Maxwell 1996, p21):

- 1. Generating results and theories that are understandable and experientially credible, both to the people you are studying and to others*
- 2. Conducting formative evaluations, ones that are intended to help improve existing practice, rather than simply assessing the value of the programme or product being evaluated*
- 3. Engaging in collaborative or action based research with practitioners or research participants*

Although generating theory from data is considered a reliable approach, the inductive approach is not always straightforward, and the generalisations such an approach yields can lead to weakness and censure. William & May (1996) argue that, in everyday science, most generalisations are made on the basis of the researchers' present knowledge and current evidence. The weakness of the inductive approach stems from the fact that the generalisations that are made in the present cannot be guaranteed to be true in the future. William & May (1996) claim that induction is about making a statement for an infinite number of possible situations based on observations of finite number.

The inductive approach is more closely associated with qualitative data, which can be collected by using a variety of methods. In terms of social research, an interview method is most commonly adopted in the inductive approach. This research method is closely

associated with the philosophy of interpretivism, which has been seen as one of the strengths of inductive research. This research mainly employs the inductive approach.

4.1.4 Deductive approach

Whilst an inductive approach generates theory from data, a deductive approach is used to test or refute theory and can be seen as the opposite to inductive research. It is also commonly referred to as a “top-down” approach. The deductive approach is a theory-driven approach which advocates that there are a set of methodological rules by which we proceed in our research. In essence, data collection is theory driven and the final result tests the validity of our initial hypothesis. A deductive statement is one where the conclusion must follow the premise. It follows that the truth of the conclusion depends on the truth of the premise. However, merely because the conclusion follows the premise and is therefore logically correct, doesn’t necessarily mean it is a true statement or true result (Willams & May, 1996).

Compared with the inductive approach, deduction is rather narrow in nature and applies general principles to a specific conclusion. It is usually associated with more quantitative research and the process can be very linear – one step follows the next in a rational and clear sequence. Even though the deductive approach does not initially reject a theory, it nevertheless believes that a theory can only be considered valid once it has been tested. In other words, an idea or hypothesis can only be “true” if it is supported by the data we produce.

Deductive research is more closely linked with quantitative data and is therefore commonly associated with a positivist philosophical approach. As Saunders *et al* (2003 p86) explain: “An important character of deduction is that concepts need to be operationalised in a way that enables facts to be measured quantitatively”. A deductive approach needs to be associated with sufficient numerical sample sizes to make a generalisation. As such, the survey method is commonly used by deductive research.

In short, both approaches serve as valid avenues for social research. Induction is concerned with theory building, where theory follows data. Deduction centres around theory testing focusing on which data follows from theory. Most researchers use both inductive and deductive approaches, which combine the strength of both approaches in order to achieve more credibility. Just like Babbie (2007) points out, deduction begins with “why” and moves to “whether”, whereas induction has the opposite pattern.

4.2 Research strategy

Bryman (2001) defines a research strategy as a general orientation to conduct social research. In order to answer a particular research question, one must have a general plan in mind. It is philosophical belief which determines the overall research approach and specific research methods. As Williams and May (1996) claim, with each different research strategy, comes a different epistemological and ontological presupposition. However, when you compare both a quantitative and qualitative research strategy in terms of its epistemological, ontological and theoretical framework, the distinction is not always obvious.

4.2.1 Quantitative approach

Quantitative research is a systematic way of investigating social phenomena. It is used to develop and employ mathematical models to measure observations. Both the natural and social sciences make use of this particular research programme. The process of measurement provides the fundamental connection between empirical observation and the mathematical expression of quantitative relationships. In broad terms, quantitative research is described as “entailing the collection of numerical data and as exhibiting a view of the relationship between theory and research as deductive, a predilection for a natural science approach, and as having an objectivist conception of social reality” (Bryman 2001, p62). In this sense, quantitative research is more closely associated with a positivist epistemology.

Quantitative research normally involves structured questions, such as, “How many...?” and “How strong is the association...?” Due to the quantitative approach holding a large number of respondents as samples, it can be used to identify correlations (not causation), as well as to ensure findings with an acceptable degree of accuracy.

Most survey research is based on what is referred to as ‘correlation’ research or ‘cross-sectional’ research. Samples are chosen within the population, data is collected from a cross-section of people at a single point in time. This cross section of people will then be asked a set of questions, and their responses are typically tabulated so that a result can be analysed quickly. As long as the sample is sufficiently large, the results can be applied to the entire population and used beyond the participating group.

4.2.1a Quantitative data validity, reliability and limitation

Data validity is about correctness and reasonableness of data, data validation checks that data are valid, sensible, reasonable and secure before they are processed. Quantitative research requires the measurement to be objective, quantitative and statistically valid.

In any quantitative research, an objective approach is a key element to ensure the reliability and consistency of the results generated. Reliability of data refers to the consistency of a measure – such that if the test is repeated over and over, it will yield the same answer.

In quantitative research, researchers mostly work with a sample of the subject. This sample size has its limitations when being used as a basis for determining general theories regarding the entire population. It is crucial that the sample size used is reflective of whatever general subject you are attempting to analyse.

4.2.2 Qualitative approach

Qualitative research predominantly emphasises an inductive and qualitative researchers aim to gain an in-depth understanding of human behaviour and the reasons behind such

behaviour. A qualitative approach tries to understand the complexity of the organisation and the reality of it by offering a variety of methods, such as interviews, observation and documentation. Such methods are able to address research issues from different angles, thereby boosting data validity and research reliability. For example, the interview interpretation can be supported by documentary evidence, as well as through observation by the researcher. Qualitative research aims to generate rich, detailed and valid data that is necessary for increasing the understanding of:

- a) Complex and sensitive impacts and processes;
- b) Differential impacts between stakeholders and the reasons for these; and
- c) Potential consequences of any practical recommendations (Mayoux, 2001).

Bryman & Bell (2003) claim that defining characteristic of a qualitative research method is in its distinct epistemological and ontological position. Although it is not restricted to the mere presence of numbers, a qualitative research programme often appears in a narrative format. It has rejected the practices and norms of the natural scientific model and is more in favour of the individual's interpretation of the social world. Maxwell (1996, p17-20) outlined the strength of qualitative research and illustrated five reasons for choosing a qualitative research programme:

1. *Understanding the meaning of the events you are participating in*
2. *Understanding the particular context within which the participants act, and their actions which have been influenced by the context*
3. *Identifying unanticipated phenomena and influences, and generating theories*
4. *Understanding the process by which events and actions take place*
5. *Developing causal explanations*

Qualitative research is becoming an increasingly popular approach for the purposes of business research. As previously stated, it emphasises words rather than numbers, and stands as a more interpretive, inductive and constructive programme. Maxwell (1996) also points out that qualitative researchers tend to place more emphasis on understanding

the rationale behind the phenomena. In comparison to quantitative approaches, in which there are limitations regarding the extent to which social reality can be observed and measured in a positivistic way, the qualitative approach provides means by which to investigate and understand complex and sensitive issues in greater depth.

4.2.2a Qualitative data validity, reliability and limitation

The validity and reliability of qualitative data depends to a great extent on the methodological skill, sensitivity and integrity of the researcher (Patton, 1990). Qualitative research forms a critique of positivist thought, it approaches ‘reality’ as something that can never really be fully captured. It is more value-laden towards research process, and argues that researchers can only provide relatively adequate and valid approximation through their analyses to explain the phenomenon in the social world.

According to Shipman (1998), reliability in qualitative research can rarely be fully achieved, because researchers are not in total control of their interaction with the social environment. Moreover, all the events are unique and non-replicable for repeated studies. Validity is a goal rather than a product; it is relative and must be assessed in relation to the purposes and circumstances of the research, rather than being the contextually-independent property of methods or conclusion (Maxwell, 1996).

Maxwell (1996) argues that once qualitative research has begun, it has to immediately rule out threats to its validity. The main threats come from subjective description, interpretation and unsuitable theories, and the best way to limit these threats is to use credible, certifiable methods and appropriated theoretical frameworks to conduct research.

A further requirement is that a researcher should avoid bias towards his studies. An understanding of how a particular researcher’s values influence the conduct and conclusion of the study in order to explain the possible bias, as well as how this bias

should be dealt with during research is important for qualitative studies. For example, a significant problem in interviews is ‘reactivity’, where the researcher influences the informants during the interviews. Even though ‘reactivity’ cannot be eliminated during interviews, it can nevertheless be minimised by taking precautions, such as avoiding leading questions (Maxwell, 1996). An interview is based on the informant’s perception of ‘what happened’ rather than ‘what exactly happened’ and crosschecking the information by different sources at different times can enhance the validity of the data deriving from the informant’s claims.

In addition, translation from different languages poses another threat for researchers; there is always a danger of losing or misunderstanding information. In the case of this thesis, all the interviews were conducted in Chinese and subsequently translated into English, thus exact words provided by both the researcher and interviewees may lose some accuracy during the translation process.

4.2.3 Comparison between the quantitative and qualitative approach

Bryman (2001) seeks to distinguish between quantitative and qualitative methods. For Bryman the two methods have very different epistemological foundations - he has outlined three specific areas that differ between the two approaches.

	Quantitative	Qualitative
Principal orientation to the role of theory in relation to research	Deductive; Testing of theory	Inductive; Generation of theory
Epistemological orientation	Nature science model, in particular positivism	Interpretivism
Ontological orientation	Objectivism	Constructionism

Source: Bryman 2001 Social Research Method, p20

Table 4-1: Fundamental differences between quantitative and qualitative research strategies

Although there is a clear distinction between quantitative and qualitative approaches, in social research, it is common for the two to go hand in hand. The quantitative approach

is often used to test theories through qualitative research of the subject, and a qualitative method might be used to understand the meanings of numbers produced by quantitative methods.

Quantitative	Qualitative
Objective “hard science”	Subjective “soft science”
Relating to research questions: “How many...? How strongly associated...?”	Relating to research questions: What...? Why...? How...?
Deductive; testing theory or hypothesis to gain understanding	Inductive; developing theory for understanding
Data based on meaning derived from numbers	Data based on meaning expressed through words
Collection results in numerical and standardised data	Collection results in non-standardised data requiring classification into categories
Analysis conducted through the use of diagrams and statistics - establishes relationships and causation (measurable)	Analysis conducted through the use of conceptualisation - describes meanings (interpretive)
Uses instruments	Uses communication and observation
Facts are value-free and unbiased	Facts are value-laden biased
One reality: focus is concise and narrow	Multiple reality: focus is complex and broad
Striving for generalisation	Striving for uniqueness

Based on Bryman (2001) and Saundier *et al* (2003, p378)

Table 4-2: Characteristics of quantitative and qualitative research

Quantitative and qualitative approaches do not stand in opposition to each other, but instead offer different ways to approach and understand social reality. They merely reflect different processes and methods used to reach a common standpoint. A quantitative approach seeks explanatory laws and generalisation, qualitative research aims at a more in-depth description of uniqueness. The decision of choosing whether one employs a quantitative or qualitative approach depends on the nature of the research and the information needed for the context of the study, as well as taking into account any research constraints. It is important to note that all research has its limitations, there is a modern tendency in social research to use both quantitative and qualitative methods.

Apart from both qualitative and quantitate approaches, case study is a research strategy that has a wide usage and can be based on a mixture of quantitative and qualitative evidence. Yin (1984) defines a ‘case study’ as an empirical enquiry that investigates a subject within its real life context. In management research, the case could be an event, an organisation or particular industry, and the research object in a case study is often a programme, an entity, a person or a group of people. Morris & Wood (1991) point out that a case study strategy is particularly suited to gaining a rich understanding of the context of the research. Case studies will tend to concentrate on the subject matter itself, with less focus on the theoretical inference or empirical generalisation.

Critics of the case study method believe that a small number of cases cannot represent the view of an entire population, contending that it is no means of positive generalisation. Therefore, it can offer no grounds for establishing reliability or generality of truth. Others argue that the case study approach is highly subjective, relying heavily on our previous experience and our sense of worth, which can render the findings biased.

In contrast to such criticism, a case study approach also has its advantages. Firstly, a single or a few case studies, studied over a sufficient length of time, can yield generalisations and a testable theory. Moreover, despite this seemingly narrow approach, the wider relevant findings can be conceptualised as a basis for ‘naturalistic generalisation’. Although, the result of the case study does not always have to be proposing new theory, it can also modify existing results and increase the validity of the research with a new case (Stake, 1995).

4.3 Methodology implementation

Different research approaches have strengths in different areas. As Saunders *et al* (2003, p85) state, “Business and management research is often a mixture between positivist and interpretivist approaches - perhaps reflecting the stance of realism”. There are many

complexities surrounding the newly professionalised Chinese football industry, the overriding question of this thesis demands more exploratory research, and exploratory research is more akin to the qualitative approach. Furthermore, a systematic study on the topic of corporate governance in the Chinese football industry requires an in-depth understanding of the different behaviors of diverging organisations and stakeholder groups. The questions being asked are often *why* and *how* rather than *where* or *what*, when exploring a new field or subject such as this, a qualitative approach is more suitable than a quantitative approach.

The aim of this thesis is to look at the corporate governance of the Chinese football industry, drawing on stakeholder theory as the framework for analysis. The business of Chinese football and its governance is a complex social phenomenon which is heavily influenced by political policies and other social developments in China. Interpretivism is the main philosophical approach used in this thesis which underpinned by epistemological and ontological assumptions to better understand the structures and development pattern of the Chinese football industry.

From an epistemological point of view, an objective and fuller understanding can be gained through a well-designed research methodology. The implementation of such a methodology is based on the research questions. However, while quantitative research of a more positivistic orientation begins with the development of research questions for testing, the development of research questions within the interpretivist framework can often be developed at a later stage. As Maxwell (1996, p49) states: “The research question in a qualitative study should not be formulated in detail until the purposes and context (sometimes general aspects of sampling and data collection) of the design are clarified, and they should remain sensitive and adaptable to the implications of other parts of the design. Often you will need to do a significant part of the research before it is clear what specific research questions you should try to answer”. Indeed, this study mainly adopt the interpretivism approach, it echoes Maxwell’s statement, the explicit research questions relating to the thesis did not emerge until I actually went out into the field and started a project work with the AFC. This job gave me the opportunity to tour from one

city to another and communicates with individuals within the Chinese football industry. Once the fieldwork began, I was gradually able to establish all my research questions.

Dixon *et al* (1987, p16) states: “A researchable question is usually a small fragment of a large question. One of the hardest things for a researcher to do is to leave behind that large burning issue and settle down to tackle one small, manageable part of it”. In establishing my research questions, the process mirrors Dixon’s statement, that by “piecing together a number of smaller answers a larger answer may be discovered” (*ibid*).

For example, this research has an overriding question: - “How has professionalisation impacted on the governance and development of the football industry in China?” Just as aforementioned, the researcher is reducing the overriding question down to six more easily manageable sub-questions:

1. To what extent did the Chinese FA and the top leagues facilitate the development of an increasingly professionalised football industry?
2. How does the Chinese FA balance the needs of the professional football industry and the grassroots development?
3. How do professional football clubs manage relationships between multiple stakeholders?
4. How has professionalisation impacted on the relationship between supporters and football clubs?
5. How has increasing professionalism affected players?
6. What are the key governance challenges facing the Chinese football industry?

Six sub-questions direct my research to identified specific areas helping to generate a more complete picture of the football industry in China, while at the same time addressing the overriding research question.

As a part of contribution to the research field, this explorative study is adding the current literature of corporate governance on the Chinese football industry. The current cooperate governance literature has been applied on some European football counties and their commercial development, which is based on a relatively complete Western legal system and a free-market economy. From this standpoint, the current literature, although providing a useful source for referencing, is inadequate for conducting detailed research within the Chinese football industry. This research is an exploration of the newly professionalised Chinese football industry, which is subsequently founded on an incomplete legal system and a transitional economy.

The literature review chapter explained and justified that using the stakeholder approach to conduct research on the football industry at different levels has become a trend of management study, especially as the game has developed to a highly commercialised entertainment industry. This research also employs the triple-perspective approach (Steurer 2006) towards the stakeholder theory framework in order to gain a comprehensive understanding. As aforementioned, the overriding research question is approached from various angles of sub-questions which are linked to different stakeholders' perspectives. Players, fans, clubs and the governing bodies were defined as separate stakeholder groups, interview data were categorised, and responses were marked carefully in order to capture ideas. Stakeholder relationships between different stakeholder groups were analysed by looking at different themes, such as conflict of interests, stakeholders' resource dependence based on either elaborated interview analysis or different analytical stakeholder models mentioned in the literature review chapter. More importantly, using constructed graphs to demonstrate the development trends of stakeholder relationships and stakeholder influence make a further contribution to the research field.

This thesis is based on an inductive approach, where the empirical work involves a series of interviews. During the empirical work, the first step of the process is to identify interviewees who work within the football industry, determine the relevant individual stakeholder groups and ensure that all candidates have sufficient knowledge and

experience. Interviewees are categorised into different stakeholder groups, thereby allowing not only individual opinions to come forward but also garner information regarding the stakeholder groups as a collective. In that respect, it provides us with different angles and perspectives from which one can better understand corporate governance in Chinese football.

All interviewees sampled from clubs were senior members of staff, such as CEOs, and senior managers. The reason for this is that they possess personal experiences of running football businesses at the club senior level, which allows them to offer a valuable insight into club management. Selected clubs which are located all over the country include well-established big clubs with strong financial backing and relatively smaller clubs with weaker financial powers. Interviews with officials from a wide range of clubs can sufficiently generate more balanced insights to achieve a deeper understanding of the issues.

In the fan category, the study focuses on organised fan associations not individuals, therefore, all interviewees were fan organization leaders - Presidents and Vice Presidents. The approach explores varying structural mechanisms of fan organisations and their relationships with clubs.

All player interviewees were current or past players with personal experiences of the professional leagues. Despite geographical difference, Chinese players progress from young amateurs to mature professionals via a similar route within the same training system. Having such a strong common characteristic industrial background, even small samples of players are able to have valuable opinions and a representative voice on the system. Unlike fan associations, Chinese players do not have their own union/organisation to represent them either as individuals or as a group. Nine players were interviewed, included retired players - with experience of the professional league who still work in the industry; active players - old/experienced players (28 years of age or older facing retirement) and young players (first team players younger than 28 years of age). In that respect, information generated from interviews can provide a balanced

picture that shows football governance in a progressive way. More importantly, the goal of the interviews is to gain a better understanding from the respondents' perspective.

In addition, interviews conducted at one particular club always include at least three interviews - one from a player, one from a club official and one from a club's fan group. The systematical approach and triangulated information boost credibility of data as well as the analysis of stakeholder relationships at the club level. In some cases, extra interviews were conducted when opportunities were available.

Officials from the CFA and local FAs were also interviewed in order to understand the role of governing bodies at different levels and in particular their different approaches to develop the Chinese game.

The primary data was obtained through semi-structured interviews within the framework of a stakeholder theory concept. Interviews were designed using open-ended questions to ensure that interviewees expressed their own opinions - thereby ensuring objectivity and limiting the interviewer's influence over the results.

Majority of interviews were conducted in 2008, followed by more interviews in 2012 and 2013 after submission of the first draft with suggestions from supervisors. The researcher worked at Shenzhen FC over the Summer 2012, the opportunity provided the research not only to update knowledge but also to observe the industry at the club level for a half season. As a result, more semi-structured interviews with club officials, fan associations and players were conducted, including interviews within Shenzhen FC and its fan association. Some interviews with other clubs were also organised during Shenzhen FC's away trips. Moreover, a survey amongst professional clubs was also conducted at two separate football meetings³² with permission from the CFA. A questionnaire was handed out to senior managers of all professional clubs and completed questionnaires were collected at the end of each meeting. With help from the CFA and the researcher's own

³² Meeting for general managers of Super League clubs, 11& 12 September 2012, Hangzhou; Meeting for general managers of Jia League clubs, 13 & 14 September, Shanghai.

efforts the response rate was 100% and analyses of the survey elucidate complementary aspects of club governance.

After the Shenzhen spell, the researcher started to work at IMG's Global Business Development Football in October 2012 when IMG signed a ten-year commercial deal with CSL. As a result, the researcher has established a close working relationship with the CFA and CSL since, which further increased the researcher's accessibility to some of the most senior football administrators in China and some of the most valuable insights into the industry that ultimately facilitated the completion of this study. For example, the researcher conducted interviews with the chairman of the CSL and the chief financial officer of the CFA in May 2013 when they were on a business trip to IMG's London headquarter and UEFA's Champions League Final.

As is well known, a single method of data collection would be insufficient to capture the richness of any research scenario. In fact, data collected from interviews, a survey and secondary data from other documents and related literature provide cross-data validity checks when addressing the smaller research questions separately. Thereafter, the researcher was able to piece together the results for each smaller research question and address the overriding question.

The data sources used for this research consisted of:

- Interviews with officials from the CFA, the CSL, local FA and football clubs, as well as football players, academics, and fans³³.
- Informal meetings and social conversations with the officers from the AFC, the CSL, local FA, players, fans and so on, to capture wider information which could not be obtained from formal interviews.
- The researchers' own observation during the time with Shenzhen FC
- Documents collected from the CFA, the CSL, clubs, books, papers and academic studies as well as web searches on all the related fields.

³³ See appendix for the interviewees' list.

- Formal meeting records and other material gathered during the tour with the AFC on its Vision Asia project and the CSL meetings.
- A survey includes all professional clubs in 2012.

In addition, I had been given a work opportunity by the AFC in October 2007. I was mainly involved with the Asian Vision project, which includes the Vision China programme. At that time, the Vision China team was preparing to expand its programme in Zibo City, and, as a result, I had a series of meetings with officials from the Zibo city government and Zibo FA, regular communication with the AFC's Vision China officials, as well as officials from Chelsea FC (the club has established a working partnership with the Vision China programme).

I travelled to a number of Chinese cities which had participated in the Vision China programme – these included Jinan, Zibo and Qingdao. During the trip, I attended a series of seminars conducted by officials from the AFC and Chelsea FC. One of my tasks was to interpret these seminars into Chinese and I therefore had the opportunity to talk to the officials and speakers before and after the seminars.

This work enabled me to acquire a better understanding of the Vision China programme and some local football development at the grassroots level – the foundation of the football pyramid structure and the base of the professional game.

4.4 Data analysis

The major analysis is based on more than thirty interviews. Most of the interviews were tape recordings taken with the interviewees' permission. However, some interviewees were not prepared to be recorded and in those cases, interviews were recorded in writing and transcribed shortly after the interview.

A transcription of the tape recording is a more efficient means of conducting the interview, compared with a written format, as this reduces the ‘threat’ of misrepresenting or introducing any un-necessary bias on the part of the interviewer. Furthermore, if there are any doubts that come to light I can always go back to the original records.

This thesis has employed a descriptive approach in the process of analysis. However, even though the descriptive method is a suitable procedure when used to describe the development of the Chinese game, having a solely descriptive research programme will lead to criticism. The study uses combined methods with a variety of date sources in the process of analysis to avoid an overly descriptive approach at the same time to unveil the governance of the game and relationships amongst stakeholders within the industry.

Data analysis focuses on how the interviewees responded to each question. As this was done with open-ended questions, data from each question was treated not only as individual but also all the data was collated together within categorised different stakeholder groups and organised by questions to look across all respondents and their answers in order to identify consistencies and differences. Moreover, the connections and relationships between topics were also explored.

In order to bring meaning to the words, three different themes were identified - conflicts of interest, resource dependency and sustainable development, which organised the data into categories – either by question or case. The themes provided directions for what the researcher was looking for in the data, and enabled a search of the data for text that matched the themes. In such a way, the researcher was able to see patterns and connections both within and between categories. Of course each category includes some sub-categories which reflect the nuances in the data. Findings came from analysing the information that was captured through interviews – similarities and differences in interviewees’ responses were further elaborated to provide analytical insights within

categories and important points were emphasised with interview quotations to support findings and bring the data to life.

Ferkins *et al* (2005) claim a qualitative approach may better capture the diversity that exists in sport. It may gather new data in different ways that assists in creating new governance designs. However, a caveat to this is that quantitative data can be difficult to access or collect among Chinese governmental organisations and departments. This is partly due to the political culture and ideology and the lack of transparency between public and governmental spheres. Due to a lack of accessibility to clubs' and CFA's business accounts, the research has not been able to draw on or analyse detailed quantitative financial data. In addition, it is a common fact in China that most members of staff are unwilling to pass inside information on to others, including researchers.

Despite the fact that social improvement has been made by the 'Open door' policy and economic reform, China is still a totalitarian state, the working culture in the political system lacks transparency, and in terms of work practice, government officials and civil servants have more concerns about peoples above them than about the public interest and moral issues. Such working culture and practice causes difficulties for researchers conducting interviews in the public sector. Moreover, an exploratory study about corporate governance in Chinese football such as this has never been done before, and arranging interviews in China was a big challenge. For example, many officials were not willing to make themselves available for interviews in the first place and even when interviews go ahead as planned, some officials are reluctant to reveal the true stories behind scenes, in fear of criticizing government policy and practice. In addition, Chinese officials are less professional compared to the Western civil servants, they can cancel interviews without any notice.

Against this Chinese cultural backdrop, all researchers need good contacts within the system for data collection. In this case, it down to researcher's own personal connections

in the Chinese football industry and work contacts that researcher has established during time spent in the AFC and IMG. Having these advantages, the researcher was able to arrange a rough time table for interviews with local FAs and clubs across China before travelling to each location. Despite all preparation in advance, there were still problems along the way. For example, the interview with the Shanghai FA official was rescheduled twice, researcher eventually managed to get it done on the last day of the five-day stay in the city. In Nanjing city, one interview was initially arranged with the CEO of Sainty FC, when researcher arrived in Nanjing, the CEO was no longer available as promised, the Vice General Manager was recommended as a replacement. In spite of the difficulty that researcher faced in conducting field work, there was also co-operation. For example, the CEO of Ginde FC welcomed researcher and provided accommodation for three days free of charge, he also helped researcher to get in touch with the local fan association.

The process of field work as a whole had ups and downs. Generally speaking, it was not only difficult but frustrating, involving the last minute cancellation of interviews; prolonged waiting time for rescheduled interviews or confirmations. Furthermore, travelling brought with it additional problems, not only in terms of travelling costs itself but also with the trade-off between budget and length of stay at each destination. Many interviews were conducted in the summer of 2008, which saw researcher travel through a vast expanse of Chinese territory in a relatively short space of time. Some unforeseen circumstances were therefore bound to pop up during the processes which were capable of affecting the next leg of journey and other pre-arranged interviews. The trip spanned the Northern city of Changchun, to the Southern city of Guangzhou, with over 3,500 kilometers between them; as well as the Eastern city of Shanghai to the midland city of Zhengzhou, which have over 1,000 kilometers of land between them. By contrast, during the time when researcher worked at Shenzhen FC in 2012 and IMG afterwards, interviews were arranged relatively easier and the execution was less problematic.

4.5 Summary

This chapter has outlined the philosophical approach and the theoretical framework underpinning the research methodology employed by this thesis. It demonstrates not only researcher's knowledge but also provides a systematical overview and implementation of each specific research method involved – which is subsequently supported with theoretical justification. Such methods include a survey and semi-structured interviews analysis. The semi-structured interview was dominate research method because it allowed exploration and better understanding of particular subject, however, by using several sources of data, the triangulated data ensures a good standard of data reliability at the same time enhancing the credibility of the findings, and the conclusions made are drawn from rational explanations and analysis to provide insights for deeper understanding of the subject.

Although this study attempts to approach even wider stakeholder groups, there are always limitations to what this research can achieve. Further with time and financial constraints, it is impossible to interview all the stakeholder groups, and it is necessary to be selective. For example the media was not chosen to be interviewed. Despite television playing an important role financially in Europe, it does not do so on the same scale in the Chinese football industry.

Chapter Five: From State Amateur to Professional

5.1 The background and basic infrastructure of Chinese football

5.1.1 The administrative structure

Football in China underwent a huge political upheaval after 1949 when the Communist Party took power. The new government adopted a highly centralised administrative system to ensure that the top leaders in Beijing had the leverage necessary to determine the national agenda. The so called “people’s democracy” system became embedded in the whole civil service – including the sports administration. The National Physical Education and Sports Commission (NPESC) was the top administrative body within the wider sphere of sports administration, it oversaw sports development in the country.

In terms of football, the CFA is responsible for football development at both amateur and professional levels. Its members consist of provincial FAs, municipalities’ FAs, army, and trade unions. The national competitions organised by the CFA and regional FAs are responsible for football development and competitions within their geographical boundaries.

The governance structure within football takes the form of a pyramid, with the CFA at the top. The second tier of the football pyramid is governed by the provincial FAs (including municipalities’ FAs), army, and trade union FAs. Each one is responsible for football development at the regional levels or within their respective industry. The city FAs are positioned at the bottom of the governance pyramid.

There are 31 Provincial and 384 city FAs affiliated with the CFA at different levels. Before professionalisation, the elite football teams³⁴ were named after their regions and managed by the provincial or city FAs. Trade union teams were affiliated with their respective trade union FAs.

³⁴ China did not recognise its elite sports as professional until the 1990s, the state amateur teams transformed to clubs after professionalisation.

5.1.2 The elite system

The Chinese elite sports training system was established in the mid-1950s soon after the consolidation work following the civil war (apart from the Cultural Revolution period during 1966-1976, the structure was well maintained until professionalisation in the mid-1990s). Numerous spare-time sports schools and provincial centre sports schools were founded with the aim of reinforcing and recruiting for elite sports (Whitby, 1999). Football was one of the major sports practised by the majority of such sports schools nationwide.

In terms of developing players, ordinary primary and middle schools acted as ‘feeder’ points. Students showing football potential during physical education (PE) classes were selected for their school teams, which were supervised and trained by PE teachers on a regular basis. In conjunction with their local sports programmes, some schools were identified as key schools for a particular sport³⁵ (Wu, 1990). For instance, certain schools were proficient in developing young football players, and such school became known as key football schools, whilst others, which focused on athletics or basketball, were known as key athletics or key basketball schools respectively (Liang 2003).

Students who excelled at football could be selected for extra-curricular football training after school. In China, this is commonly referred to as ‘spare-time’ football schools (Whitby, 1999). Such schools are managed by local FAs and staffed with full-time coaches. All students in the local catchment area would be selected for one of these specialists.

The best athletes with good potential from the spare-time football schools or the key football schools are selected by the provincial central sports schools (these include army and trade union youth academies). The provincial sports schools are very much the next step in the youth development providing training and boarding facilities (Wu 1990,

³⁵ Depending on the facilities and the particular sports specialisations held by the PE teachers in that school.

Whitby 1999). Competition for selection into these schools is fierce as candidates are selected from within the provincial boundaries³⁶. Players who reach this stage can benefit from free boarding and financial aid.

On gaining entry the athletes have the opportunity to move a step further towards a ‘professional’ career within either the provincial, army, or trade unions teams. These teams stand at the top of the pyramid structure and provide players for the national team.

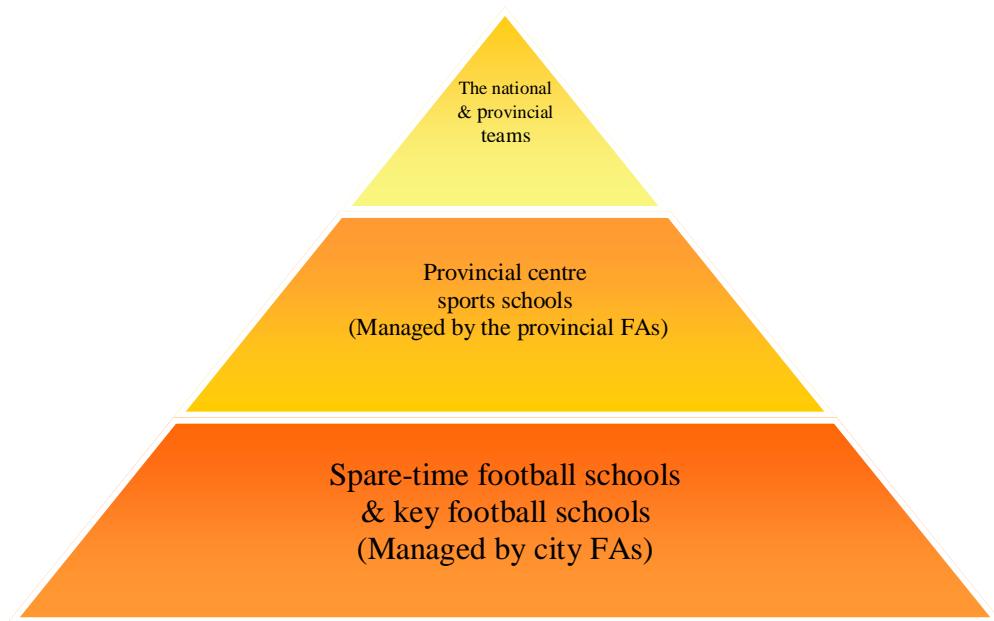


Figure 5-1 the elite training & selection system

Figure 5-1 shows the echelon training and selection system, which provided good links between different tiers of the football pyramid. The national team and the provincial teams were situated at the top, and all athletes at this level were full-time state employees. The middle tier of the system consisted of provincial centre sports schools, which were under the administration of their respective provincial FAs. Although, all young athletes at this level were considered part-time players, they lived on board and were trained collectively on a daily basis. Local spare-time and key football schools feature at the

³⁶ The average size of a Chinese province is similar to the whole size of the UK.

bottom of the pyramid. Despite having armature status, players still enjoyed state subsidies from local city FAs. Underpinned by the state funds at the different levels, this elite training and selection system ensured that children could receive systematic training from a young age with the possibility of progressing all the way to the top.

5.1.3 The league structure

In the pre-professional era, the Competition Department of the CFA was the chief league organiser. The national league competitions were held in a round-robin tournament format - whereby all teams in the same division gathered in one city to play an intensive round-robin fixture within a relatively short space of time³⁷. The length of the competition normally stretched over a month, and the team with the most points won the league. At the national level, the top two league competitions were Jia League (Division 1) and Yi League (Division 2). Each league consisted of numerous provincial, army, and trade union teams, with a promotion and relegation system between them.

In the mid-1990s, the League Department was created. It co-organised national leagues with the Competition Department. Following the transformation of elite teams into professional clubs in 1994, all leagues' fixtures were redesigned to a home-away formation and played at weekends. This was more akin to the Western game, and as a result, the professional football season extended accordingly from March to October/November. In 1994, the top Jia League was divided into two groups - Jia A (12 teams) and Jia B (12 teams), and in the same year foreign players were introduced for the first time in Chinese football history.

In 2004, the Super League Committee and the League Committee were created to govern the top tier Super League and the second tier Jia Leagues respectively.

³⁷ Such format save money for all teams as frequent travelling over a year in a vast country was not realistic under their limited budget in the pre-professional era.

5.2 The policy shifting and the emergence of football professionalisation

5.2.1 Political influence, sport policy and the development pattern before 1994

5.2.1a Football under Mao's leadership

Football development in Communist China can be divided into two historical phases; pre-professionalisation and post-professionalisation. With this in mind, the game has always been developed under the heavy influence of government sport policies.

Under Mao's leadership, the pattern of football development can be analysed as 'one step forward and one step back' (Liang, 2003). At the beginning of the People's Republic of China (PRC), physical education commissions were established at different administrative levels. Elite teams and competitions gradually developed until the Cultural Revolution in 1966. During this period, sports development followed Mao's official endorsement (sanctioned in 1952) - to "promote physical culture and sports, strengthen the people's physiques" (Xie 1990, p29). This had the effect of focusing public attention on the importance of physical culture – something which continues to be an important aspect of daily life in China to this day (Clumpner & Pendleton, 1978).

Mao had ambitions to eliminate China's weakness and to earn the respect of the modern world³⁸ (Xie 1990). His ideology was centred around the building of the physical strength of the Chinese people in order to raise the strength of the nation. Therefore, the prospect of creating stronger physiques among the Chinese people became the priority of the PRC's sports policy. As a result, the state devised the first National Physical Training Programme in the early 1950s and followed it up with the first set of callisthenics exercises (*ibid*).

As part of the implementation of Mao's ideology, the development of football was afforded a great deal of attention by state leaders, and the game was rebuilt quickly after the Civil War. Although there was a shortage of leading players, coaches and equipment, the first National Football Competition was held and a new training base for the national

³⁸ His view appeared in his article "A Study of Physical Culture" which was written in his early years as a revolutionary in 1917.

team was built in 1951 (Twydell, 1994). Following this, a training and selection structure was established throughout the country, and from this point on, football was institutionalised by the new regime.

On the international stage, China faced a bipolar world. The Cold War had intensified, and China took its stand with the USSR and the Eastern bloc. Following the bloody conflict in the Korean Peninsula, America tightened its economic noose around China by preventing it from trading with the West (Lieberthal 1995). With such tension in international politics, there were few opponents the Chinese football teams could face, and build international experiences with, leaving only the Soviet bloc countries.

Hungary and the USSR played at a very high standard in the 1950s, and some Chinese teams were trained by either Hungarian or Soviet coaches under the sport and cultural exchange programmes (Simons, 2008). Furthermore, the Hungarian National Selective team toured China and played a series of friendly matches in 1954. In response, China sent a total of 35 players³⁹ to Hungary for a year and half training shortly after the Hungarian tour, and players were trained under the Hungarian coach Josef Ember, who went on to be head coach of the Chinese national team (*ibid*). The Soviet team Znit also visited China in October 1955, with Mao attending the match in Beijing. In addition, other Hungarian and Soviet football experts came to China to train Chinese players and coaches on a regular basis in the late 1950s (NPESC Sports Literature and History Committee & the CFA, 1993). The influential sports slogan ‘Friendly First, Competition Second’ highlighted the development of the game in this period.

By the end of the 1950s, with the improvement in financial aid, training facilities and foreign professional help, Chinese football reached its initial peak and the national team was not only able to beat strong Asian teams (such as Japan and Iraq) but was able to compete with strong European sides. For example, in November 1958, China beat

³⁹ 35 players were sent in two groups separately, the first group went six month earlier, and the two groups emerged as one in Hungary.

Swedish club Djurgardens⁴⁰ (1:0); in 1959, Hungary National B Team (1:0), in the Three-nation Tournament, and only lost to the Soviet National Team (0:1) (*ibid*).

Government sports policy, systematic support and leaders' personal influence played major roles in raising the playing standard. In addition, China's strong socialist affinity with the USSR and Soviet Bloc states deserves recognition, as many sports exchange programmes took place within the socialist camp during this period, and Chinese football greatly benefited from such initiatives (Liang, 2003).

Chinese football was at a low ebb in the early 1960s, as China suffered three years of economic hardship caused by Mao's political movement - the Great Leap Forward (Simons, 2008). Due to the economic difficulties, the number of elite teams and competitive matches were reduced. Despite a short revival in 1964 and 1965 when the NPESC issued a resolution "Strongly promoting football, quickly raising skills and playing standards" (NPESC Sports Literature and History Committee & the CFA, 1993, p134), the arrival of the Cultural Revolution in 1966 killed the efforts.

5.2.1b Football after the Cultural Revolution

The Cultural Revolution lasted 10 years, and football, alongside the entire social infrastructure was destroyed. It was not until Mao's death in September 1976, that football began to develop again. Amazingly, China held a twelve-team international tournament in 1977, including nine teams from overseas (Simons, 2008). From 1977-1978, Chinese football hosted three international invitational tournaments where 24 teams from different countries and regions visited China, and different Chinese teams visited 52 countries/regions (NPESC Sports Literature and History Committee & the CFA 1993). Football also played a positive role in improving the Sino-US relationship. A series of football matches were played between the New York Cosmos and the Chinese National Team in China and America, with the New York Cosmos becoming the first Western club to visit China in 1977, including star players Pele and Beckenbauer (*ibid*).

⁴⁰ It was the first time a Swedish club lost to an Asian team. Djurgarden won the Swedish League in the 1959 season.

The rise of Mr Deng Xiaoping to power at the end of 1970s brought with it economic reform and the ‘Open door’ policy. Under the ‘Open door’ policy and the subsequent political decentralisation, sports were allowed to move towards market forces and commercialism. The training system was quickly restored from top to bottom, and the league competitions were reassembled. Provincial teams and local FAs were quickly equipped with the new policy and subsequently adopted a more commercial approach. In order to generate extra funds, partnerships with enterprises were established. As a result, elite teams had more flexibility in gaining sponsorship and benefiting from commercial activity.

Moreover, to install the reform policy, the State Council approved the NPESC’s proposal – A Number of Measures to Improve Football Skills and the Playing Standard (NPESC, 1979), which set out eight principles mandated to enhance the game’s development and competitiveness.

1. Popularising the game among youths
2. Concentrating development in key football regions
3. Forming a National Youth team
4. Reinforcing international exchanges, inviting foreign teams in and sending Chinese teams out
5. To strengthen scientific research
6. To continue hosting international tournaments
7. To build football training centres
8. To give football more social publicity

These principles demonstrated that the government still determined the direction for football development. Furthermore, the coherent training and selection system was re-institutionalised, and the implementation of the 1979 proposal became the priority for Chinese football development over the following ten years (NPESC Sports Literature and History Committee & the CFA, 1993).

By the early 1980s, national competitions were held at all tiers of the pyramid structure. The elite system was quickly revived, and a national cohesive competition structure was re-established once more. For example, the Sprout Cup, the Seedling Cup and the Hope Cup were introduced for players in different age groups nationwide, and the annual youth tournament for 16 key football cities (Liang 2003, Simons 2008). At the top level, two tiers of league competitions were reorganised - Jia League and Yi League.

Generally speaking, football development in China was controlled by the government and influenced strongly by the overall political environment, and government sport policy. In the early days of the PRC under Mao's administration, sport policies placed an emphasis on 'sports for all'. That is to say, mass participation was considered more important than elite competitions, and this was both reflected in Mao's cultural doctrine and reinforced by his popular social slogans (Wu 1990).

Once the reformation of the economy had begun, the sports policy and priority shifted from mass participation to elite development in the 1980s, accelerated by the Los Angeles Olympic Games. The sports slogans changed, highlighting the sudden paradigm shift - from 'Friendly First, Competition Second' to 'Break out of Asia, Advance in the World' (Jarvie *et al* 2008; Whitby 1999). As competitiveness was increasingly promoted, the government noted that sport could not only motivate patriotism, but could also be utilised as a profit-making institution (*ibid*).

In terms of football governance, the principles of political decentralisation, recognition of market forces and use of economic incentives are increasingly affecting the way that football is managed. At the top level, the NPESC delegated more power to the newly created Football Office in 1986. The Football Office dealt with overall football development issues, and was also the decision-making body linked between the CFA and the NPESC. The NPESC mainly dealt with policy-making and supervised the overall Chinese sports development, while the CFA focused on the game's popularisation as well as to improving international relationships with other overseas organisations (NPESC Sports Literature and History Committee & the CFA 1993). Such structure allowed major

decisions to be made one level below the NPESC, which brought additional flexibility for the game to develop with increased market activities.

As football development got back on track in the 1980s, market elements became increasingly involved in the game under the reform policies. Enterprises began sponsoring elite teams and tournaments in order to enhance their business images and even the naming rights of the 1986 and 1987 national Jia league were sold for the first time⁴¹ (*ibid*). Moreover, in 1986 the first football trust was established by individuals and social groups in Guangdong province, which supported the Fushan football team, and staged many local tournaments. Despite this new lease of commercial life, the overall top-down governance structure remained distinctly state-controlled. This pattern demonstrates the trade-off between the capitalist market approach and the communist state control. The logic behind this was summarised by senior politician Chen Yun (1986, p287): “We cannot hold the bird too tightly. If we do so, the bird will be suffocated. Therefore, we must allow it to fly, but only allow it to fly within a cage. If there were no cage, it would fly away. If we can say that the bird is the revitalisation of the economy, then the cage is the state plan. Of course, the size of this ‘cage’ must be proper. This ‘cage’ per se must continuously be adjusted.”

5.2.2 Professionalisation

Turner (1976, 1978) suggests that cultural readjustment typically follows a crisis, and that it is a crisis that brings about change. In the Chinese case, the economic crises following Mao’s Cultural Revolution led to Deng’s economic reforms and brought with it new policies, a new attitude and new expectations in sports development.

The Tiananmen Event in 1989, the collapse of the Soviet Union and the East European communist countries in the early 1990s had been seen as a warning sign for the CCP to instigate political reform, however, the events signalled that change was inevitable (Jones, 2000). In the wider economic sphere, the Communist Party’s 14th Congress

⁴¹ Hong Kong based Goldlion Holding Limited sponsored the 1986 & 1987 league competitions, which was named as The Goldlion Cup National Jia League. The champion won the Goldlion Cup trophy.

adopted proposals for establishing the socialist market economy in 1992. In 1993, the Third Plenum of the 14th Party Congress administrated a report entitled Decisions on Issues Concerning the Establishment of a Socialist Market Economic Structure (Central Committee CCP, 1993), which made four major advances. These included establishing a more rule-based system, building market-supporting institutions, protecting property rights and ownership (Qian, 1999). As the scale and the scope of the reforms expanded, further strategies for dismantling planning controls and transferring state-owned enterprises into “trusts” were laid down (Amara, *et al* 2005).

In 1989, the CFA proposed to adapt a business model to its operation. By February 1990, the NPESC had approved the CFA’s proposal, and delegated all football administrative power to the governing body, while at the same time abolishing the Football Offices (*ibid*). After a further re-construction, the CFA was required to work like a business entity. By 1993, the CFA became responsible for its own administrative costs, and its income had to be accounted for as a part of its annual budget.

Within the sporting system, all major changes occurred in the 1990s, “a reduction in the size of the Sports Commission had already been implemented at the beginning of the 1990s” (Jones, 1999b p5) when the central government demanded a further decentralisation in sports, while simultaneously moving certain sports towards Western style professionalism. Promoting professionalism was also part of introduced idea of accountability, which can be separated from the government’s direct control over sport to a certain degree. Furthermore, the promotion of professional sports reduces direct state investment (*ibid*). In 1998, even the NPESC was downgraded from its ministry status.

Against the backdrop of the economic reform, the Chinese government intended to utilise the commercial approach towards sports development in order to promote both patriotism and consumption (Jarvie *et al* 2008). As the most popular sport, and with well-developed professional models available in Europe to follow, football was chosen as a pioneering sport in undergoing professional transformation (Jones, 1999b). The reason being this was that the immense popularity of the game and its high social profile in the country

greatly raised expectations placed upon the national team. This was especially poignant after China's first ever world cup campaigns in 1981/2, in which China eventually lost in an ill-prepared play-off following New Zealand's dramatic away win against Saudi Arabia in the last group match⁴². This campaign brought the World Cup qualification tantalisingly close, heightening expectations for the national team to qualify for the World Cup Finals during the early reform period, similar to people's high hopes for economic reform after the Cultural Revolution at this time.

Yet despite the best efforts of the CFA, a series of defeats since the 1980s at the World Cup qualifying round placed an inordinate amount pressure on the governing body and its officials. By the 1990s, the pressure had reached boiling point, the catalyst being failure to qualify for the 1994 World Cup. The defeat triggered a massive public outcry. "It was unprecedented and became a Chinese version of football being more than a matter of life and death" (Ashton, 2002 p64). The CFA, the national team and the overall football policy were thoroughly criticised in every respect, Chinese football was not living up to its potential or to people's expectations, and people began calling for fundamental reform.

Against this backdrop, the government had to do something in order to ease the pressure from the governing body and save football from the unprecedeted crisis. Moreover, neighbouring countries, Japan and Korea had already successfully launched their professional leagues, and this, coupled with the European football models to copy, made football an obvious choice for the Chinese authorities to pioneer its sports reform and further marketisation. Indeed, the professional league was announced under the new sports policies and the government's determination. Coupled with economic growth and a

⁴² New Zealand (away) beat Saudi Arabia 5: 0 (the first home match 2:2). The result was widely suspected of being fixed before kick-off., however, it earned New Zealand a play-off opportunity with China. China finished the qualify campaign two rounds before New Zealand with three points and five clear goals lead, she actually had one foot in the WC Finals but she was caught off guard, then lost 1: 2 in the unprepared play-off. From the Kiwi's point of view, the match was a miracle; from the Chinese perspective, the match was a scandal – with half-time score line at 5: 0. Moreover, the direct result of the match forced the AFC to make rule change. From that match onwards the last round matches in all major AFC tournaments and World Cup qualifiers are scheduled to be played at the same time.

newly launched five-day working week, the CFA Marlboro Jia A League kicked-off in 1994.

The new Jia A League started with twelve teams and its structure was a typical European home-away set up. A major novelty in this professional league was the introduction of foreign players. Moreover, a transfer system was also introduced the following season. 11 Jia A clubs were sponsored by their local enterprises⁴³, and the league itself was sponsored by Philip Morris (\$1.2m)⁴⁴, which took the name Marlboro Jia A League (Saisai 2011). The league also attracted other sponsors at different levels, including “Budweiser, Clarion, Canon, Ericsson, Ford, Pepsi, Samsung, Fuji Film, General Motors, JVC, Korean Air, Olympus, Santafe, and Vinda; the CFA Cup was also sponsored by Philips” (Hwang & Jarvie 2003, p84).



The open ceremony of the 1994 Marlboro Jia A League. Source: (Saisai 2011)

⁴³ The Army team was the exception because of political sensitivity

⁴⁴ According to the exchange rates then \$1.2m equivalent just under ¥ 15m. The full table of the league naming sponsorship over the years can be seen at the Section 5.4.3.

At this particular stage in the game's reform, government financial support was no longer the principal source of income for the clubs (with the exception of the Army team). Instead, money from lucrative sponsorship contracts became an even more important source of liquidity. A typical professional football club was sponsored by a local SOE, and it provided the majority of the funds. For example, Sichuan FC had an eight-year contract (from 1993) with local alcoholic company – Quang Xing, which was worth ¥1m per year. Based on the club's performance there was the potential for a further ¥2m (Jones 1999b). Due to a strong financial commitment, the enterprises gradually took control of the club management.

In 1995, the government issued a new sports policy – the President Order (Jiang, 1995), which consists of eight chapters, the key features being:

- To move towards market forces and commercialism;
- To separate the government agency from sports agencies;
- Concerns for mass sport, leisure and free time;
- Sports management issue – as opposed to simply sport provision;
- The active promotion of sponsorship;

Some of the details of this regulation made clear what was desired. For example in Article 3

Sport is valued for its contribution to the economic, social and military development of China...

Article 24

China promotes the development of competitive sport and encourages athletes to improve the level of their skills, in order to raise the standard of sports competition in China, and gain honours for the country.

The new policy indicated the direction for sports development and the government's overarching desire for a market-orientated economics. Compared with the State Council approved NPESC (1979)'s old football development principles, the new policy linked economic development and sports development, combining the sporting goal of gaining honours for the nation and the commercial goal of financial self-sustainability.

Despite the football re-construction being a policy-led reform, the failure of the World Cup campaign in 1993 directly accelerated the speed of policy implementation and the process of professionalisation. By contrast, after the professional league took off, more commercial activities were drawn into the game. “The whole concept of sports in China is shifting radically towards more professionalism, rethinking sports management, improving the infrastructure and boosting commercial opportunities from events” (Ashton 2002, p23). In 1995, the NPESC set up a Football Management Centre in order to meet the commercial demands of the professional game (Jones 1999b).

Compared to the ‘state amateur’ model, professionalisation also created a transfer market, which allowed not only Chinese players to move between different clubs but also foreign players, who were introduced into the Chinese professional leagues. As Mr Lang Xiaonong – former Head of the League Department explains (interview 03/09/08):

“A relaxation on players’ mobility underlines many of the principles of the reform - it brings more dynamic elements into the game, and encourages healthy competition amongst players as a whole. Moreover, the transfer system signals professionalisation and the free market development.”

Although professionalisation provided a new opportunity for players to move between clubs, the transfer system was introduced with Chinese characteristics (not exactly according to FIFA regulation) as the transfer rules adjusted from season to season. Despite the fact that players are able to move between clubs under the transfer system, the CFA has placed the labour market firmly under its control, especially in relation to international transfers. Although a system in line with FIFA regulations is expected to be introduced in the near future, no date has been determined. As Professor Jin Zhiyang explains (interview, 08/08/08)⁴⁵:

“A market-orientated industry should provide players with more freedom – the international transfer model has to be the ultimate aim. However, Chinese football has its

⁴⁵ Senior Consultant of the CFA, a former national team coach.

uniqueness which therefore requires more time for the CFA to fully adopt FIFA regulations. Putting the transfer system in line with the international model is the aim and given time it will be employed.”



5-2 Chronological chart – Key football policy development

The drive behind the re-construction of sports and football was a gradual change of the overall environment of Chinese economic development. Professionalisation brought significant changes into the football industry, which affected not only the CFA’s business practice, but also the relationships between itself and other stakeholders. The following section will analyse the impact of these changes and the conflicts raised.

5.3 Modern development and current issues of the CFA

5.3.1 The NPESC and the CFA

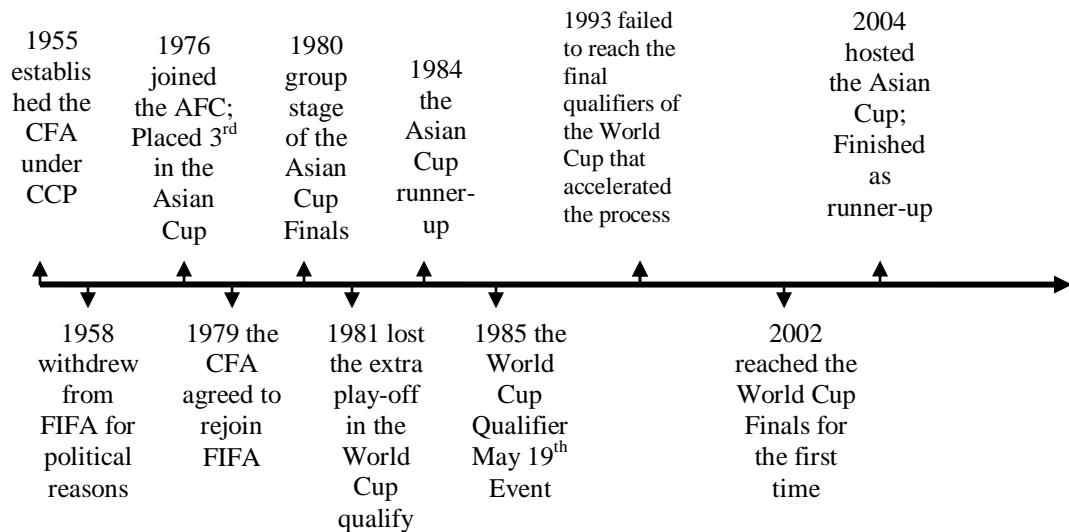
The NPESC was the ministry in charge of all individual sports governing bodies. Formed in 1952, it was responsible for promoting and developing sport throughout the country (Xie 1990). The NPESC had branches both at the provincial and city levels. Its mission included carrying out a long-term sports development strategy alongside government

policy; increasing mass participation in sports; supporting sports research; and supervising international exchange programmes.

The CFA was originally formed in 1924 and affiliated to FIFA in 1931 under the Nationalist government. It was then relocated to Taiwan after the Civil War (Twydell 1994). The Communist government reconstructed the CFA in January 1955, and it is self-defined as a non-governmental organisation, which ‘justifies’ a suitable status to affiliate with external bodies, such as FIFA and the AFC.

5.3.1a Historical development of the CFA and its relationship with the AFC and FIFA

Due to both the People’s Republic of China (PRC supported by the Soviet Bloc) and the Republic of China’s [ROC (Taiwan) supported by the West] claims to represent the whole China after the Civil War in 1949, the Communist delegate rejected the ROC’s admission to FIFA during the 1954 FIFA Congress, and eventually withdrew from FIFA in 1958 (Homburg 2006). In addition, on creation of the AFC in 1954, the Chinese Communist government refused to recognise it as truly representative of the Asian associations (*ibid*). As a result, China was isolated from world football.



5-3 Chronological chart – key AFC & FIFA events that had a major impact on Chinese football development

Alongside the improved Sino-US relationship and the global political environment towards Communist China, the PRC replaced the ROC in the UN Security Council as the sole representative of the whole China in 1972. Consequently, international football development gradually came to China's term. The CFA joined the AFC in 1976 and played the Asian Cup in the same year. With help from the first non-European FIFA president Joan Havelange, the CFA returned to FIFA in 1979⁴⁶ and reintegrated into the international football community (*ibid*).

In 1995, the first year after professionalisation, the NPESC set up its first management centre - the Chinese Football Management Centre (CFMC), as part of a sports reform to deal with football commercialisation (Jones 1999b). The CFMC focuses on strategy making and internal communications within the government hierarchy. In 1998, the NPESC was downgraded to bureau status following the State Council restructuring, and it was renamed the SGSA. On the one hand, the CFMC is, in theory, one of the many sports management centres under the SGSA positioned above the CFA within the governance hierarchical order. On the other hand, and in practice, the CFMC is based within the CFA's headquarter and all its officials are also staff of the CFA. The Director of the CFMC is appointed by the NPESC/SGSA and also holds the post of Deputy President of the CFA simultaneously. Therefore the CFMC and the CFA are in fact effectively the same administration merely operating under difference names. As the CFMC, it deals predominately with internal sports bureaucracy and policy-orientated development within the Chinese sports governance system. By contrast, as the CFA, it deals with external, international affairs and more practical/experimental orientated development. The implication of this structure is that the governing body of Chinese football is a mix between a governmental organisation (CFMC) and a non-governmental organisation (CFA).

⁴⁶ Taiwan based federation remained in FIFA & the AFC under the name of Chinese Taipei.

5.3.2 Stakeholders in the Chinese football industry

In order to draw a successful stakeholder analysis of the football industry, key stakeholders within the football industry must be identified. According to Philips's (2003) fairness framework and identification of the stakeholder research places stakeholders into two categories: normative stakeholders and derivative stakeholders. Normative stakeholders are identified based on fairness and moral principles. The management is under an ethical obligation to address the interests of normative stakeholders, as their organisations voluntarily accept the contribution from them. However, such obligations are not imposed or stipulated by others from outside (Philips, 2003). Derivative stakeholders are identified based on power influence. The management is required to address the interest of these derivative stakeholders, as they are the group holding power to affect the organisation.

Ducrey *et al* (2003) and Armara *et al* (2005) draw stakeholders' maps of the football industry which do not distinguish the different categories amongst stakeholders. According to Philips's (2003) definition, football authorities and the government are considered derivative stakeholders as they possess the power to affect the way the football industry develops. Fans, players, clubs, investors, and so on are considered normative stakeholders as they do not necessarily have any formal representation at the top of industry's decision-making level. However, there is no explicit boundary between normative and derivative stakeholders. Neither a normative nor a derivative status is steady for a stakeholder, and it can change depending on timing and the issues involved. For example, sponsors can influence the game significantly through their financial power. Despite that, they do not have the same strong position as governing bodies, and moreover sponsors can be easily replaced. As derivative stakeholders, football authorities' potential claims must be accounted for due to their potential effects on the industry. This does not mean however, that the football industry should pay less attention to other stakeholders' interests. For instance, fans are normative stakeholders but they do possess derivative claims in terms of their financial contribution and loyalty. In addition, and within the same normative stakeholder category, all stakeholders differ according to their legitimate claims and contributions to the industry. Stakeholder theory offers an

adequate means through which one can not only understand different interests from a range of stakeholders within the football network, but also comprehend the complex relationships amongst them.

5.3.2a Normative and derivative stakeholders and the stakeholder map

Base on the Philips's (2003) definition, this section looks at different normative and derivative stakeholder groups individually, identifying their interests and positions within the Chinese football industry.

Normative stakeholders:

Fans/Supporters: They are typically associated with a particular club, and have an emotional investment in the game. The fans' strong attachment to the game leaves them in a relatively weak position to face the clubs' financial exploitation and poor treatment (Hamil, 1999). Their main interests include demanding good results and expecting their club to listen to their views. Despite fans rarely changing their support (emotions run higher than a simple cost/benefit application) towards their clubs, fan groups are not often sufficiently organised.

Clubs: They are the basic cells of the industry, and contribute the most valuable products – matches, with the top professional clubs also generating the most revenue in the industry. They are organised differently according to their status and ownership structures. Their main interests are on pitch performance and financial success.

Shareholders: Owners of football clubs who contribute capital. Their main interests are receiving a return on their investment, team success on the pitch and acquiring social prestige as club owners. They also can have derivative role if a shareholder owns a large stake of a club.

Sponsors: One of the major financial sources for the industry. Their main interests including having a close association with the game or particular clubs and a high degree

of exposure and visibility to the public, through which they can market their goods or themselves.

Players: They possess specialised skills and are in limited supply at the top end of the game. Top players command high bargaining powers, which demonstrate the derivative claim they hold over clubs. However, at the lower end of the game, players can be easily replaced. Despite the existence of a players' union in some countries, Chinese players are not well organised as a whole. Their main interests are financial reward and self-realisation.

Community: Communities in which football clubs are located provide a core fan base for the clubs. As social institutions, clubs owe an obligation of fairness to these groups. Communities play their social role mostly through community schemes with their local clubs. Their main interests are promoting sport, local identity, prestige and mutual benefit.

Derivative stakeholders:

FIFA: The supreme body of world football, setting rules and regulations for the game and promoting football worldwide at all levels. Its main aims are developing the game's solidarity and maintaining a strong control.

The AFC: The governing body in Asia. It promotes the game at both professional and grass-roots level and ensures alignment with FIFA regulations. The main function is holding a monopolised position in Asia.

The CFA: This governs football in China, and promotes the game at all levels. Internally, it is also known as the Chinese Football Management Centre. Its main interest is to creating good conditions for national teams with the aim of achieving desired results.

The SGSA: The government department (formerly known as NPESC) oversees the overall sporting development in China. It has a hierarchical position directly above the CFMC, with power to appoint the Director of the CFMC and pick the presidential

candidate of the CFA. Its main function is pursuing national sport teams' success at all level on the international stage, with a specific focus on the Olympic Games.

The Super League/League Committees: The decision-making bodies of Chinese professional leagues. Their main responsibilities are promoting both the Super League and Jia League, and making decisions about important issues on a professional level.

The Super League Company: This company limited by shares, is owned by all Super League clubs and the CFA. Its main activities are collectively selling the commercial rights of the Super League in order to generate revenue and expanding its market value.

Media/Press: Both the media and the press have significant coverage over the game's development. Their main interests lie in selling their products – TV programmes, newspapers; and generating revenue through subscriptions and advertisements.

Local FAs/Authorities: These often own facilities and have the power to influence the way a club operates. Their main interests are winning medals at competitions and National Games; using football clubs as vehicles to promote sport, local identity and prestige for mutual benefit.

Although normative and derivative concepts are able to make a distinction between stakeholders, there is no explicit boundary. Normative and derivative stakeholders are not mutually exclusive, normative stakeholders can have derivative claims and vice versa. Furthermore, both listed stakeholders and the stakeholder map (below) are not exhaustive. The purpose of this section is to provide a starting point and basic framework from which to move on to further stakeholder analysis in the Chinese football industry.

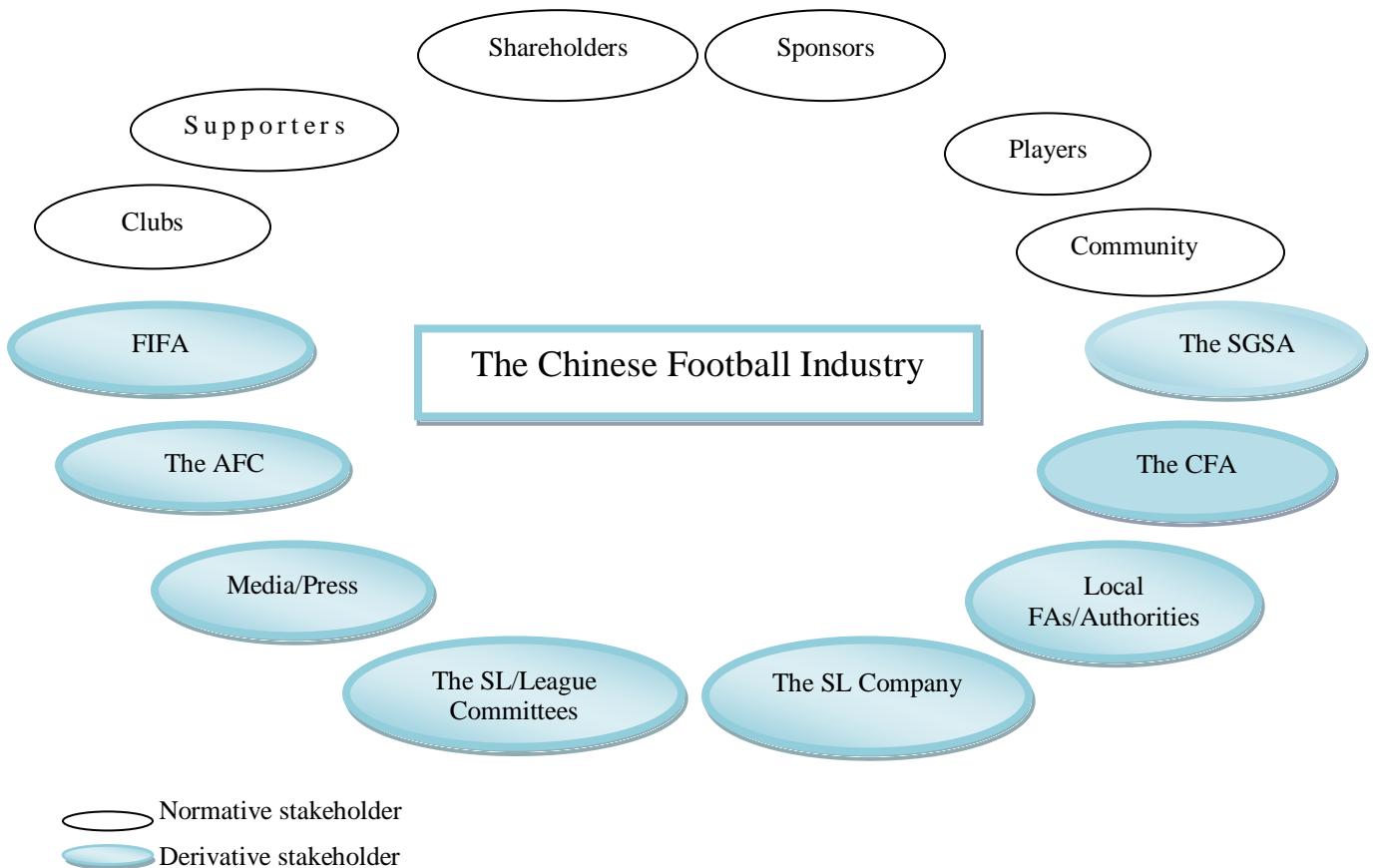


Figure 5-4 Stakeholder map of the Chinese football industry

5.3.3 The mission of the CFA

The CFA is the sole national governing body for football in China. According to the CFA Charter (2005) chapter 1, it complies with Chinese Civil Law, Sports law, FIFA and the AFC regulations. Its missions include governing the game and its development, organising competitions, promoting football in society, widening its popularity, representing China by participating in international affairs, and generating capital for football development through necessary activities.

As the sole governing body, the CFA enjoys a monopolised position in the game's development. Its principal responsibility is to ensure that its objectives are achieved through the implementation of good governance. With this in mind, good governance can be achieved through 1) clearly defined roles and responsibilities of all participants; 2) transparency in how these roles and responsibilities are defined, monitored and enforced by governing organisations. Good governance is even more important for organisations that enjoy a monopolised position in their industry, as this can have a direct impact on the industry's development.

Compared to fifty years ago, the CFA has undoubtedly had to adapt to some new features to push forward football reform. The newly introduced Sports Law remains the principal legislation to which it must adhere. Practically, the CFA has the incentive to finance itself and to take the necessary initiatives in facing challenges posted by the market economy.

The CFA Charter (2005) defines the CFA's responsibilities and roles below:

- Taking full responsibility for football administration, drawing up development policies, strategy and plans, and supervising member associations.
- Managing national teams at all levels.
- Responsible for supervising the development of football clubs and overseeing youth development programmes.
- Drawing up the institutional structure for national competitions, development plans and refereeing regulations, and responsible for organising national competitions.
- Responsible for training programmes for referees, coaches and staff from member associations and clubs.
- Organising scientific research for football training in order to raise training standards.
- Setting standards for grounds and other equipment.

- Drawing up plans for international exchanges and holding responsibility for the implementation of such exchanges.
- Providing professional consultation and related services, as well as generating revenue for further development.
- Ensuring improved self-development and integration with society.

Looking at the CFA's responsibility and roles confirms that the CFA maintains its monopolised position, safeguarding the coherent football structure between all levels. This demonstrates a hands-on approach on a national level.

5.3.4 The structure of the CFA

The CFA was led by the SGSA. It currently has two types of membership - union membership and individual membership (the CFA, Charter 2005). Union members are the local FAs, which include provincial, municipality, key football developing cities, and trade unions. Individual members are honorary members, which are awarded to people who make significant contributions to Chinese football (*ibid*, Chapter 3).

According to the CFA Charter (2005), the congress is the supreme controlling organ of the CFA. It is held every four years and handles matters such as the election of the President, and the election of members to the Executive Committee. An 'extraordinary meeting' can be called if requested by over one third of its members. The congress enables all members to gather together and conduct the important business of Chinese football such as proposing, adopting and amending statutes; and considering the Secretary General's reports. The congress itself is made up of two types of delegate: 1) the delegates from each local FA; 2) all Executive Committee members of the CFA (the President, Deputy and Vice Presidents, the Secretary General, the Financial Director)

plus all heads of the CFA's various technical committees. Furthermore, representatives of clubs from the top two divisions can attend meetings⁴⁷.

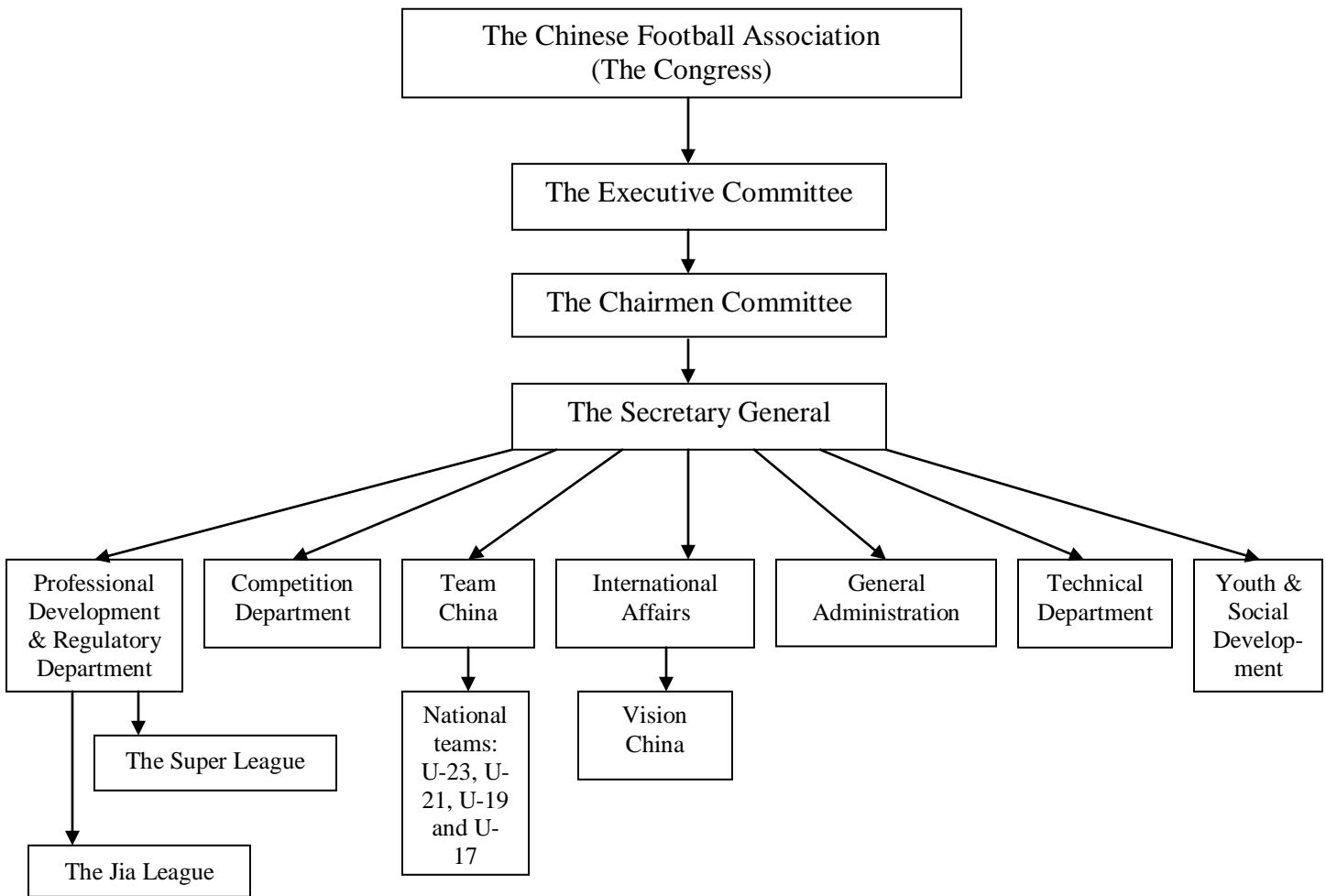


Figure 5-5 The structure of the CFA

The Executive Committee holds a term of four years, and is the highest management organ and responsible for implementing congress statutes and decisions. Annual meetings of the Executive Committee require at least two thirds of members to attend in order to be quorate. Its powers include the right to nominate candidates for the Presidency, recall the President of congress; commission work reports for congress; and approve/recall membership, and so on. Any decision made by the Executive Committee requires a two third majority of votes to be passed.

⁴⁷ Club representatives do not have the voting right, only the previous two types of delegate can vote.

The Chairmen Committee implements the decisions of the Executive Committee. It approves football development strategy and policy, as well as approving the final selection for national teams' coaches. The CFA President appoints several Vice Presidents, with the Secretary General and the Financial Director forming the committee. The committee members meet on a monthly basis and the CFA President attends meetings when necessary. The Secretary General is the highest administrative official who leads a department which deals solely with daily affairs.

5.3.5 Modern conflicts of the CFA

Conflict with local FAs

The CFA operates many programmes, ranging from the grassroots to top-flight levels, whilst the provincial FAs are responsible for football development at a regional level. In the pre-professional era, local FAs were limited to a fixed budget when implementing the CFA's programmes, as well as their own programmes. With political decentralisation and a market-oriented economy gradually introduced, the CFA and local FAs' budgets were slowly cut by both central government and local government respectively. As a result, implementing the CFA's programmes at local level became more challenging with less effective funding granted each time. In theory, the CFA oversees the whole football development through its pyramid structure. However, it has limited means to implement its overall development plans at local levels. This is particularly the case for grassroots development, which largely relies on local FAs to do the job.

As affiliated members of the CFA, local FAs have a good understanding of long-term development strategy. However, local FAs are under the direct leadership of their regional sports bureaus⁴⁸, their performance is directly assessed by their local government rather than by the CFA and based on achievement of local elite teams, especially

⁴⁸ The local Physical Education Commissions were downgraded to local Sports Bureaus in 1998 when the NPSEC was downgraded to the SGSA.

performance in the National Games, even the number of players who were selected by the national team is counted. Moreover, football officials' own promotion is also determined by such results. Compared to elite development, implementing a long-term grassroots programme has consequently become less appealing to local FAs.

On the one hand, there is an overlapping emphasis on elite development from both the CFA and local FAs; on the other hand, both the CFA and local FAs lack the incentive to work on grassroots programmes. Mr Li Lipeng, Chief Officer of the CFA's League Department⁴⁹ believes that the priority of the CFA has to be on elite development, as only the local FAs can effectively promote the game at the grassroots level. He explains: (personal interview, 10/01/08)

“As the governing body, we have a responsibility to strengthen our football development at all levels. However, we cannot implement all our plans in every single respect. Local FAs can function more effectively than us locally, especially at the grassroots development. Unfortunately, they lack the initiative to do so, and they give priority to elite teams too. The balance between professional and grassroots development is not right.”

By contrast, at the local level, Ms Zo Xioudi – Vice Director of Competition Department of Shanghai FA states: (personal interview, 17/01/08)

“As a member of the SLC, a good communicative structure is maintained between us and the CFA at professional level, however, at the grassroots level, it lacks incentives (for us) and effective communication between the CFA and local FAs. The overall national cohesiveness of development strategy does not exist”.

The lack of cohesion between the CFA and local authorities at a practical level is not due

⁴⁹ The League Department was renamed as the Professional Development & Regulatory Department in April 2010.

to the officials being unable to comprehend the importance of grassroots development, but is simply a by-product of the cultural/political reality that existed when grassroots programmes were implemented. As Ms Zo Xioudi explains further in the same interview (17/01/08):

“A strategic and succinct goal is missing with regards to our grassroots programmes. Firstly, with limited grassroots budget most local programmes are lacking depth and consistency; secondly, the CFA designed programmes can be expensive or unrealistic to implement in the long run; thirdly, local politicians pay less attention to these programmes”.

For example, after 2004 the CFA promised ¥8m to eight districts across the country for grassroots development. However, ¥2m was never distributed for implementation (Ran, 2008a). Mr Chen Xiaozheng, General Secretary of Qingdao FA states (at an official meeting of Vision China project, 18/11/07):

“To get financial support from the CFA is difficult, even just for a small amount, the procedure is very bureaucratic, and at the end of the day, you are not guaranteed anything. I wonder anyone in the CFA really care about grassroots development, as you can see, someone from the CFA should have been at this meeting (suggested and invited by the AFC), where are they? We have to depend on ourselves to fund our grassroots programmes. Support from the CFA is limited.”

The researcher observed that a similar situation also happened in Zibo and Jinan during the researcher was working on the Vision China project with both local FAs. On the one hand, there is lack of financial support for grassroots development from the CFA at local level; on the other hand, CFA promoted its own grassroots programmes without support from the local FAs. Mr Li Lipeng also explains that how CFA tried to implement various grassroots programmes of its own (personal interview, 10/01/08).

“We directly invested several million Yuan into some grassroots programmes a few years ago (when the CFA’s financial status was healthy), but the results did not come out as good as we expected, therefore, further investment was stopped because we did not have the same financial strength as we used to be. Purely relying on the local FAs for grassroots development does not work, but the CFA cannot be committed fully to grassroots projects either”.

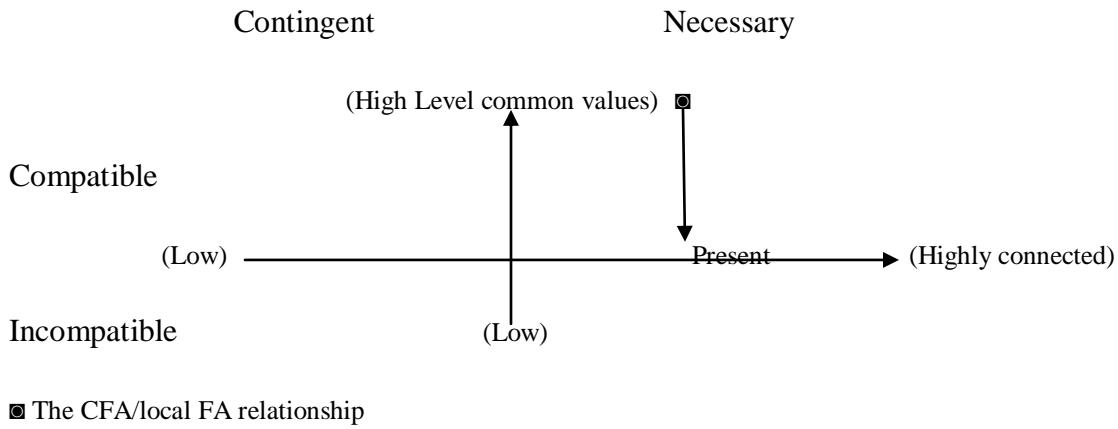


Figure 5-6 The development trend of the CFA /local FA relationship

The relationship between the CFA and local FAs is a compatible one in terms of their common values – both of them are working together to promote the game, albeit at different levels within the same pyramid structure. The CFA/local FAs’ relationship can be described as being ‘Necessary Compatible’. Since professionalisation, the nature of this relationship has dramatically developed. Figure 5-6 depicts the shift towards a ‘Necessary Incompatible’ relationship. It is still a ‘necessary’ relationship as both are intertwined within the pyramid structure, however, it is seen as ‘incompatible’ in the sense that through a more aggressive market-orientated approach and reduced state direct funding at all levels. As both governing bodies prioritise elite development, the cohesion and communication at the grassroots level became inconsistent. These changes have increased and diversified the material interests available to local FAs and in so doing have weakened the ‘compatible’ relationship and policy consistency between the CFA and local FAs. Mr Song Xiaochun – the Chief Financial Officer of CFA and the CSL points out: (personal interview, 23/05/2013)

“Under the market economy both the local FAs and the CFA try to generate more income through market activities. We are working together within the same system but financed separately. There is only one CFA funding grassroots programme designated in five cities. Local programmes can be more money-orientated and conflict with our guideline, due to the fact that they are financed by local FAs, we have a very limited influence.”

Despite weakened cohesion between the two parties, the relationship of the CFA and local FAs remains in the structure of the ‘Necessary Compatible’. Both parties need to continually work together, and their association is strong despite their more diversified material interests. The CFA needs local FAs to promote the game at different levels locally, and local FAs need to remain in the CFA’s framework in order to access national competitions.

Conflicts with clubs

The market approach and subsequent professionalisation brought a proliferation of stakeholders and a variety of economic interests into the Chinese football industry. As such, the CFA lost its state financial backing, even though it maintained considerable power and authority. All the CFA’s operational expenses rely heavily on professional leagues’ sponsorship (for example, the CFA controls overall sponsorship, naming rights, and national & international broadcasting rights).

In adopting market-focused commercial activities in 1993, the CFA set up its own commercial enterprise called the China Football Industrial Development Company⁵⁰ (CFIDC) with the aim of marketing the association (the CFA) and negotiating business deals on behalf of the CFA and the leagues.

⁵⁰ It is also called FU TE BAO (using the direct pronunciation from the English word ‘Football’) Company.

At clubs level, the clubs gained financial flexibility through ownership reform. A football club has to be sustained and operated as a company according to Company Law (1994). Therefore, financial sustainability became an important element for professional clubs.

Before the launch of the Super League, the CFA also took a ‘gate income’ of 5% and 2.5% from both the Jia A and Jia B clubs respectively (Eaves *et al* 2003). In terms of revenue redistribution, the collective operation of the Super League extracts roughly 60-70% of commercial resources from every club, and revenue redistributed to clubs accounts for only 10-20% of their operational costs (Ran 2008b). These practices naturally caused serious concerns from a wide range of stakeholders. As Mr Wei Jizhong, Chairman of the China Sports Industry Company points out (Ashton, 2002 p68): “How much football revenue remains unrecorded? How many riches are lost? Everyone agrees that reform is required, yet no one involved at the structural level wants to change their own methods of governing or themselves”.

As the CFA is in a monopolised position and controls all the resources, all profit acquired does not necessarily benefit the clubs and government, but instead becomes a private asset for the association. These practices created conflicts with the clubs’ financial interests, and put the CFA’s credibility in balance.

When market forces play an increasing role in the development of football, the CFA’s old dictatorial philosophy has caused a degree of tension with the clubs’ own unilaterally fair commercial approach and business practice. Ultimately, the CFA’s priority lies in international success, with this in mind, club competitions are organised around the national teams’ international fixtures. For example, the 2001 season began in May - two months later than the normal season to allow the Olympic squad more time to prepare for the Athens Games’ qualifying campaign. Despite significant consternation from clubs, the CFA pursued this alone, as it viewed this campaign as a rehearsal for the Beijing Games. The delay had an adverse impact on clubs’ commercial operations and business commitments, with both clubs and media heavily criticising the CFA. As a result, the 2001 season ended in a compromise between the clubs and the CFA. In order to protect

clubs' business interests, the 2001 season became a promotion-only affair, and the 2002 season subsequently became relegation only.

Once more, to ensure thorough preparation for the 2008 Olympic Games, the SGSA attempted to order the CFA to replace the current league fixture with a new formation consisting of North and South regional competitions – a plan to limit the 2008 season from September to December, thereby ensuring no league matches took place before the Beijing Olympic Games. The proposal did not sit well with all clubs - some of them even threatened to organise their own league (Li, 2007). Against this backdrop, the SGSA and the CFA found a degree of compromise, but the 2008 season had to be divided into two phases, separated by a two-month summer break.

The above example demonstrates that it has been typical of the CFA to break the league's integrity without consulting the clubs first. Promotion and relegation are basic principles in allowing clubs to compete in professional leagues. It is essential that they are implemented with consistency to avoid a detrimental effect on clubs' operational and business development, especially under the market economy. Mr Li Lipeng recognises this conflict and explains (personal interview, 10/01/08):

"The Association's focus is on top level football, in particular national teams. We have significant pressures from people above, therefore, good performances are required. The national team can lose once, twice, but the third time there will be casualties."

Indeed, the CFA sacked national team coach Carmacho after embarrassing defeat by Thailand on 15 June 2013⁵¹ confirmed governing philosophy of the CFA at the top level. Mr Li compared football with the long jump – one athletics event:

"Leagues like the running phase, the national team likes that final jump. No matter how you run, when you get to the point, you try to jump the best you can. We understood

⁵¹ The China vs Thailand match was the third defeat that followed defeats by Uzbekistan and Holland earlier in the same month. The sacking of Camacho was swift despite his \$8.5m contract payoff.

leagues and grassroots development as the foundations of the game, however, within the current system, as the national governing body we have our own priorities that need to be addressed first”.

Mr Li essentially states that despite the governing body understanding the importance of the league and its integrity, the CFA has to do anything within its power to ensure the national team performs on the international stage.

By taking up Mr Li’s ‘long-jump’ metaphor, only a solid run will be able to produce a decent jump. As such, consistent performances from the national team are based on competitive and consistent leagues (‘the running phase’). The question is that: how far is it possible to jump without a good run? The running phase is even more important than the jump itself – its quality determines the jumping distance. Indeed, the reality is cruel, and the Chinese Olympic team’s performance in Beijing demonstrated that without a solid run, the best jump can never be far⁵².

Since the principal source of income for the CFA consists of league sponsorship and corporate partnerships, conflict of interest has become a key issue of the CFA/club relationship as the CFA’s political-led practices and self-interest conflict with clubs’ business-orientated operation and such conflicts were highlighted during the 2004 season. Seven clubs, led by Dalian Shide threatened to withdraw from the league after an on-field incident (see Chapter Six for more details). As a result, they formed a so-called ‘G7 Group’⁵³ and made demands for greater governance accountability and financial transparency of the CFA.

In Figure 5-7, the relationship between the CFA and clubs is moving towards right and downwards after professionalisation. It now represents a Necessary/Incompatible relationship. The advent of professionalisation has resulted in the relationship between

⁵² The Chinese Olympic Team failed at the group stage.

⁵³ ‘G-7’ includes Dalian Shide FC, Liaoning Zhongyu FC, Beijing Hyundai FC, Qingdao Yizhong FC, Sichuan Guanchen FC, Shenzhen Jianlibao FC and Shanghai International FC.

the CFA and clubs becoming more incompatible and less necessary. From the realist position, the two parties need to be bonded together in order to develop professional leagues within a legitimate. However, alongside commercial development and government decentralisation, the relationship between the two parties turns sour, it becomes less necessary, and their material interests, particularly in a financial sense, have become more incompatible.

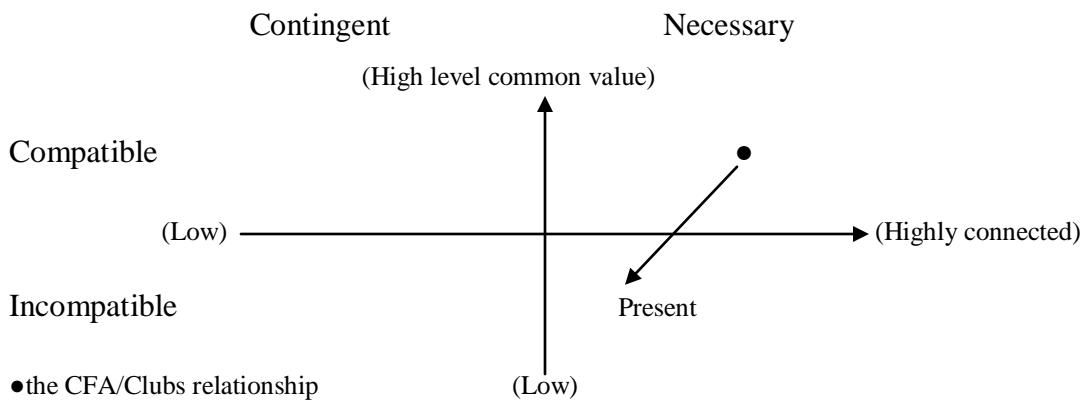


Figure 5-7 The development trend of the CFA/Club relationship

The CFA needs professional clubs to serve both its political and financial interests, which often conflict with clubs' business practices and financial interests under the market economy. For example, the way that CFA prepares for Olympics. As a result, the development pattern of the CFA/Club relationship has moved from the state of Necessary Compatible to Necessary Incompatible. Since professionalisation, the CFA deals with far more commercial, legal and economic issues than ever-before. Indeed, its self-centred practices do not favour for the game's development, and football remains 'stuck' between the market forces that control the clubs and the government that controls the game (Manzenreiter & Horne 2007).

Internal conflicts - the contradictory nature of the CFA

The governing structure of the CFA is, confusingly, a single administrative body encompassed under two different names – the CFMC and the CFA. On the one hand, it is

the CFMC - a government department union that sits under the leadership of the SGSA, and which is mandated to follow government sports policies and instructions; on the other hand, the CFA professes itself to be a non-governmental organisation (following FIFA regulation). According to its charter (2005), it operates independently to promote the best interests of the game without political interference. We can therefore see that the two functions of the CFMC and the CFA are ultimately conflicting. It is not possible for an organisation to operate as a government department and a non-governmental organisation simultaneously.

The CFMC represents the government in drawing up policies and developing strategies to regulate the game. In contrast, the CFA uses its controlling power, through its own CFIDC, to financially benefit from the game's commercial development. Historically, football has been part of a state-organised, government-funded and centrally-controlled sports system in China since 1949. There is therefore a tendency for politicians to use the game for mass public campaigns in order to drum up support and underline patriotic fervour (Brownell 1995). Although FIFA regulations state that a national governing body should be a non-governmental organisation, yet all CFA staff enjoy civil servant status, and its non-governmental organisation's status exists only on paper. The CFA is not only a government body with substantial powers, but is also directly involved with the commercial development of the game. In fact, it plays a dual role – that of regulator to the game, and as a commercial entity. This contradictory nature of the practical term means that the governing body cannot function effectively either as a governmental regulator, independent from the game's commercial development, or as a non-governmental organisation to represent the best interests of the game under the market-oriented economy. The broken season of 2008 highlighted the political mismatch and remains as a testament to its failing.

According to the CFA's own 2005 Charter, the congress is the highest decision-making body. As the Chapter Four, Article 17 (1) states:

“The congress is called by the Executive Committee and it needs to be held every four years, in special circumstances it can be delayed for a maximum of one year”.

In fact, no congress was held between 1979 to 2003, and over ten years have passed with no news of another congress meeting. The Chapter Four, Article 21 (4) states that the CFA President must be elected by the congress for a four-year term. It is clear that this rule has not been adhered to as no congressional meetings have taken place since 2003. In fact, the current administration was appointed by the SGSA and the incumbent President and its administration fail to meet the legal criteria set out by the latest 2005 charter.

5.4 Development and current issues of league governance

5.4.1 The governance structure

Generally speaking, the league is an organisation that provides a regulated competition for a certain number of teams to compete in a specific sport. Unlike some European countries, the football league in China is characterised more as an umbrella department of the CFA than an independent organisation.

In the pre-professional era, league competitions were staged in one particular city and played in a single round-robin tournament format. Aside from this, teams were based and trained in their own cities. The league structure consisted of two divisional league competitions organised by the CFA at national level - the Jia League and the Yi League. Further down the scale at the regional level was the Bing League⁵⁴. Three divisions were interconnected with promotion and relegation between them. A major weakness of this round-robin tournament format was that it could not develop strong links between football teams and their local supporters, as all games were played in one particular city in a short period of time, and fans rarely had a chance to watch their teams play locally.

⁵⁴ The Jia League and the Yi League are equivalent to English old Division One and Two respectively.

5.4.2 The more inclusive managerial approach

As a result of relaxed state control and economic reform, elite teams transformed into professional clubs, whose ownership was no longer dictated by the local sports authorities. The League Department of the CFA was also set up just before the inauguration of the professional league in 1994. This department was responsible for dealing with league affairs for both Jia A and Jia B. Alongside ownership transformation and increasing commercial autonomy, an increasing number of conflicts between clubs and the CFA began to emerge, and figure 5-7 shows the trend of this development. The CFA took governance measurements to tackle a variety of conflicts. 15 subcommittees were created in 2003, a year before the Jia A League was re-launched to the Super League (Yan 2004). The Super League Committee (SLC) and the League Committee (LC) were created to organise the Super League and the Jia League respectively.

The SLC began with 15 members - twelve members from twelve clubs, plus three members from the CFA (one of the CFA Vice-presidents who chairs the Committee, the Head of the CFA's League Department and the CEO of the CFIDC⁵⁵). The CFA members possess the power of veto. Five club representatives and two CFA members form the CSL Standing Committee, which is the body mandated to deal with the daily affairs of the Super League. The SLC was expanded in 2004, with members now including not only all 16 Super League clubs, but also their related local FAs.

On the topic of league governance, Mr. Yan Shize (2004), the former President of the CFA stated that: “The Super League Committee provides a platform for a wider range of stakeholders to get involved in a more democratic decision-making process which demonstrates a big improvement in our governing mechanism within the CFA’s framework. It shows our governance structure has been developing towards the direction of maturity and perfection. The CFA needs to make decisions based on different interests from various stakeholders in order to achieve the balanced development”. Such comments indicate that the CFA has recognised increased demands and power of clubs

⁵⁵ Replaced by CEO of Chinese Super League Company in 2005.

with abdication of its dominate governance position by allowing clubs and other stakeholders into the decision-making process to facilitate professionalisation.

The creation of the SLC has improved the traditional top-down governing mechanism with a more inclusive approach, it is a step forward for better corporate governance of the industry allowing for a greater range of interest groups (stakeholders) to take part in one decision-making body. Mr Yang Yimin (2005), former Vice-president of the CFA, emphasised the importance of better governance practice and greater representation in his Work Report of the SLC:

- Expanding the SLC built a greater, more inclusive governance approach for a wider range of stakeholders. Consequently all stakeholders were allowed a greater involvement in the decision-making process
- Promoting better communication channels among clubs, as well as between the CFA and clubs, thereby, and allowing for a better consultation on all aspects of football development
- Strengthening the CFA's governing position through transparent and democratic commercial mechanisms, through which greater accountability can be achieved

Mr Zhu Qilin, member of SLC, Chairman of CSLC explains: (personal interview, 23/05/2013)

“The SLC provides a democratic platform for its members to discuss both business and football related issues in order to make decisions in the best interest of the league as a whole. The governance structure strikes for a balanced approach, which fits into China’s socialist marketing economy.”

5.4.3 Commercial development of the League

The CFA signed a commercial partnership package with the International Management Group (IMG) in 1993 to promote incoming professional leagues. The IMG was

responsible for the leagues' commercial operation, the CFIDC was dealing with advertising contracts for both Jia A and Jia B through IMG (Ashton 2002). In 1994 the Jia A League was sponsored \$1.2m⁵⁶ by the Philip Morris tobacco company and the Marlboro League was born. However, new government legislation was introduced in 1998, and tobacco advertising was substantially restricted (tobacco advertising was banned from stadiums and the TV screens for the interest of public health), as a result, Philip Morris terminated its sponsorship (Jones 1999b).

From 1999-2002, Pepsi Cola paid \$10m⁵⁷ for the naming rights of the Jia A League. Siemens spent \$5m when it took over in 2003 and paid €8m for the newly launched Super League in 2004 (Ran 2008b).

The CSL lost its biggest sponsor in 2005 due to the CFA's inconsistent policies and unprofessional business practices. As a result of this, the league's naming rights could not be sold (*ibid*). A British broadband telecom company Iphox bought the 2006 naming right for €8m⁵⁸. A Chinese brewery company, Kingway paid ¥36m per season for the 2007 and 2008 naming rights, in 2009, the Italian company Pirelli signed a three-year deal for around €5m a year. However the sponsorship ended in 2010 and the Chinese property developer Wanda Group took CSL's naming rights for three years, for the price of ¥ 195m (Gong 2011).

Due to the CFIDC's failure to sell the naming rights of the 2005 season, it could no longer carry responsibility for the league's commercial operations. After such a disastrous failure, it was replaced by the newly created Chinese Super League Company (CSLC) in September 2005. The CSLC is a company limited by shares and concentrates solely on the leagues' collective commercial development, sponsorship and so on. The profits made by the CSLC through collective business operations are redistributed to all clubs equally. Unlike European football, television revenue has never been a major income for Chinese clubs. The Chinese Central Television (CCTV) does not pay to

⁵⁶ 10% increase each year thereafter.

⁵⁷ 10% increase each year thereafter.

⁵⁸ The €8m was not paid fully by Iphox.

broadcast league games, but instead gives a specified commercial slot to the CFA. For example, from 1994-1998, CCTV used two minutes of advertising time in exchange for a live Jia A League match (Liao 1998). At a local level, clubs negotiate TV rights individually, and in fact, most matches are free of charge.

Seasons	Naming right sponsors	Sponsor deals
2011 - 2013	Wanda Group	¥ 195m
2009 - 2010	Pirelli Tyre	€5m each year
2007 and 2008	Kingway Beer	¥36m each year
2006	Iphox	€8m (paid €500,000)
2005	-----	-----
2003 and 2004	Siemens	\$5m for 2003 €8m for 2004
1999 - 2002	Pepsi Cola	\$10m from 1999, 10% increase each year afterwards
1994 - 1998	Marlboro	\$1.2m form 1994, 10% increase each year afterwards

Table 5-1: League sponsors (based on all sources analysis)

The CSLC is owned by the CFA and 16 Super League clubs – the CFA owns 36%, and 64% is owned equally by these 16 Super League clubs. According to the 1994 Company Law, major decisions or changes to the company require two-thirds majority shareholding approval. Therefore, the structure of the CSLC leaves the CFA with a controlling power. However, as a gesture of goodwill, the CFA insists on taking an annual profit of 10%, up to a maximum of ¥10m a year, rather than the 36% it is entitled to through its shareholding. Mr Li Lipeng – Chief Officer of the CFA's League Department explains (personal interview, 10/01/08):

“This structure gives stability to the company, as the CFA is always in control. It also prevents clubs from establishing the 2/3rd majority required to undermine the CFA’s authority. Financial benefit is not our priority here”.

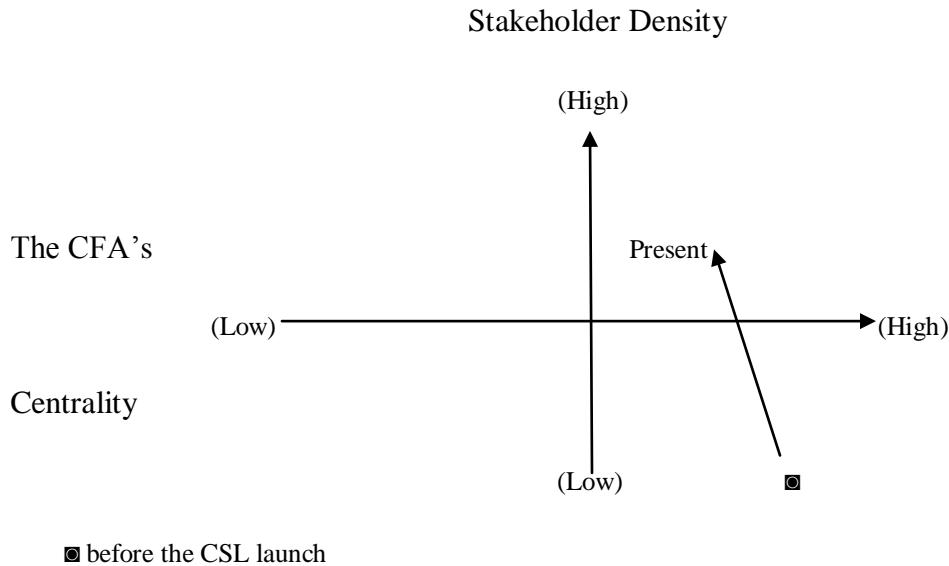


Figure 5-8 The league governance transition and stakeholder influence

The figure 5-8 summarises the pattern of league governance transition from the CFA’s perspective. As is shown, the pattern moves to the left and upwards, and the CFA governing position has changed from a state of high centrality (with dominate powers) to less centrality. As other stakeholders have been drawn into the decision-making process (particularly clubs), connections between other stakeholders are closer and more direct, meaning stakeholder density has developed from low to high. It is worth noting however, other stakeholders’ influence has increased significantly, the CFA has maintained its overarching authority. According to Mr Yang Yimin, the former vice-president of the CFA, the CFA is certainly seeking a leading role in a close working relationship with clubs. As he stated in an interview (Yang 2003) “Professional leagues are under the leadership of the CFA, its various committees are dealing with different daily affairs, and clubs are encouraged to be involved in a democratic decision-making process within different committees”. As a result, stakeholder influence and the CFA’s governing position transferred from a configuration of Low Density/High Centrality to High

Density/High Centrality. This means that the CFA and its stakeholders are often engaged in negotiations in order to achieve a mutually satisfactory position. The final decisions on the 2001 and 2008 league fixtures that aforementioned are clear evidence of such consensus between the two parties. This development trend of leagues governance is also recognised by Zhu Qilin - member of SLC, Chairman of CSLC: (personal interview, 23/05/2013)

“Despite the gradually progressed league governance and increased club influence, the CFA’s veto power in SLC and its 36% share ownership in the CSLC demonstrate the leading position of the governing body. The SLC is a platform for clubs and the CFA to manage their conflict of interests, and to work together for the best outcomes of both parties in a democratic manner.”

The ownership structure of the CSLC indicates that the CFA’s 36% of share ownership is a strategic design. On the one hand, it allows all clubs’ involvement at the decision-making body; on the other hand, it prevents clubs to form a 2/3 majority at the CSLC. In other words, in terms of CSLC development, clubs are not able to make any fundamental changes or pass any major business plan without CFA’s approval, therefore, within such a structure, the governing body still plays a leading role but accommodates more diversified interests of clubs simultaneously.

5.5 Summary

The economic reform and market-oriented practices brought radical changes into the Chinese sports and the football industry. Market forces have transformed the traditional top-down governance structure, and administrative sport departments are able to operate more independently. Nevertheless, sport associations remain deeply connected with the government. Due to this strong government affiliation, succeeding on the international and national levels are still the major targets for national and local governing bodies respectively. In this regard, elite sports remain the principal focus, often to the detriment of professional and grassroots development. Moreover, the heavy commercial approach

and political decentralisation have created an imbalance between professional and grassroots development, which destroyed the old Soviet style cohesive training and selection system, along with the integrity of the game.

Within the football industry, conflicts exist between the state control and free-market forces. For example, the Super League governance is a mixture of state involvement of the CFA and commercial practices of the clubs. The CFA has adopted a more active strategy and an inclusive approach towards other stakeholders' increasing influence in order to minimise the conflicts. Apart from conflict of interest, the stakeholder approach also explores the evidence of the aspect of financial dependency. Although the CFA attempts to maintain a leading role in the decentralisation process, it has to compromise power with other stakeholders in order to achieve legitimate, credible governance as well as to meet the demands of the modern industry practice.

Football reform must aim to not only raise playing standards, but also to create a more dynamic and increasingly efficient sports organisations. Therefore, the CFA and other sports associations need to adapt a more inclusive stakeholder practices in order to meet the needs of the sporting markets, and the challenges of sports commercialisation. Striking the correct balance between professional and grassroots development can create a positive cycle. On the one hand, an effective professional system creates a desirable football environment, through which a greater number of people can be drawn into the game. On the other hand, a solid grassroots foundation is more likely to produce more quality professional players who can enhance the game at the professional level. By contrast, overemphasising professional development weakens the foundations of the football pyramid and overemphasising grassroots development limits financial resources to the professional game, which reduces the commercial value of the game as a whole. This phenomenon has an even greater impact on football development in China, where the community based club model does not exist, and the national team's performance can significantly influence the overall football environment. The stakeholder approach sees the contradictory nature of the CFA triggers strong dissatisfaction with public opinion,

due to the governing body remains subject to the state intervention, one of the fundamental governance problem of the Chinese game remain unsolved.

Chapter Six: Clubs' Perspective on Football Governance

6.1 Clubs' status

6.1.1 Clubs before professionalisation

The professionalisation of the industry has transformed provincial elite football teams into professional clubs. Originally, all elite teams were owned and managed by their local PECs throughout the country. Despite those elite teams being 'professional teams' and players being 'professional players' in terms of their commitment to the game, the existence of 'professional sports' was not officially recognised within the framework of a planned economy and the Soviet style sports system. Furthermore, the Soviet style sporting system did not provide social links between elite sport teams and their local communities, a football team was no different to other state-owned work unions.

Under such a system, coaches, players and local FA officers were employed by their local PECs on a permanent basis. Their employment status was not affected by their teams' overall performance. The local PEC appointed coaches on a long-term basis, and, if coaching proved fruitless, the PECs always had alternative positions. The spirit of patriotism and collectivism was the main motivation for playing staff to pursue good performance. There was no monetary incentive for success until the end of the 1980s when the economic reform kicked-off (Baruch, *et al* 2004).

Following the market-oriented economic policy, performance related pay (PRP) was introduced as a part of sports reform just one year after the LA 1984 Olympic Games (Baruch *et al* 2004). In the case of football, a monetary incentive was introduced to encourage success on the pitch. The commercial approach coupled with a decline in the state budget, which encouraged for football teams to pursue sponsorship in order to improve their financial status. For instance, in economically developed regions, elite football teams could attract more money and bigger sponsorships, however, teams based in less economically developed regions struggled financially. In response, some local

PECs dissolved football teams in order to focus on the National Games and the NPESC's Olympic strategy, meaning the limited budget could be spent on their key sports.

6.1.2 Clubs after professionalisation

The professionalisation of the game was part of an ongoing planned process, which was underpinned by the 1995 Presidential Order (Jiang). It states key features, including:

- The move towards a market economy and commercialism
- The separation between state control and sports management
- The active promotion of sponsorship, retention of the state concern for nationalism, collectivism and socialist philosophy
- Providing opportunities for athletes to build careers after their retirement from sports

The regulation clearly indicates that sports organisations were encouraged to raise money through commercial activities, however, it less clear with regards to policy implementation. In order to maintain the separation between government and sports agencies, the government would only fund the key Olympic sports, which led to an emergence of different levels of funding. Notably, at the grass-roots level, parents are contributing towards their children's sports training (Jones 1999a).

When the professional league started in 1994, transformed professional clubs no longer only relied on state budget. Instead, sponsorship became the principal revenue stream. Henceforth, according to the CFA Chart (2005) article eight, rule 45 – Nature of professional football clubs: “a professional football club must be registered as an independent legal person with its local FA, it has to be operated with the market approach and aims to improve the standard of Chinese football”.

Despite the game in China being as popular as it is in Europe, unlike Western clubs, the Chinese clubs are not community based. They lack both the community connections and traditional heritages. This gives the Chinese clubs an advantage, enabling them to have a greater degree of freedom to operate in as capitalistic manners as they choose. In other words, they are value-free business firms that are not tied to the goodwill or desires of their fan base. For example, the provincial teams were originally named after their regional affiliation. When a club managed to secure sponsorship, the sponsor's name became a part of the club's official name (e.g. Beijing Snowflake, Liaoning Fareast, etc). There are often changes in a team's main sponsor, therefore, name changes can be frequent (Manzenreiter & Horne, 2007).

During the beginning of the professionalisation period, clubs were mainly managed by their local PECs - in much the same fashion compared the state amateur era. However, with the introduction of foreign players and a new transfer system, many corporations saw football as a new opportunity for commercial development (Ashton 2002). They invested heavily in the football industry, and with their financial strength, corporations gradually began taking control of the clubs.

Alongside a further separation between government function and sports agency, more enterprises took larger stakes in football clubs, and became major shareholders. Coaching and playing staff became employees of the clubs rather than their local PECs. This meant that football became the first sport in China to achieve a market status, independent from the tightened state control through a Westernised professionalisation. Local PECs and FAs had lost a substantial amount of control over clubs, their governance was limited to the role of regulators and had very little impact in the day to day running of the clubs.

Since 1994 the CFA has indicated that all clubs must implement a commercially-driven professional management system in order to ensure clubs are self-sufficient. Bearing this in mind, one of the initial purposes for the introduction of the CSL was to push clubs to

operate in a more business like model under the market economy, with better governance structure in order to achieve long-term sustainability (Yang 2003). According to the Entry Criteria for the CSL Clubs (CFA, 2002)

- A football club should be a modern company, registered as a limited liability company or a share limited company and complying with the PRC's Company Law.
- Clubs should be established as independent legal representatives and acquire business licences.
- Share limited companies should have appropriate mechanisms in place. Such as shareholders' meetings, Board structures and so on. Major decisions should be taken through a democratic process.

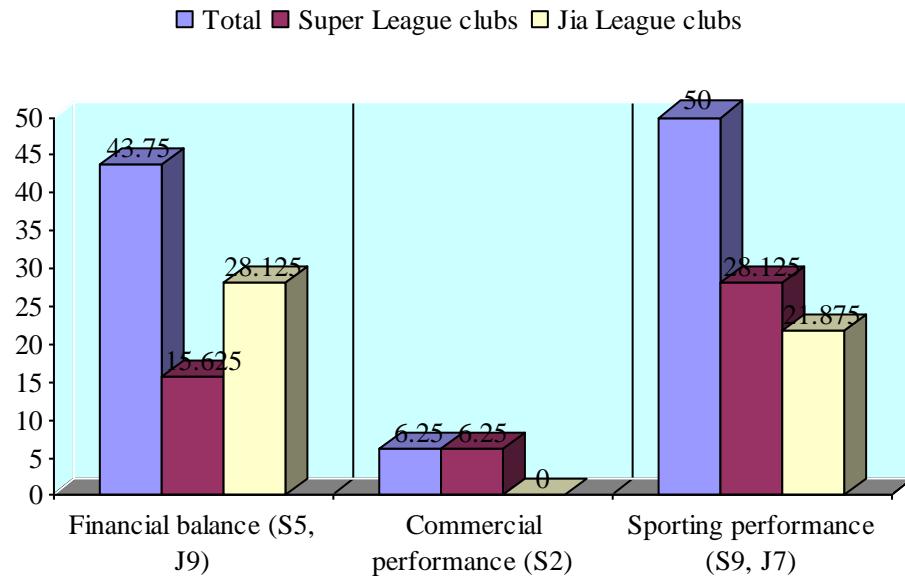
This regulation established clear guidelines on a club's governance structure by successfully introducing modern management practices into the football industry. It was aimed specifically at the top professional clubs to ensure their healthy development.

6.1.3 Changing goals

All elite football teams existed for the same purpose prior to professionalisation - to comply with the national sports policy and to promote the game at the regional level. The teams were then owned by local PECs and served as an extension of the political interests of the government (Clumpner & Pendleton, 1978).

Since the economic reform, the separation of the government function and sports agency created different goals for sports authorities and the clubs (Jones 1999b, 2000, 2004). Following the new sports policy and the Communist party's guidelines, state control over football was relaxed. With European football models to follow, clubs adopted various business strategies and tactics in order to be successful both commercially and competitively. As a result, professionalisation and commercialisation becoming the main

characteristics of the football reform, political interest became an inferior objective for professional clubs.



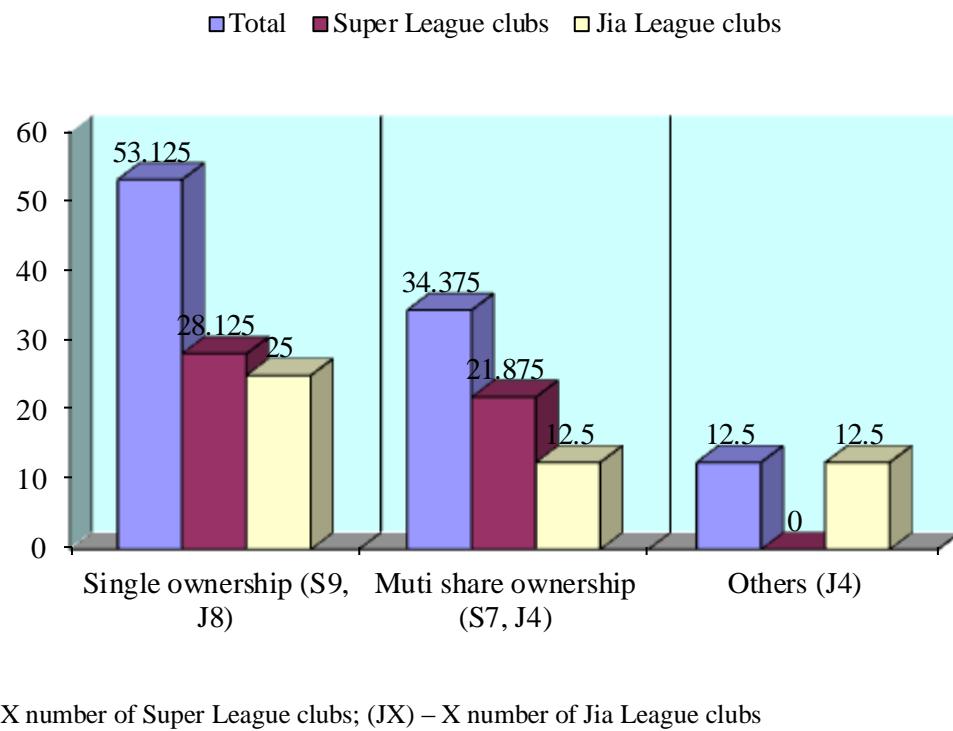
(SX) – X number of Super League clubs; (JX) – X number of Jia League clubs

Graph 6.1 Percentage of clubs focal performance

Graph 6.1 shows the 2012 survey results. 43.75% of clubs see a balanced book as their main focus when running business as these clubs pursue financial stability, and their spending powers are normally related to their ability of revenue generation. Only 6.25% of clubs set main focus on good commercial performances, they are CSL clubs with an emphasis on commercial sale orientated activities and business development. 50% of clubs emphasise success on the field, they see sporting success as the most important goal, making it the priority over other targets. Sporting performance outweighs bank balance and commercial performance as the major object for most Chinese professional clubs.

When the state policy shifted from a planned economy to a market-orientated economy, the ownership of clubs changed accordingly. The 2002 club license system required that

all professional clubs must operate in a business model at the same time registering with the local Trading Office as limited or share limited companies.



Graph 6.2 Percentage of clubs' ownership structure in professional leagues

Graph 6.2 shows clubs' ownership structure. 53.1% of clubs have a single ownership - often owned by big corporations, a club is one of the subsidiaries of a holding company; 34.4% of clubs are owned by multi shareholders, and local sport authorities are often shareholders. 12.5% of clubs at the Jia League level are still owned in other forms⁵⁹. Shareholders can be considered as normative stakeholders, Chinese clubs are normally owned by few shareholders with a high concentration of share ownership.

The main purpose of an enterprise is to invest in a football club, gain rights of control over the club's assets and ensure that there is a financial returns (direct or indirect) received from that investment. Many clubs are owned by big corporations whose priorities lie outside of the football industry - they often use clubs as a vehicle to raise

⁵⁹ In the process of ownership transition, clubs are temporarily under administration of local FAs.

their brand profile or to forge a close political linkage with local government before selling them a few years down the line (Ashton 2002). Therefore, clubs face the risk that corporate backers have very little long-term interest in the club and are simply involved to make a profit. Consequently, clubs face an impossible struggle in establishing a brand for themselves - the continuous buying and selling of clubs by corporate backers means the constant re-branding of a club. According to Mr Yang (2005) the former Vice president of the CFA, during the 10-year (1994-2003) pre Super League era, 127 clubs entered the professional leagues, and clubs had changed hands 32 times⁶⁰; while clubs changed their names 55 times and seven clubs were dissolved after their relegation. This also prevents the clubs from forming a true affinity with their local communities. Mr Ning Zhixiong, the CEO of Guangzhou Zhongyi FC explains (personal interview, 30/06/08):

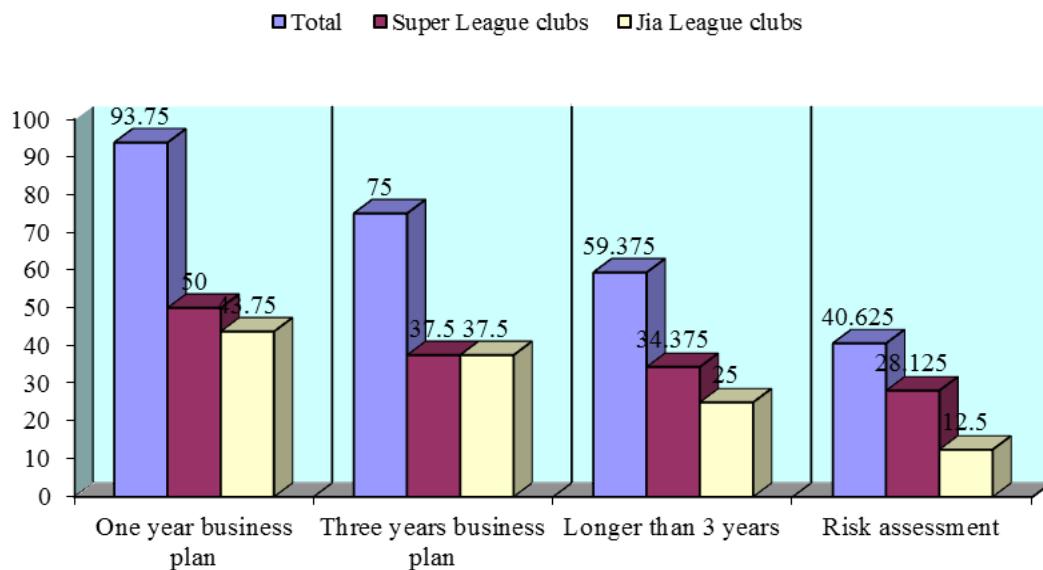
“The main sponsors changed so often in the past, so did the club’s names, there is no consistency to build a club culture and brand image. The investors have a lack of a long-term vision and commitment, which cannot lead to good business practices.”

The football industry has its own peculiarity. Clubs not only need to make profits for shareholders but also have to pursue success on the field to satisfy their supporters. In order to balance the two objectives requires a club to have a good vision on its long-term development strategy as well as mid-term and short-term business plans.

Graph 6.3 shows 93.8% of clubs have annual business plans; 75% of clubs have three-year business plans and 59.4% of clubs have business plans set longer than three years. The result suggests that most clubs set short-term goals with annual business plan to focus on their current task, less than two-third of clubs have longer visions with mid-term business plans and long-term business strategies, and Super League clubs are generally better positioned than Jia League clubs in terms of setting long-term goals. In terms of risk management, only 40.6% of clubs have included risk assessment in their business plans. Now a club business model is a standard corporate structure based on market

⁶⁰ Including the same club changed hands for more than one time.

principles. The survey results demonstrate that clubs are lacking a long-term commitment as well as risk awareness to identify and to pre-assess risks, such practice put clubs into a turbulent circumstance, which echo the fact that Chinese professional clubs having been put on sale 32 times during 1994-2003, and partially reflected vulnerability of the clubs.



Graph 6.3 Percentage of clubs with proper business plans in place

6.2 Clubs' view on the current governance issues

Giulianotti (1999 p86, 2002) argues that globalisation and the international circulation of sports capital has eroded many of the traditional or cultural characteristics which existed within sports in different countries. Football reform has transformed the Chinese football industry, and with that the commercial approach and its economic development has re-shaped the traditional governing structure. The CFA established the League Department, followed by the Super League Committee and the Super League Company in order to lead the industrial development at a steady but progressive pace. Consequently, football clubs registered as companies with football as their principle source of business. When a football team becomes a club company, it must be managed using a sensible, business-like approach, as well as being able to trade independently without interference. This

included dealing with multi stakeholders and establishing a strong fan base to gain sufficient access to markets and ensures a healthy revenue stream in the market-oriented economy. The following section discusses the governing mechanisms of the industry from the clubs' perspective.

6.2.1 The governing mechanisms

6.2.1a The decision-making structure

In terms of the club/CFA relationship, all clubs were in support of the current governance framework and recognised the leadership of the CFA after the professionalisation of the game. As Mr Zhang Defa, General Manager of Shanghai Shenhua FC, states (personal interview, 18/01/08):

"The current framework suits the current development of the game, we need the CFA to take the lead. I do not think an independent league can make significant improvements. It is a tough business dealing with the government in China, only the CFA with its political background can ensure a smooth development of the industry".

Such a statement recognises that a real non-governmental status for either the CFA or the league is impossible in China. However, clubs believe that the current structure has improved compared to previous structure. The creation of the SLC is an innovative progress in terms of corporate governance development, with an inclusive approach, more stakeholders have been drawn into the decision-making panel, in which clubs are able to share more information with the governing body. However, in practice, this accessibility does not necessarily mean involvement in a decision-making process. Clubs want to play a more active role, rather than passively participate. Most clubs felt some of the rules (for example, abolishing promotion and regulations; dividing the integrity of the season) were subjectively introduced without proper consultation. Mr Hu Wei, Chief Assistant of Shenhua FC, explains: (personal interview, 18/01/08)

“The CFA has adopted an inclusive approach by setting up the SLC, we need it to be more effective and more efficient. Many decisions made by the CFA actually did not go through the SLC. Moreover, some proposals do not allow enough time for clubs to discuss thoroughly”.

Clubs are demanding a more transparent system with democratic decision-making processes. Practically, full consultation on important governance issues, updated information on business development projects and so on. Such needs indicate that more diversified interests exist between clubs and the CFA. As business entities, clubs demand more accountability from the governing body in order to protect their own interests. Mr Zhen Ming, Deputy General Manager of Jiangsu Sainty FC, states: (personal interview, 07/07/08)

“The establishment of the SLC is a big improvement on football governance, it provides a platform for clubs to exchange information and to discuss related governance issues, however, it should have been more democratic for making decisions”.

The creation of the SLC has certainly provided an official platform from which clubs can work together, with increased communication between them, and clubs as a whole are more influential within the game’s decision-making structure. Despite increased influence and demand of clubs, with the political background and veto power, the CFA maintains its focal position in the SLC structure.

6.2.1b the collective selling structure and revenue distribution

The Super League is commercially managed by the CSLC, both its chairman and president are appointed by the CFA. The CSLC is responsible for selling the league’s naming rights, and it also takes 24 hoarding boards from every club for collective commercial sales. In terms of distribution, the revenue generated through the CSLC (minus all its administrative costs) is shared by the 17 shareholders - the CFA takes 10% or ¥10m at the maximum, the rest is distributed to all 16 clubs equally (Ran 2008b).

These collective sales demonstrate an established integrity within the league that has not existed in the past. This mechanism is supported by most clubs (especially small clubs, as they are more reliant on centralised management), however, larger clubs or clubs from developed economic regions prefer smaller collective packages and greater flexibility. Despite the CFA taking only a 10% share of the revenue according to the distribution arrangement, clubs are demanding greater transparency. As Mr Zheng Ming, Deputy General Manager of Jiangsu Sainty FC explains: (personal interview 07/07/08)

“The naming right is enough for the CSLC, we want to control our ground hoardings. Being based in the Yangzi Delta, we can develop regional business models from these hoardings which may work better for us financially”.

By contrast, Mr Jin Yan, CEO of Changsha Gide FC states: (personal interview, 06/07/08)

“A centralised management and the distribution system are good practice to demonstrate the integrity and solidarity of the league. This distribution is not a decisive income, it is an important one for small clubs. We are a small club and our local market has not been well developed either, so the centralised marketing approach helps us significantly”.

Although there is no argument to sell the league's title right collectively and the revenue distribution mechanism, some clubs believe that they can negotiate more favourable deals with other resources locally. Accountability and business transparency of the CSLC also have been scrutinised which demonstrates the level of trust between clubs and the CFA-led CSLC is low, especially on financial issues. Mr Ning Zhixiong, the CEO of Guangzhou Zhongyi FC emphasises (personal interview, 30/06/08):

“We understand the importance of collective selling, we have no problem with that. The problems we have are that the CSLC took our best assets and gave us a lump-sum. We do not know how much we are getting for each item, and feel we could probably sell them for more. There is no break down of information. A more transparent mechanism is needed”.

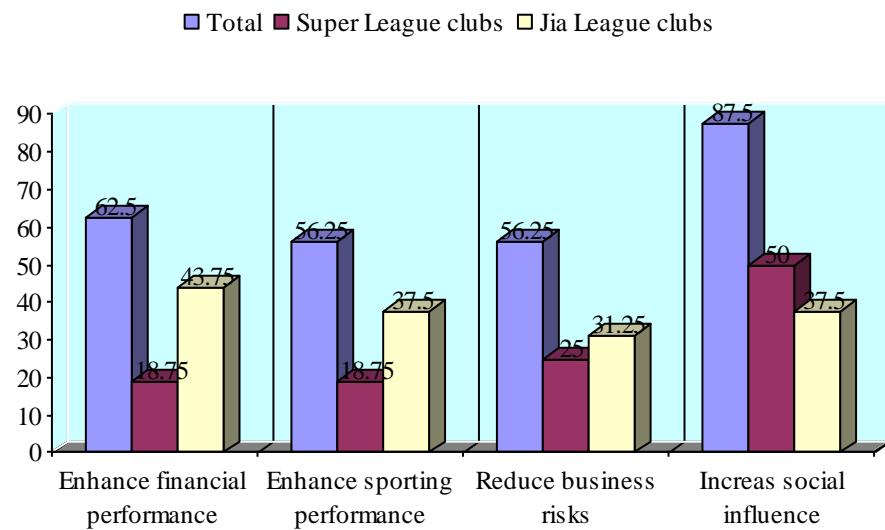
In fact, the Super League's naming rights are the biggest asset currently managed by the CSLC. It takes advantage of these in order to strike large commercial deals. Yet taking the 24 hoarding boards from clubs' premier locations, causes separate consternation. Furthermore, the financial transparency and effectiveness of the CSLC is problematic, as another CEO⁶¹ of a club says:

"The CSLC has taken 60-70% of our commercial resources, but the rewards are limited. We invest ¥50-60m annually, and believe the CSLC and the CFA should have rewarded us around ¥20m. In fact, we got only about 10% of our investment through the revenue share. We support the collective selling mechanism, which helps the club to get big name sponsors that we normally do not get as individual local businesses, therefore we are not complaining about how many resources have been taken by the CSLC. However, we want to see a good financial reward from the league, we have concerns over the CSLC's business capability as well as its accountability".

The collective selling and redistribution of revenue is justified within sporting competitions as a way of trying to ensure the game's integrity and competitive balance (McKeown 2011). Despite the importance of the collective selling being well understood and supported by all clubs, the argument remains surrounding how many resources the CSLC has taken and how many benefits the clubs can accrue through such a mechanism.

Graph 6.4 shows 62.5% of clubs see revenue redistribution can boost their financial performance; 56.25% of clubs think their own sporting competitiveness can be enhanced through revenue redistribution; 56.25% of clubs believe such redistribution reduces business risks; 87.5% of clubs believe revenue redistribution increasing clubs' social influence.

⁶¹ He wanted to keep anonymous.



Graph 6.4 Percentage of clubs who believe in benefits through a wider range of revenue redistribution

One of the objectives of collective selling is to foster solidarity within the league and provide small clubs with financial support. However, the commercial independence of the CSLC as a company, and the financial benefit it delivers to each club, is debatable. For example, the CSLC moved to the CFA's HQ in 2006, the CFA asked the CSLC to pay rent for one whole floor of office space (1600m^2). The CSLC had only 24 staff at that time, which can be calculated as equivalent to 67m^2 per person. Although, following a protest by all the clubs, the CSLC did not pay the extra ¥3m, the incident provides an evidence of conflict of interest between the CFA and clubs. The case demonstrated why the CSLC could not run as efficiently as it should.

On the one hand, the CFA blames short-sighed corporations for lack of long-term commitment towards the game, which conversely caused clubs to change hands frequently. However, on the other hand, the CFA's own practices discouraged corporations from committing on a long-term basis. From the clubs' point of view, the CFA puts its own financial interest ahead of the league's interests. In other words, it has a tendency to use clubs' money to cover its own costs, which ultimately damages the overall football environment and sets a very bad governance example. As Nene Leung –

founder of the Champion Projects sports consultancy agency concludes (Ashton, 2002, p70): “Clubs want to have their voice heard in the key decision-making process with minimum external control of their destiny, the CFA is prepared to change, a lot is still to be swallowed in terms of resource allocation and finding the right people to manage clubs professionally”.

The Figure 5-7 shows the different material interests that have developed between clubs and the CFA. Poor governance practices of the CFA do not favour the corporations’ long-term football commitment; moreover, an inefficient managerial mechanism and self-interest orientated practices of the governing body will ultimately reduce the effectiveness of the revenue distribution amongst clubs.

6.2.2 The impact of professionalisation on clubs

6.2.2a Clubs’ relationship with main stakeholders

The football industry has been changing from a top-down governance system to a network system hinged on interrelationships between its stakeholders (Amara *et al* 2005, Boon 2000, Walters 2007). In the stakeholder network, different stakeholder groups exert power in different ways, and in different contexts. What you find is that power gradually shifts from football governing bodies to clubs and stakeholder groups. In the Chinese case, compared to the pre-professional era, there have been fundamental changes to the clubs. Not only has the sole state ownership structure changed, but also the relationships between clubs and their stakeholders.

The relationships with the CFA

Football markets were non-existent in the pre professional era. Compared to state amateur teams in the pre-professional era, clubs are business-orientated companies - they have increased commercial awareness and are profit-driven. In fact, both clubs and the CFA now have a wider diversity of interests, and inevitably some of these interests are more likely to conflict under the framework of a market economy. As stated by Professor

Jin Zhiyang, the Head Coach of Beijing Institute of Technology, and Senior Consultant of the CFA, (personal interview, 08/08/08)

“With increased business awareness, clubs need to look after their own interests - which consequently may not necessarily align with the CFA’s demands. Therefore, clubs want to have more say over football development. The CFA should give more consideration to clubs’ financial interests before making any decisions. The SLC and the League Committee must be accountable, and a democratic decision-making mechanism must be implemented thoroughly in order to meet the demands of modern industry practice”.

In some respects, the creation of the SLC has brought clubs into the decision-making circle, whilst the CFA maintains in a focal position. However, by having the SLC in place does not necessarily mean that there is full involvement of the clubs in the decision-making process - the governing body is still capable of making independent decisions without consultations of clubs.

As an example underpinning Mr Jin’s point: the CFA’s decision to abolish relegation during the 2002 season severely damaged the reputation of the league, as well as the clubs’ financial income. Many sponsors did not like the idea and subsequently reduced their sponsorships. Clubs considered that the money they had spent was a waste. “*What is the point in strengthening squads if there is no relegation pressure?*” Professor Jin questioned in the same interview. Such collisions show that clubs’ financial interest conflicts with the CFA’s political interest. Mr Zhou Xiaobo, Chief Assistant of CEO, Henan Jianye FC, has the similar view: (personal interview, 09/07/08)

“We may get used to the leadership of the CFA, but now clubs need deeper involvement in the decision-making process not just voting in favour of the CFA’s decisions. Our own proposals should be treated in the same way as the SGSA’s. The SLC can be more accountable”.

Compared to the pre-professional era, clubs are now more out-spoken, and implement a more active approach towards their relationship with the CFA. Although the leadership of the CFA has been recognised, its dominance and accountability has been consistently questioned and challenged. Within the stakeholder analytical framework, the development trend of this relationship has moved from necessary compatible towards necessary incompatible that shows increasing conflicts and diversified interests between clubs and the CFA. As Mr Zhang Defa, General Manager of Shanghai Shenhua FC states: (personal interview, 18/01/08)

“The CFA has a big responsibility to improve our football environment. Clubs need the CFA to work unselfishly without abusing its position. Many clubs in China have an unstable financial status, and the CFA should be less selfish and help clubs financially”.

The accountability of the CFA is not the only debate. Its overall responsibility as the governing body is also questioned. In the professional era, clubs need training support from professionals, and the CFA offers very limited support indeed. Clubs insisted on marketing workshops, management seminars, and a necessary level of support. However, the CFA does not offer any support to the clubs, neither does it advise them on the full range of business activities that they could get involved with. Mr Sui Yan, Deputy General Manager of Liaoning FC explains (Personal interview, 28/07/08):

“The CFA introduced the licence system for all professional clubs in order to improve governance at a club level. I believe the system should not be just criteria for clubs to meet, but more importantly the CFA has a responsibility to ensure the right knowledge can be passed to every single club’s management”.

Although the needs for training are different according to each club’s size and business activity, clubs feel that the CFA could have been more active in the training and education of the clubs’ management. Chinese clubs are still in a nascent stage and the CFA could have provided a greater level support in order to develop the industry

forwards. Mr Hu Wei, Chief Assistant to the CEO of Shanghai Shenhua FC explains: (personal interview, 18/01/08)

“There are needs for commercial training and education. The CFA should organise training programmes to develop professional knowledge and expertise at the club level. Clubs have different requirements in terms of knowledge, and therefore specifically designed seminars and workshops could be a possible solution”.

Hudson & Herbane (2000, p26) state that “Staff training has been widely recognised as a facilitator for greater productivity, job satisfaction and skills development”. Despite most clubs’ need for greater levels of training, there remains little available. The research (Zhang *et al* 2006) based on 29 professional clubs indicates that only 51% of managerial staff in Chinese clubs possess diploma degrees and above. Although most of them having some managerial experience with other firms, it is difficult to see anyone who possesses professional knowledge and expertise which can bridge the gap between business development and the football industry. From the clubs’ point of view, the CFA’s support does not meet the clubs’ development needs.

Conflicts between clubs and the CFA have been growing since professionalisation. This is borne out of a conflict between the CFA’s politically motivated, old management style and the new demands from clubs for having more transparent market-oriented business practices. The CFA possesses political power and a centralised position, it used to having a commanding position within the industry. By contrast, the clubs are in an inferior position, and are used to simply obeying government orders. As a result, despite competing voices gradually emerging from the industry, the CFA can simply turn a blind eye and push ahead with its own decisions. From the clubs’ perspective, although the CFA’s efforts in adopting the inclusive governance approach, its unprofessional managerial manner fails to meet the demands of the modern industry practice, which consequently severely damages the reputation of the league as well as the clubs’ financial interests.

In 2004, alongside further football reform and deeper professionlisation, clubs' the passive relationship with the CFA took a sharp turn. An on field accident during a match between Beijing Hyundai and Shenyang Ginde sparked a controversial decision⁶² by the referee, and Hyundai abandoned the match in protest. It was the first time a match had been abandoned in Chinese football history, and the incident was highlighted by the media. Hyundai took the initiative and acted quickly insisting that there had been an 'unfair' penalty decision. More importantly, off the back of the media attention, they demanded that the CFA undergo radical reform. By contrast, the CFA was sluggish in response, and left the PR initiative to Hyundai for a one-sided story. However, a hefty punishment was handed out twelve days later - Hyundai was stripped of three points, disqualified from the match and fined ¥300,000.

Ten days after the Hyundai & Ginde match, Dalian Shide abandoned another match against Shengyang Ginde. This time Shide only took slightly umbrage against the match referees, but directed the majority of its indignation towards the CFA. The club held a series of press conferences in order to publicly criticise the CFA's unpopular politically-led exercises during the course of its history, and to lambast against its ambiguous and opaque practices as being detrimental to both the game's reputation and the clubs' sustainable development. In short, Shide's PR campaign was so successful, that even the media cast the club a sympathetic light.

The CFA was blamed for attracting negative publicity towards the game. More importantly, the incident highlighted the fact that the tide had turned, placing clubs in a more commanding position. This power shift was best demonstrated when Shide and six other clubs threatened to break away from the league if the CFA did not introduce a more transparent business practice and fundamental reform. The event became known as the 'G-7 Revolution'.

With such intensive media coverage and the proximity of the two separate attacks on the CFA, a huge amount public interest was consequently generated. Up until this point,

⁶² A penalty was awarded to Ginde FC.

football, as a pioneer of sporting reform with little political sensitivity, had enjoyed a relatively relaxed censorship within the Chinese political environment. The two incidents therefore triggered massive debate amongst the media. Indeed, the governing body was embarrassed by its inactivity and poor practice over past years, and it was severely reprimanded by the central government. As Simons (2008, p224) states: “Since football had been allowed to leave state control, the state media faced far fewer restrictions in its reporting, and sports journalism became the frontline of oblique comments on the system itself”. Consequently, the CFA succumbed to the ‘G-7’s proposals. Firstly, it abandoned the original relegation plan⁶³ in the middle of the season; more importantly, the CFA agreed to open its bank accounts and adopt a more transparent working practice. Despite such compromise from the CFA, Shide FC was still docked six points and fined.

The ‘G-7 Revolution’ demonstrates that clubs’ started to employ a proactive approach to managing their relationship with the CFA in order to protect their own interests under the market-orientated economy. Secondly, more communication has gradually been forged between the clubs. This helped align their behaviour and increased their legitimacy and collective clout. As a result, the focal position of the CFA became marginalised when clubs formed a closely well-organised, high-density network. It allowed the clubs to constrain the CFA’s actions through a show of collective strength alone, and thereby increasing clubs’ influence as a whole.

Figure 6-1 shows that the clubs-CFA relationship development trend. On the one hand, clubs’ operations do not depend (or depend little) on direct government funds, and the central position of the CFA has been marginalised gradually as a result. On the other hand, more direct connections were formed amongst clubs through different mechanisms, meaning bonds and links amongst clubs became closer and denser. However, despite the fact that the market economy has undermined a certain degree of the CFA’s power, under the current political environment, the CFA still holds a leading role in terms of shaping the institutional rules. It is safe to say that the CFA can no longer operate without

⁶³ The original plan was one relegation but the “‘G-7’ Revolution” demanded no relegation for the inauguration of the Super League.

impunity or scrutiny, either from the clubs or from society. Therefore, the clubs-CFA relationship and its network structure moved from a Low Density/High Centrality configuration to High Density/High Centrality. As clubs went through the transition from passivity to more active presence, the CFA's dominance role weakened.

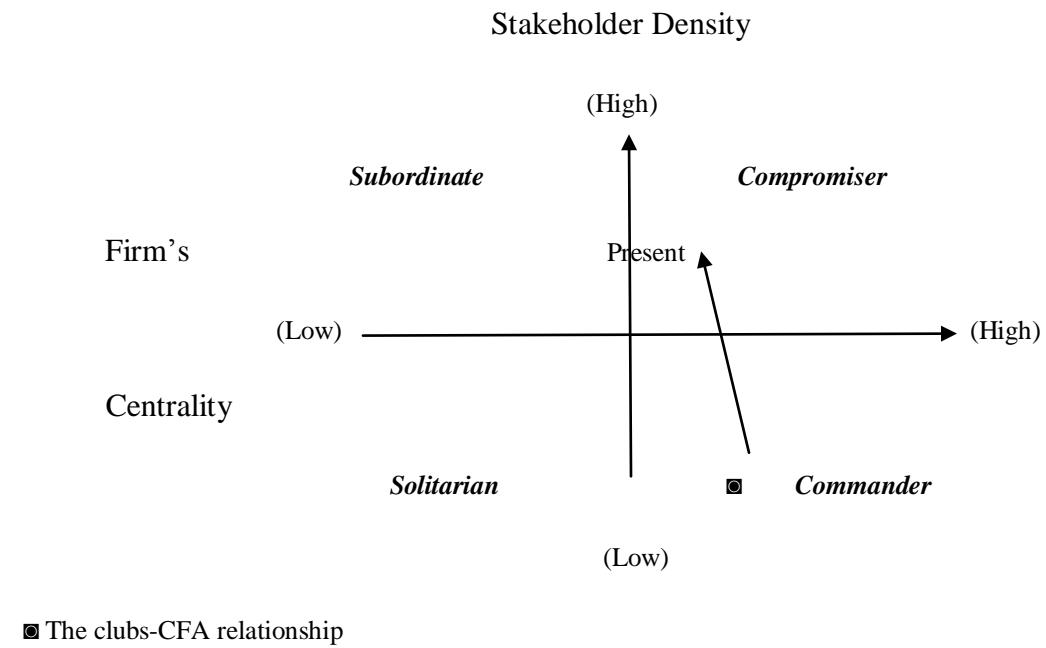


Figure 6-1 The clubs-CFA network configuration and firm response

Although the clubs are able to coordinate their efforts more effectively, the CFA is still capable of influencing the clubs' actions. The “‘G-7’ Revolution” shows a high level of interdependence between the CFA and ‘G-7’; neither party can replace the other, and therefore, in order to avoid an uncertain future, both parties will need to compromise with one another in order to reach a mutually satisfactory position. Apart from G7’s politically motivated unity, there are also direct commercial interests for some clubs to take initiatives to form close ties amongst themselves. Mr Hu Wei, Chief Assistant to the CEO of Shanghai Shenhua FC explains: (personal interview 18/01/08)

“There is a good communication channel between us and a couple of clubs. We are currently discussing the possibility of having regional collective sponsorships and therefore effective communication provides opportunities and makes clubs stronger.”

In terms of clubs' influence, Figure 6-2 shows that although an individual club does not depend on the CFA financially, the CFA still maintains an institutional power over the club. Therefore, the governing body has a low level of dependence on an individual club, but by contrast, an individual club has a high level of dependence on the CFA in order to remain a part of the game. As a result, an individual club has a limited influence over the CFA, and the CFA does not need to be responsive to that particular club. Hyundai's case against the CFA illustrated this relationship. On the contrary, due to seven clubs forming an internal alliance amongst themselves to coordinate their actions, the 'G-7' case differed from such a relationship. The level of dependence of the CFA on 'G-7' as a whole was high, but by the same token, 'G-7' was also highly dependent on the CFA. Without the CFA, they would have no legitimacy. Ultimately neither party could do well without the other.

Although in two separate events both Hyundai and the 'G-7' chose an indirect pathway to influence the CFA with the same successful PR efforts by seeking out the media as an external force to pressure the CFA, their strategies made very different impacts. Only the 'G-7' was able to negotiate with the CFA to reach a mutually acceptable settlement. This indicated that the CFA's reaction towards the two events was not entirely based on media's pressure. Figure 6-2 also demonstrates the choice of influence strategies adopted by Beijing Hyundai and the 'G-7'.

In configuration A, the CFA's institutional power was a key determinate for Hyundai's position. On the one hand, Hyundai possesses a high dependency relationship with the CFA; on the other hand, the club hold no means of actually constraining the governing body. As a result, Hyundai could only influence the CFA by choosing an indirect/usage strategy via the media to pressure the CFA. Despite this, the CFA was impervious to

Hyundai's position and media criticism in this asymmetrical relationship, and as demonstrated by the outcome, the club was fined nonetheless.

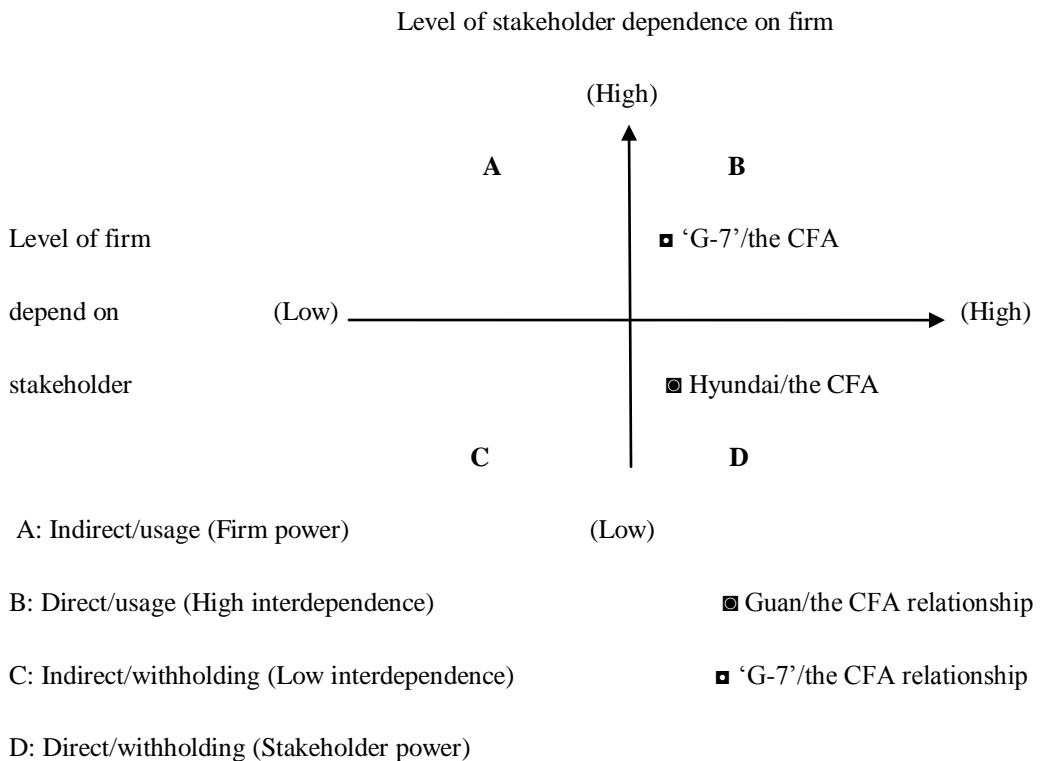


Figure 6-2 club/the CFA resource dependence relationship and club influence strategies

Employing alternative tactics, Shide cleverly united other clubs under a structure of the ‘G-7’ which granted these clubs a different status and dislocated them from the authority of the CFA. In configuration B, the CFA maintained its legitimate power, yet, the ‘G-7’ possessed powerful advantages over the CFA as a group. It threatened to withhold its resources and withdraw from the league. In this relationship, there is a great degree of symmetry between the two parties. Both are dependent on each other, and both possess sufficient resources with which they can bargain. Ultimately, the ‘G-7’s direct/withholding strategy was the ultimate reason which led the CFA to concede. The media in this case was used to exert extra pressure. In short, based on these two examples, the indirect/usage strategy adopted by Hyundai was not as effective as the direct/withholding strategy adopted by ‘G-7’, however, this in part is due to the resources

and respective positions of power held by both parties. In the latter example, that position was stronger.

Within the stakeholder analytical framework, the governing body has derivative legitimate claim on clubs, it possesses an overwhelming institutional power and legitimacy in the club/CFA relationship. By identifying such a relationship and to analyse it with a stakeholder relationship model (shown at figure 6-2) can help clubs to understand better of stakeholder management, especially their relationship with the CFA. A club alone is hardly to have any influence over the CFA's decision-making; when more clubs united, they will possess a certain degree of bargaining power and shift the relationship from stakeholder power towards interdependence, therefore, clubs as a united group is able to make a certain impact on the CFA's decision-making.

Clubs vs Country

Club v Country is a trade-off in the modern football industry. It is a relationship whereby a player is caught between conflicting duties – one to his club, and the other to the national squad. Players will always be first and foremost assert of clubs (since they are paid by their clubs). As such, it is reasonable for clubs to want to protect their players and their own interests. Much like any investment, clubs want to see a return. However, in the Chinese case, traditionally and politically, all players were paid by the government, the country and national pride come before any other market-oriented priority. Furthermore, in terms of players' psyche representing one's country is considered the highest honour.

Post-professionalisation however, we see clubs operating under a different guise, harbouring different priorities. The market-orientated paradigm is now the overriding authority for a club as a company, but not for the government. This creates great schism between two very differently positioned entities. Currently, the national team players continue to be fed into the system from clubs, but the difference being, they are now paid by their clubs. Meaning clubs are paying for players that risk getting injured, and the CFA offers absolutely no direct benefit. Even though players are now gathered only before the international matches, it is hardly a great return on an investment.

To add to this, some clubs argue that as players will continue to be paid, clubs evidently face the risk of players suffering injury, which will ultimately affects the player's market value and future performance for the club. Mr Jin Yan, CEO of Changsha Ginde FC states: (personal interview 06/07/08)

"There is a match calendar that allows us to plan ahead. The only problem for us is that the CFA tries to call up players too early, despite we have different views on this, clubs in China are used to this kind of arrangement".

Even though, clubs are aware of the negative impact of the club vs country saga, yet they readily accept the arrangement and rarely demand compensation. In fact, most Chinese clubs' psyche is more aligned with the government in that they do believe that playing for one's country represents the highest accolade for players and it is therefore obligatory for them to support the CFA. The national interest is placed before clubs' interest. The reason for this prioritisation is probably rooted in the national education. The socialist collectivism and philosophy maintain a strong impact on clubs to such extent that it overrides commercial sense. Surprisingly, some clubs do see the positive elements of this trade-off. Mr Liu Yuming, President and CEO of Yatai FC explains: (personal interview 02/08/08)

"Firstly, we are proud of our players who play for our country, not only do they gain a good reputation for our club, they also increase their own market values by playing on the international stage. Secondly, it provides opportunities for reserve players to break through, and clubs can benefit from that in the long run".

Despite the tug of war between clubs and the country, there are fewer conflicts and financial issues in the club vs country saga in China than in European football⁶⁴. Generally speaking, clubs are willing to accept the negative impact caused by the national

⁶⁴ UEFA compensates €100m to 575 clubs for releasing their players for Euro 2012, no such payment has made in Asia and China yet.

team selection. Despite the trade-off offering some positive elements, some due concerns have been noted. Indeed, conflicts have been increasing as clubs worry that players' national services might jeopardise their success in the league, some clubs are reluctant to release their players either with injury excuses or delaying their national services. For example, in January 2013, Lunneng FC and Evergrande FC openly questioned CFA's selection of its players and delayed its players to report national duty respectively⁶⁵.

In the pre-professional era, provincial teams fed their best players into the national team and the national team players were trained together all year-round in Beijing (paid by the state). There was never any conflict between the two parties. After football reform, clubs became utility maximisers, their ultimate interest does not necessarily align with the national team (as shown by graph 6.1).

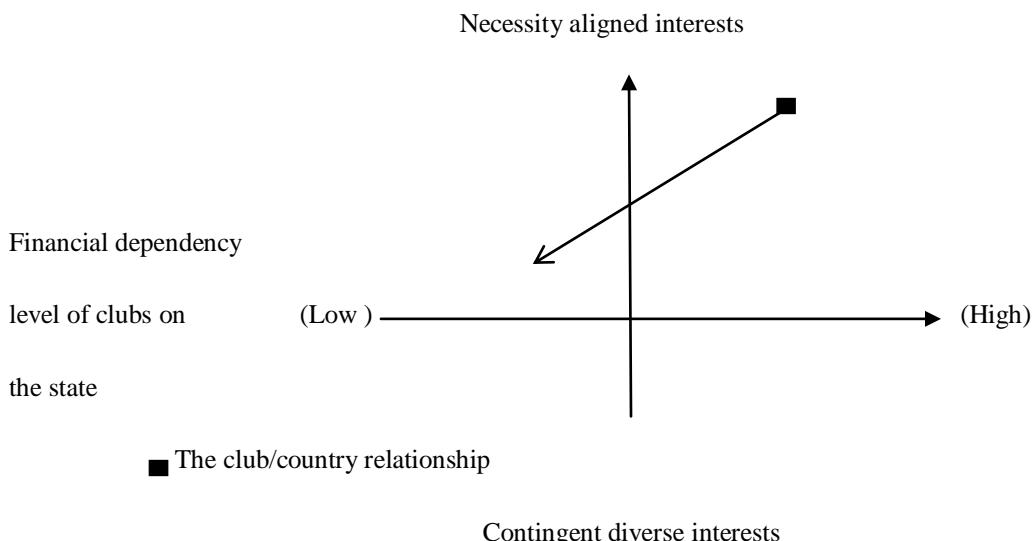


Figure 6-3 The development pattern of the clubs/country relationship

Figure 6-3 shows that clubs have developed more diverse interests along with their declined financial dependency on the state. The less a club's financial dependence on the state, the less aligned interests they have, therefore, the development pattern of the club/national team relationship has developed towards less necessity. At the practical

⁶⁵ Five Lunneng players and seven Evergrande players were selected by the national team.

level, clubs often think their own interests first. Mr Cao Liang, Marketing Director of Guoan FC explains: (personal interview 03/09/08)

“Financially, club competitions contribute a great deal to the CFA, and we deserve fair treatment. The national team’s preparation should not be scheduled at the expense of the league - promotion and regulation should be maintained with consistency, because all these facts can make significant impacts on clubs’ incomes and operational tactics”.

Relationships with players

After professionalisation, players became employees of the club rather than the local SB. Instead of the previous life-long job security, players are tied in by contracts. Moreover, there is never any guarantee that a club will renew its contract with a player on expiry. Clubs are no longer obliged to help players find new employment. This is representative of the rather callous change in the labour market.

Figure 6-4 shows the developmental pattern of a club/player relationship. Under the market-oriented economy, the employee’s material interests differed considerably compared with that of the employer. Players pursue financial rewards and self-realisation, whereas clubs are in pursuit of on field success, and financial return. Therefore, the pattern of the club/player relationship moved downwards and shifted from Necessary Compatible to Necessary Incompatible.

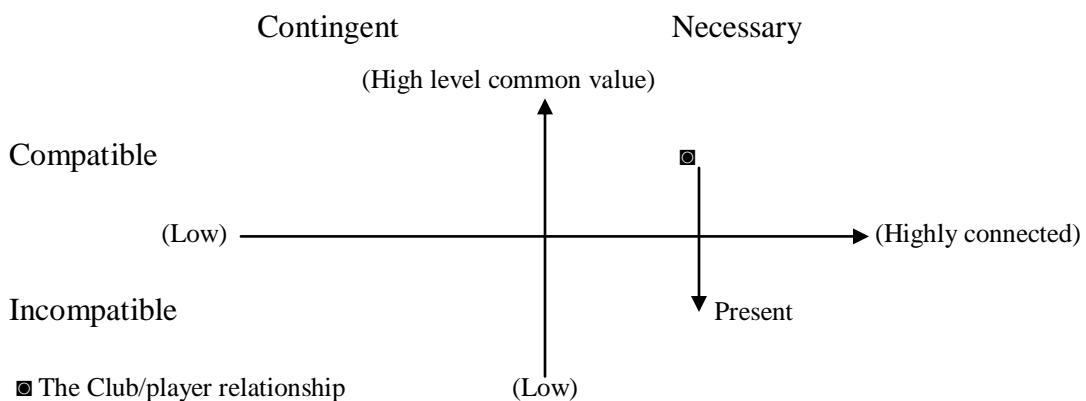


Figure 6-4 The development pattern of the Club/player relationship

As a result of this change, a financial dispute between clubs and players emerged. Examples include Shenzhen Jianlibao FC failing to pay players for six months in order to ease the club's cash flow in 2004 and Tianjin Taida delaying payment for players' salaries in 2008. Both disputes led to protests from players, and eventually they refused to train. The CFA introduced a new measure in 2010 to limit disputes between clubs and players over payment, meaning clubs can be fined, and their points can be docked if they fail to pay players on time (Jia 2011). Despite the CFA's measurement, delaying players' payment is a common practice amongst Chinese clubs, including Shenzhen FC – the researcher worked for during the summer 2012.

Players' remuneration also increased significantly after professionalisation. Total wage bills rose 10-20 times compared with 1994, and the Chinese league is one of the most expensive in Asia, second to Japan (Ashton 2002).

Both the CFA and clubs has realised the danger of the high salaries and therefore adopted a more rational approach. Firstly, clubs avoided entering into bidding wars as big salaries and transfer fees can easily bring clubs into financial difficulty, and can have a detrimental impact on the healthy development of the industry. Secondly, the CFA introduced a transfer ceiling in 2003 (Eaves *Et al* 2003) and a salary cap for clubs in April 2004 respectively – clubs are not allowed to spend more than 55% of their annual revenue on players and coaching staff's salaries (CFA 2004b). Mr Zhou Xiaobo, Chief Assistant of CEO, Henan Jianye FC explains: (personal interview 09/07/08)

"Players' wages are rational now, although they are still on a relatively high level compared to the national average, but it is not sky high. We take our responsibility seriously, however, we need to recognise footballers have specialised skills and they limited playing careers".

Not only did player salary increase after professionalisation, the payment structure changed too. A performance-based structure replaced the old structure based on

egalitarianism, and all clubs link their performance to players' salary today. This change indicates the impact of market forces on the club management. Mr Zheng Ming, Vice General Manager of Jiangsu Sainty FC explains: (personal interview, 07/07/08)

"We do not encourage high wages, even though we have a strong financial backing, we believe in a more performance-based wage structure, which is a rational approach for a limited company".

During the last couple of years, players' wages up again. Right now, not only do domestic players earn big salaries, the foreign players earn even more, for instance, Anelka €10.06m, Conca €7m, and ¥3billion will be invested by 16 Super League clubs for the 2012 season (Dong 2012). Just bonus alone, eight clubs have already exceeded the ¥10m mark after 22 rounds in the 2013 season, and Evergrande's ¥57m tops the list (Chen 2013).

Despite the fact that players are well remunerated compared to pre-professional era, the football market gives more initiative to clubs in contract negotiations. Apart from few foreign players on multi-year deals, most domestic players are contracted on an annual basis, their contracts are subject to a renewal every year. On the one hand, players have to be consistent in order to earn their next contracts, but on the other hand, they have opportunities to improve their contracts through good performance in a relatively short period. If a club decides not to renew a player's contract, the player will be put on the transfer list. Mr Liu Yuming, President & CEO of Changchun Yatai FC explains (personal interview, 02/08/08):

"We do not offer long-term contracts, all contracts are signed annually and reflect players' performance based on the last season. It is rational business practice for all clubs, therefore reflecting fairness for both players and the club."

Figure 6-5 demonstrates the club/player relationship based on the level of two parties' interdependency. In the pre-professional era, players enjoyed a stable employment status with provincial teams, and both parties worked together within a highly interdependent relationship. Despite players gaining the freedom to change clubs with relative ease after professionalisation, they are no longer guaranteed steady employment. With the creation of the transfer system, clubs are less ready to rely on particular individual players, but instead they want the flexibility of being able to replace them easily. As a result, the club/player relationship pattern shifted to the left, from a status of High Interdependence to a status of Club/(firm) Power. The new pattern skews towards the clubs and puts them in a commanding position, giving the clubs an upper hand over players in the labour market.

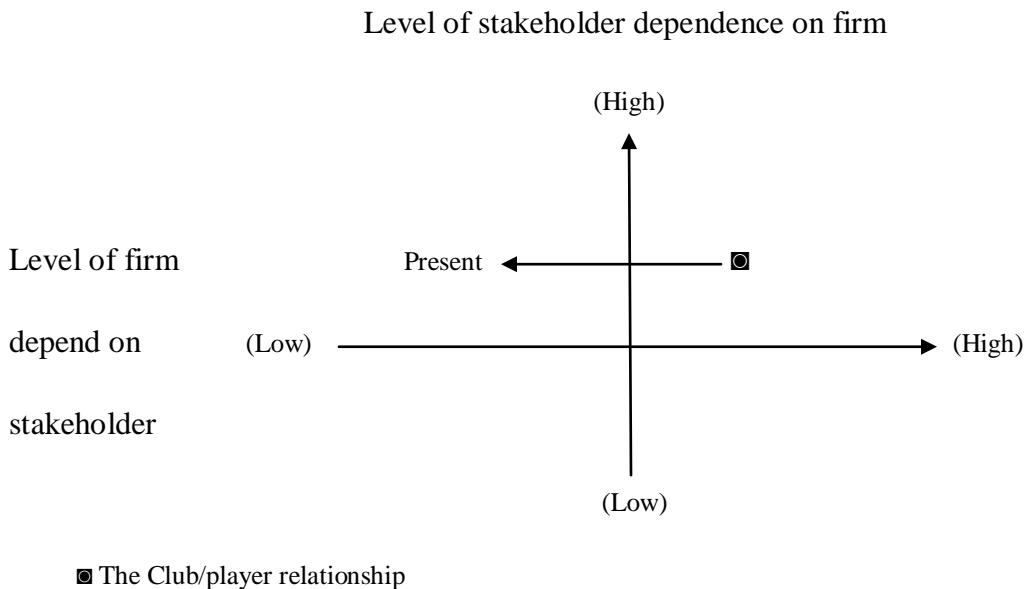


Figure 6-5 The club/player relationship development pattern

In the new club/player relationship, professionalism is required for both clubs and players in order to manage a smooth relationship. From a clubs' perspective, Chinese players are not professional enough both on and off the field. Mr. Han Gongzheng, Deputy General Manager of Luneng Taishan FC (personal interview, 05/01/08) states:

“Our players make so many negative headlines, which damages football’s credibility and sets bad examples for the youth. Commercialisation brought us professional football but without professionalism.”

The statement indicates that players need to be more professional and self-disciplined in order to meet the new requirements of the modern game.

Relationship with fan groups

A team and fans come together to become a football club, and part of the attractiveness of football is the atmosphere created by the fans. Despite fan associations emerging in the middle of the 1980s - a decade before professionalisation, elite teams and fan groups were independent organisations with no direct relationship existing between them.

According to Friedman and Miles (2002), the stakeholder relationship can be defined by contracts between different stakeholders, and this, in turn, applied to elite teams and fan associations, can be defined as Implicitly Unrecognised contracts between them⁶⁶. In Friedman’s stakeholder relationship model, the relationship of an elite team and its fans can be categorised as one of the Contingent Compatible under the planned economy. The market approach and professionalisation raised clubs’ awareness, soon afterwards, clubs realised the importance of the fans’ involvement and support as being critical to their business success. Therefore, all clubs today are centred on establishing close links with their supporters. Some clubs have even created their own fan associations. This new practice established a new relationship between the clubs and fan associations, and as a result, an explicit or implicit recognised contract⁶⁷ formed between the two parties, therefore the relationship becoming a Necessary Compatible under the market economy.

Figure 6-6 shows a development pattern of the club/fan relationship. Professionalisation brought a new business philosophy to club management - clubs gradually engaged with

⁶⁶ Not recognised by the parties involved (elite teams and fan associations), but recognised by certain ‘sensitized’ others (Friedman, 2002, p8).

⁶⁷ Explicitly recognised contract: written or verbal, can be via a third party; Implicitly recognised contract: recognised by parties involved and/or significant others (Friedman and Miles, 2002, p8).

local fans associations with a more direct relationship in order to expand their fan bases. As more direct links between the two parties were established, the old implicit unrecognised contract was replaced by the new explicit/implicit recognised contract, due to this, the pattern of club/fan relationship moved to the right, the status changing from the Contingent Compatible towards the Necessary Compatible⁶⁸.

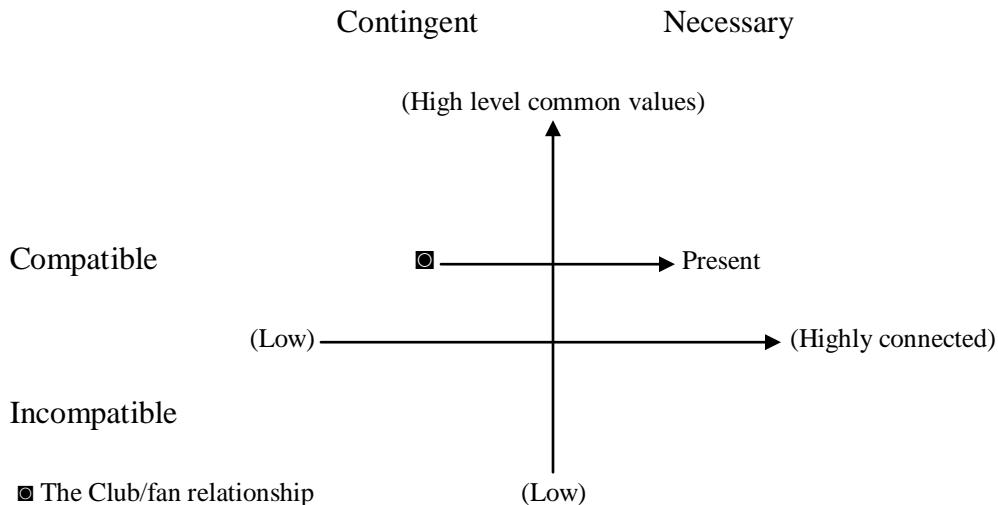


Figure 6-6 The development pattern of club/ fan relationship

The Chinese football market is still in an early stage of development - local markets vary from place to place, and therefore clubs adapt different business approaches to manage their relationship with their supporters and fan associations. Despite clubs' own efforts, a strong bond between clubs and fans has to be forged over time. At present, the most common practice for Chinese clubs is to provide access and opportunities for fans to meet players and club officials on a regular basis. Mr Zheng Ming, Vice General Manager of Jiangsu Sainty FC explains: (personal interview 07/07/08)

"We are trying to foster our market by increasing our fan base and creating our fan culture. We organise our own fan associations within the province, we help them to develop. The club needs their involvement, however, there is a cultural difference

⁶⁸ The exact status of the club/fan relationship (Contingent Compatible or Necessary Compatible) depends on the contracts (explicit or implicit) between the two parties.

between China and the West - fans' financial contribution has not been important, but we believe it will be an import factor when the football market matures”.

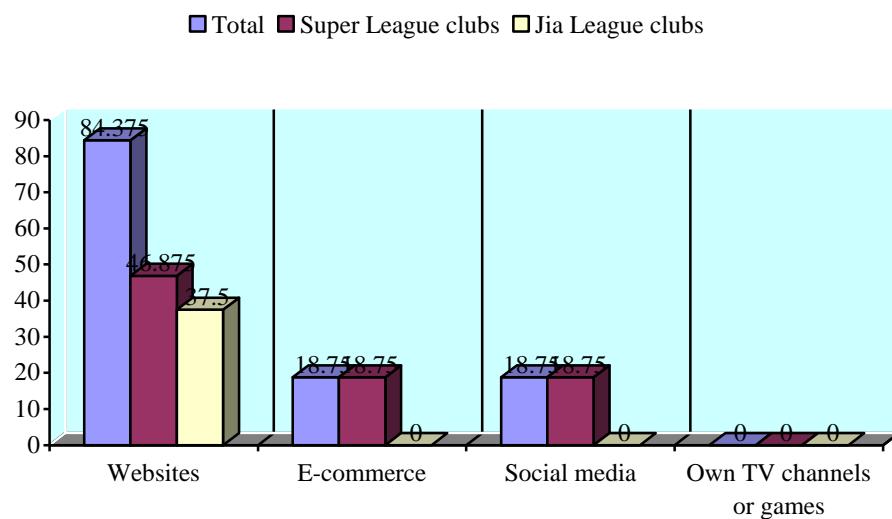
With various market approaches, some clubs are making efforts to increase their fan bases by offering discounted tickets or even free entry and subsidised travel. Mr Jin Yan, CEO of Changsha Ginde FC states: (personal interview 06/07/08)

“There is no market for charging fans when the domestic environment is so bad. We give some tickets to fan associations for free. Ultimately, we are looking at long-term profitability, bringing people back to the game first, then re-establishing the market”

Despite clubs realising the importance of fan support, they fail to identify their own social value as intrinsic parts of local community. Community schemes have been widely recognised by European clubs not only as an effective tool to forge a close links and loyalty amongst supporters, but also to demonstrate a club's traditional value. Furthermore, football is regarded as a representational sport, with clubs representing specific geographical locations. Clubs can engage with communities' based not only on specific geographical areas but also on wider social issues. Morrow (1999) sees the alienation with supporter community as the principle business risk for a club, especially when the new fans may not be as loyal as the old ones.

Indeed, clubs create a social bond with their local fans in order to develop their identities as well as a club culture. However, not a single Chinese club has its community programmes or provides its facilities for use as a community resource to allow a better links to be forged more efficiently. Compared to European clubs, they remain ignorant. Clubs fail to identify the importance of community football illustrates not only a shortage of competent managerial staff at the club level, but also limits clubs' development as a social institution, which in turn affects clubs' sustainable development. Just as Professor Jin Zhiyang, states: (personal interview, 08/08/08)

“Fans are god, even more so than the customer. A strong fan base is built through social connections and bilateral communication. Good governance and strong social connections build a club’s legacy which enhances its image and brand value as a whole”.



Graph 6.5 Percentage of clubs communicate with new media interaction

In the new media era, social media tools create big business opportunities and make huge impact on clubs’ commercial development. Graph 6.5 shows only 18.8% of clubs have social media platforms for the club/fan interactions; 84.4% of clubs have their websites. Despite 17 clubs claim that having a close and very close relationship with supporters (survey result), only 18.8% of clubs have e-commerce as part of business practice. Moreover none of the clubs have created their own TV channels or games to engage with their supports. Ms Li Hong – CEO of Shenzhen FC states: (personal interview, 20/08/12)

“Although we need to embrace the available new technology, it takes time for us to figure out how such technology works for a football club and what we can really do with it. Chinese clubs are not good at these things including us. I found it is very difficult to get few capable people to develop this sector. Look at our website, it is not even updated”

The survey result and Ms Li's statement reflect that clubs failed to draw their fans into a richer relationship with new technology, which reflected the fact that few competent managerial staff with business acumen exist at the club level. More important, such a situation fails clubs' real potential growth opportunities in a more connected world.

At the digital age, it comes digital engagement and a digital culture. It is important to understand who makes up clubs' followers, to provide them with relevant content on the right devices at the right time. Social media is a fantastic tool for allowing fans to openly exchange views and letting them be active members of the clubs. Social media interaction with fans has been largely employed by big European clubs to build strong engagement with their fans. It is also growing interest for clubs to provide both current and potential business partners with real insight into that audience, ensuring they understand and use that information to deliver return on investment.

Interestingly, Chinese clubs normally see school football as a good alternative in terms of increasing social cohesion and popularity. School football can engage young people and provide a feeding structure into clubs' academies. Mr Zheng Ming, Vice General Manager of Jiangsu Sainty FC explains (personal interview, 07/07/08):

"We send our players to some local schools. These are key football schools with a strong history of producing players. As such we have a close working relationship with them, they are capable of producing players for the academy".

School football focus on the playing aspect of the game and targets a specific group of young people within the education system, it lacks of width and depth in terms of creating community links and building sustainable a fan base. By contrast, running community programmes can provide tailor-made services through social media and e-commerce to engage not only local fan base but also a wider range of stakeholders.

6.2.2b the clubs' perception on other changes

Professionalisation changed the structure of the academy and grass-roots development, as local sports authorities have gradually shifted youth teams from provincial central sports schools to clubs, and at the same time pushed spare-time football schools into the market. By the end of the 1990s, most clubs already ran their own academies. In fact the club academy was made compulsory for all professional clubs by 2003. Clubs are required to invest at least 10% of their revenue to academies, which includes a minimum of three teams U-19, U-17 and U-15 (Article 2, rule 9). However, critics do not see this as a success story, as Professor Jin Zhiyang explains: (personal interview 08/08/08)

“The club academy structure has destroyed the old fostering system. There are only 2-3 players that can break into the first team each time, the remaining players have nowhere to go. This discourages children from playing football. Furthermore, maintaining three youth teams do not make financial sense for a club, most clubs prefer to buy young players”.

In terms of sustainable development, the old fostering model was directly funded by the government, and players spent their time equally on training and study. Academy players always had a job guarantee and continued further education if they could not break into the first team before graduating. By contrast, the club academy model does not provide the same opportunities. This discourages young people from playing football, especially when they can look beyond the early salary temptation.

Corruption is considered the biggest threat to the Chinese game. According to Chinese media, the culture within the football industry is rife with corruption, which forces clubs to compromise their principles. Moreover, there is a great deal of “flexibility” on players’ ages, falsification is a common place within the industry, for example, Italian club Perugia prepared to buy Ma Mingyu, but in fact, he was older than Perugia was led to believe, and as a result, his trial in Italy ended up with a negative consequences (Eaves *et al*, 2003). According to a BBC (2009) report, bone tests on teenage athletes in southern China have shown that more than 3,000 out of nearly 13,000 faked their ages in order to

keep competing in junior events. Mr Jin Yan, CEO of Ginde FC states: (personal interview, 06/07/08)

“Gambling and falsification of players’ ages are the main problems. Despite gambling being illegal in China, it is an industry which still leads to match fixing. The government should take a stronger stand and bring the judicial system into the game. Falsification of players’ ages must be addressed, otherwise there is no hope for Chinese football”.

There is no a single club with a will to bribe, however, due to the stakes involved, clubs, players and officials can be approached by other parties. A CFA official was quoted in a Shanghai newspaper in 1998, as saying all professional clubs had falsified their accounts in order to hide bribes gave away (Eaves, et al 2003). Mr Zhang Defa, General Manager of Shanghai Shenhua FC recognises: (personal interview, 18/01/08)

“As you know, it is difficult to talk about corruption in the game. I can only say that there is something we cannot control, there are unwritten rules existing in the industry, sometimes you just have to adopt these rules in order to survive”.

It is fair to say that corruption is not limited to China and its football industry. However, as a social phenomenon with political neutrality, these issues have been publicly debated. Although all clubs recognised the problem and its existence, every one of them distanced themselves from corruption. In comparison to other Chinese sectors, the football industry is relatively exposed to media scrutiny. For example, following a poor performance by the Olympic Team in Beijing, the Chinese fans held up placards demanding the CFA chief’s resignation. This is certainly something you would not see in any other realm of Chinese society. It demonstrates a great openness within the industry (Borger, 2008).

6.3 Summary

Alongside the expansion of capitalism, and the modification of sports policies on a global scale, football governance has developed significantly. Football in China has undergone

an unprecedented transformation since its professionalisation. The centrally controlled top-down governance structure was modified during this transformation process. Governance power shifted from governing bodies towards clubs. Having recognised their increased power, clubs are more actively managing their relationship with their stakeholders through different mechanisms. Moreover, with a more commercial approach and sensible financial awareness, clubs are learning how to exercise their power properly in an improved and influential manner.

Having the stakeholder theory framework to analyse governance at club level, the researcher focussed on clubs' operational practice and their relationships with other stakeholders. Findings are based on both descriptive and quantitative analyses and the development trends are explained with different theoretical models and visualised with appropriate graphs, which provide fresh analytical insights into football development. For instance, the transition of the club/CFA relationship pattern (Figure 6-1) illustrates increasingly diversified clubs' interests, growing power and demands. The theoretical approach also combines two themes - conflict of interest and financial dependency to explore the clubs versus country relationship. The analytical model (Figure 6-3) and findings show clubs are more proactively managing their relationships with the CFA and having more accountability demands.

Modern football clubs must recognise the conflicts they hold, both as community resources and as profit-making companies. Due to their overriding business nature, it is important for them to function as businesses; it is equally important to recognise that clubs are more than just businesses. One needs to see a club both in terms of its social and cultural application, just as much as its financial application. The insights of the clubs' relationships with other stakeholders that are obtained from stakeholder analysis answer the sub-research question – how clubs manage relationships with multiple stakeholders? The analytical findings contribute enormously to sport governance studies in China especially to better understand the football industry at club level.

For a football club, it is the club's responsibility to have a positive influence in the lives of employees, fans, investors and so on, therefore, it is necessary to recognise the importance of all the stakeholders' involvement and their interests when a club carries out its businesses in order to minimise conflicts. Lacking a proactive approach and having a short-sighted vision reduces clubs ability to manage their business effectively. The stakeholder models and findings from this chapter provide constructive predictions, and the sooner all stakeholders pay attention to proper governance, the earlier the football industry will benefit as a whole.

This chapter explore the club's perspective to address the research question. It reveals the conflicts and needs of club management, through analysing relationships between the clubs and their main stakeholders in order to understand how the clubs resolve conflicts with different stakeholders. The next chapter looks at the industry from the player's perspective.

Chapter Seven: The Players' Perspective

7.1 The players' status

A modern commercial business will see its workforce as its greatest asset, and many managers recognise their staff as being highly valuable and worthy of investment. To that end, effective management of a company's workforce has been viewed as an important element for corporate success.

The football industry revolves around games and the games revolve around players. It is true that players are the most valuable assets for the clubs, and they play an essential role in the industry. Players as a whole form a normative stakeholder group and are, in effect the main workforce involved in producing matches. Looking at the role of players from football economic perspective, they are also viewed as fixed capital in the eyes of the clubs and their market values are included in the clubs' balance sheets, as such a relationship will be governed by strictly legal contracts (Healey 2009). By contrast, in many other industries, a firm's workforce is not included in its balance sheet.

There is a dearth of literature on characteristics of Chinese football players as regards their perspective on football development both as individuals and as a stakeholder group. This chapter provides not only a brief overview of Chinese football players' status but also to explore the players' view of the industry with descriptive analysis.

7.1.1 The status before professionalisation

After the communist party ascended to power in 1949, a centralised sports system was established. The new government placed an emphasis not only on stabilising the new regime, but also on improving the overall health standard of the population. Therefore, under the political ideology, sport has been used as an effective means of achieving both these goals.

Whitby (1999) contends that the elite development of Chinese sport has been achieved by combining rigorous implementation of programmes and athletes' development. In the case of football, the Soviet style fostering system was adopted in order to develop elite players - a pyramid structure with good cohesion between each layer.

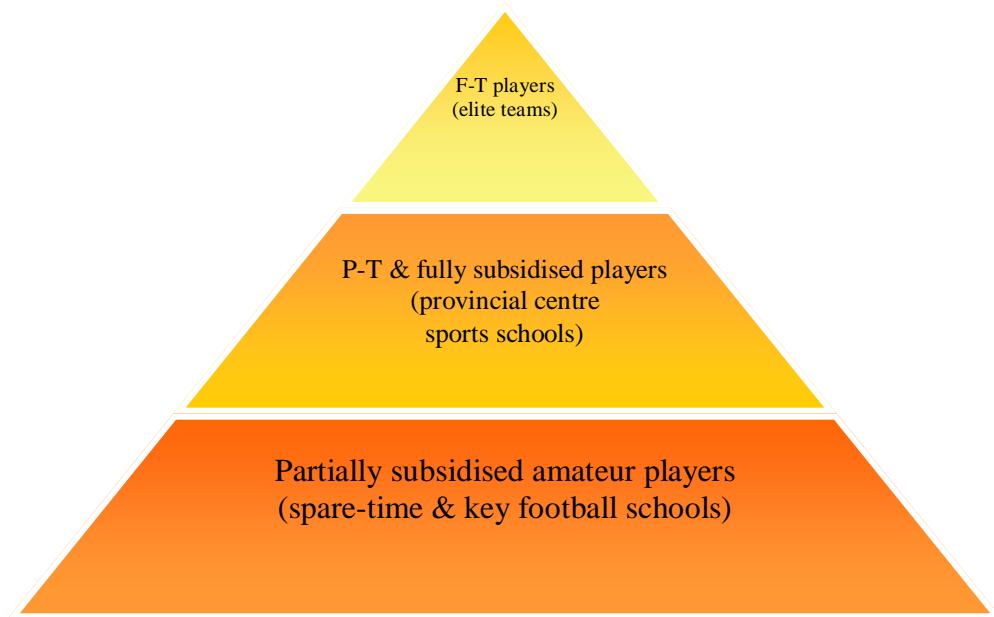


Figure 7-1 the pyramid structure of elite development

The talented youngsters from spare-time football schools and key football schools could be selected by provincial central sports schools, and from there, they could work all the way up to provincial teams and even into the national team.

Spare-time football schools provide specialist coaching for selected youngsters aged between 8-15. Players were trained together after school during the afternoon. Students with promising potentials could go a step further to provincial central sports schools. Each province and municipality city had one central sports school with boarding facilities and many of them had football squads. Players were selected across the whole province and lived on site as "semi-professionals". The best players from a provincial central school could progress to break into a provincial team or its reserve team to become

“professionals”, while the unlucky ones were either given jobs by the state after they graduated or returned to normal high schools to continue their education.

In the state amateur system, selection was based on players’ ability and potential. From these two elements, the higher up the ladder a player could climb, the more lucrative subsidy he could receive. For example, such subsidies at the spare-time school level included players receiving free clothes, food and travel subsidies during competition events, and at the provincial central sports school level, players enjoyed free boarding, clothes and small monthly stipend. If a player managed to break into one of the provincial teams, they were collectively accommodated and paid as state employees with free food, clothes and medical care. The reward system at all three levels of the elite development structure was inherently a socialist ideology. The Soviet style sports system avoided material incentives instead promoting collectivism and egalitarianism. Moreover, state employers were encouraged to contribute more to the ‘motherland’ therefore no bonuses were awarded, regardless of a player’s performance. Under the planned economy, players were rewarded equally – the only difference was reflected in seniority.

At the top level, national team players were trained collectively all year round in Beijing, where they enjoyed the best facilities with a state employment security. They did not need to return to their provincial teams to compete domestically, as their focus was on international competitions only. Although elite team coaches were judged based on merit, their employment status was permanent, and they often enjoyed long career spells with their teams. Against this backdrop, many senior players were also able to hold a stable position under the same coach with fewer intense challenges from junior players. As a result, it was made difficult for provincial team players to break into the national team, which in turn made it increasing tough for young players to break into the provincial teams.

Furthermore, the transfer system did not exist in the pre-professional era. Players were tied to their provincial teams throughout the duration of their careers. By the end of their playing careers, local PESCs had a responsibility to find appropriate jobs for retired

players. Despite only the best players having opportunities to be retained as coaches, opportunities for further study to qualify as PE teachers were widely available for others, and such training was provided even before the end of their playing days.

In short, before professionalisation, the whole football system was funded by both local and the central governments. Despite top level elite players earning a full-time salary while training and playing on a full-time basis, they were still officially recognised as amateurs. There was a systematic procedure for indentifying and training young athletes from an early age - but few resources were attributed directly towards public use. Motivation for sporting success was borne out of patriotism and collective success - players were competing for ‘the glory of socialism and the motherland’.

7.1.2 The status after professionalisation

By the mid-1980s, many Western concepts had been accepted by the Chinese government - politics and sports became less intermingled (Jones 2000). As the commercial approach was widely adopted socially, there was increasing demand for sports to be financially self-sufficient. As such, football became the first sport exposed to the Western influence and was encouraged to pioneer the Chinese sport reform.

The football reform transformed the industry through professionalisation. With this, the combined market approach and sponsorship played important roles in the transition. Players saw huge increases in their financial reward and the introduction of the transfer system. This provided elite players with more flexibility to maximise their labour value under market-oriented economy. On the one hand, players were now able to enjoy more freedom in terms of movement, however on the other hand, the market-orientated reform provides less job security in the shape of players’ employment status changing from permanent state employees to contractual employees of club companies – players could now be released at the end of their contracts without any guaranteed alternatives to safeguard their future.

The commercial approach and reform policy led to substantial reduction of direct government funding, with spare-time football schools and provincial central sport schools affected the most. As a result, spare-time football schools had to adapt the market-oriented approach in order to operate on reduced state budget, leaving most students now needing to pay training fees. Moreover, the majority of provincial central sport schools dissolved their football squads in order to focus on other Olympic sports (Fan 1997). As a direct result, some young players were transferred to football clubs' academies.

Unlike during the pre-professional era, each different club's academies are now managed in accordance with that club's policy. Some academies require players to pay full or partial training fees in order to stay on board, while some others are free of charge. In addition to the state funded schools, private football schools emerged in the market. There were about 1,000 schools throughout the country in the 1990s, less than 100 are still operating at present (Ran, 2008a). This dramatic reduction has been concluded by media to be a result of short-sighted behaviour of investors and an over-commercial approach at the grassroots level.

The 'westernisation' of football management can also be analysed at the very top level - the national team. The method of long-practices and collective training has been replaced by the temporary grouping of players who are most on form, which increases competition for every position. National team players are gathered just before international duties.

7.2 Impact of professionalisation on players

7.2.1 Players' wages

The market-orientated economy brought to the Chinese football industry Western managerial practices, along with its cultural values. Players' wages have been increased significantly since professionalisation, but, unlike their counterparts in Europe, the increase is not a direct result of the infusion of money derived from television, but a product of sponsorships.

Before professionalisation, players were paid like any other state employees – with a national average salary standard. Today, players are paid according to their individual contracts, which reflect their market values and are based on the PRP structure, and it also provides a link between pay and employees' overall performance. This acts as a motivational force and allows for successful employees to be rewarded more generously (Baruch *et al* 2004).

In tune with the ‘Western’ concept of individualism, the PRP structure has been widely accepted by both Chinese clubs and the players. A typical professional footballer’s salary is divided into three parts: basic salary, training performance and match bonus, with each of these parts determined by the player’s performance in that particular area. The PRP salary structure has certainly made a substantial impact on players’ attitudes towards their job. As Lu Chang explains: (personal interview 31/08/08)

“During the state amateur era, it was my team that needed me (for training and competitions), and now it is I that needs to train & play in order to be match-fit. A passive attitude is replaced by willingness and initiatives”.

The fixed salary structure based on egalitarianism that was practised in the pre-professional era provided no financial incentives for players’ good performance and achievements. In direct contrast, the PRP salary structure, upheld in the professional era, has created strong internal competition between players. The PRP structure certainly stimulates players’ desire to play and to win. Indeed, every competitive match has become important as it is now intertwined with players’ income. In addition, training sessions carry further importance, as players need to demonstrate their current form during training sessions in order to make the starting line-up. As a result, the internal relationship between players is more competitive and players’ behaviour more professional. As Tao Wei explains: (personal interview 02/09/08)

“We have to be more professional and treat matches and training seriously. As any injury can affect our potential earning, we need to learn how to protect ourselves - to perform and to avoid injury at the same time in order to shine on big stages.”

Baruch *et al* (2004) argue that these new elements are based on the capitalist ideology of individualism (which emphasises individual achievement with an ‘I’ orientation) and clearly contradict the fundamental ideology of socialism, which promotes collectivism and egalitarianism. Despite the ideological contradiction, the PRP structure has been adopted by all clubs in China since professionlisation as an effective tool to encourage their players.

7.2.2 The transfer system and foreign players

The transfer system was introduced in 1994, and took effect just before the 1995 season. The new system provides a structure of transfer fees and opportunities for players to move between clubs. As the CFA tries to keep the transfer system in tune with the pace of development, details of transfer rules are modified slightly from year to year.

Seasons	Number of players requested for transfer	Number of players completed transfer	The top transfer fee achieved
1995	28	16	¥ 600,000
1996	62	44	¥ 1,150,000
1997	72	60	¥ 2,200,000

Source: (Zhou, 1997)

Table 7-1 The transfer figures from 1995-1997

In the first three seasons (1995 – 1997), players could negotiate with any club. Due to the introduction of the transfer system providing a platform of mutual selection for both players and clubs according to the market principles, the number of transfers increased each year.

During the 1998 – 2004 seasons, a draft scheme was introduced that was similar to the NBA’s - those players whose transfer requests had either been approved by their clubs or

who were no longer wanted by their clubs were listed on the CFA's transfer list, and the club that finished at the bottom of last season's league table had the right to the first pick. During this period there were two transfer windows – before the season began and the half way through the season. The number of choices was also restricted for each club. As the Players' Status and Transfer Regulation (CFA 2001, p6) Article 2 Rule 16 states:

Each club is eligible to pick maximum seven indigenous players each season, and five maximum during the first transfer window.

Despite this system having many problems, both clubs and players had to obey the transfer rules. Even if a player has a preference for a particular club, and that club agrees to sign him, there is still a possibility that another club will interject during the drafting process. For instance, a player who wanted to join club A was more likely to end up with club B because the club B's picking order was ahead of club A's.

The Players' Status and Transfer Regulation (CFA, 2001, p7) states in Article 2, Rule 19, No.3

Neither clubs nor players can withdraw from the transfer process after picking, otherwise they will lose their status to compete for this season or an even longer period of time.

Table 7-2 shows some of these 'mismarriages' between players (worth over ¥ 1m in the transfer market then) and clubs in the 1999 season.

Players	Players' original clubs	Ideal clubs for transfer	Clubs that players ended up with
Wang Tao	Dalian Shide	Xiameng Xiaxin	Beijing Guoan
Deng Lejun	Shandong Luneng	Shenzhen Pingan	Xiameng Xiaxin
Shen Si	Shanghai Shenhua	Daliang Wanda	Shanghai Shenhua
Zhu Qi	Shanghai Shenhua	Overseas	Sichuan Quanxing
Ou Chuliang	Shanghai Shenhua	Top Jia A club	Yunan Hongta
Jiang Hong	Qingdao Yizhong	Shenzhen Pingan	Shanxi Guoli
Gao Feng	Qianwei Huandao	Overseas	Shenyang Haishi
Jiang Jin	Bayi	Jia A	Tianjin Taida
Wei Yimin	Daliang Wanda	Xiameng Xiaxin	Qianwei Huandao

Source: Gong (2000)

Table 7-2: The 1999 season transfer list of mismatches

An updated transfer regulation (CFA 2004) was started from 2005 season, which abolished the draft system and set just one transfer window. Although there was no restriction for clubs to sell their players, it allowed each club to purchase no more than five native players each season (*ibid*).

The new regulation gives priority to clubs in retaining their old players, as the Article Four, Rule 15, No.5 states (p3)

“If a player’s current club is willing to extend his contract, then the player can not be transferred”.

No6 (p3)

“Relegated clubs can refuse transfer request from any of their players without reason”.

In contrast, foreign transfers are made according to FIFA rules and the AFC regulations (Cong & Shi 2009). Both transfer regulations (2001, 2004) allow each club to sign three foreign players at one time, while in addition, since 10th October 2000, no foreign goalkeepers were allowed in order to protect the interest of Chinese football (*ibid*). From the 2010 season onwards, five foreign players are permitted for each Super League club and four foreign players for each Jia League club⁶⁹.

The AFC introduced a ‘3+1’ rule for its 2009 Champions League competition – a club can play three foreign players (from outside of the AFC members) plus one Asian player (from the AFC members) at the same time (Duerden 2009).

Looking at the Chinese transfer market, the ‘free agent’ status does not exist, even once a player’s contract with a club has expired. A player can only become a ‘free agent’ (be eligible to sign a new contract without a transfer fee) after 30 months’ expiration of his last contract, and if a player signs for another club within the 30-month period, a transfer fee is required. The term ‘free agent’ was defined in both the CFA transfer regulations (2001, 2004), as the Article Four, Rule 12 states (2004, p2):

⁶⁹ The latest regulation for the 2012 season (the CFA 2011).

“A player either has not played for any clubs for 30 months or more than 30 months, or has never played for a club before he can be registered as a free agent in his local FA”.

This means that Chinese clubs have more power to retain their best assets than their international counterparts within the heavily regulated market.

The introduction of foreign players in 1994 hugely boosted the popularity of the professional game. Now, all the super league clubs and most of Jia League clubs have foreign players. Chinese clubs mainly sign older and relatively high profile out-of-contract players from Europe, whereas young players from South America and Africa are often hired due to their relative cost-efficiency. Good quality foreign players have enhanced clubs’ competitiveness, and some of them played a vital role during the clubs’ promotion and relegation battles. As a result, most indigenous players perceive foreign players as making a positive impact on Chinese football. This is especially poignant when considering the experience and professional attitude they brought into the Chinese game and the way in which their involvement has moved the game forwards.

Compared to the presence of foreign players in China, not many Chinese players play abroad. The first two players played abroad were Jia Xiouquan and Liu Haiguang in the 1980s with Partizan Belgrade, which was orchestrated by special agreement between the governments of China and the former Yugoslavia (Liang 2003). After professionalisation, Fan Zhiyi and Sun Jihai played for Crystal Palace in 1998, Fan also played for Dundee in 2001 and Sun played for Manchester City and Sheffield United before moving back to China in 2009. Dong Fangzhuo played for both Royal Antwerp and Manchester United between 2004 and 2008 under a contract with Manchester United. Another player, Zheng Zhi, played for Charlton Athletic and Celtic, and moved back to China in 2010. Few Chinese players are able to play in high profile European Leagues. There are many difficulties for foreign clubs when signing Chinese players. Firstly, the playing standard of Chinese players is not appealing - the national team is currently placing just 97th in the FIFA rankings⁷⁰. As a direct result of this, immigration laws in many European countries

⁷⁰ October 2013. The highest position was 37th in December 1998.

restrict work for players from low-ranking countries. Secondly, the lack of licensed agents poses obstacles. Almost all Chinese players lack agents. This is detrimental to players' interests, as they cannot be represented by professionals in business meetings, and have no one to look out for opportunities for them to play abroad. As Li Zhihai explains: (personal interview 30/06/08)

"The opportunity for us to play abroad depends on the clubs - we have to rely on our club's overseas connections. We do not have agents, and only few players can meet the European playing standards, so currently, we just deal with everything ourselves".

Both the introduction of foreign players and the transfer system have affected players internally as well as externally. Externally, the transfer system creates a relatively mobilised labour market, which provides more options and flexibility for players to move between clubs. Internally, the mobilised labour market and foreign players increased internal competition between players. As a result, at the professional level, the game has advanced into a much stronger competitive environment. Today, all players have to be competitive enough in order to survive, regardless of which club they are playing for.

7.2.3 The fitness test and the lifestyle

Chinese teams need more in-depth physical strength to sustain themselves through challenges. The national team in particular has failed many times on important occasions, either allowing late goals, or in some cases having players collapsing towards the end of the game. Players' poor performance was affecting Chinese teams' progress in major tournaments, and the CFA consequently introduced the fitness test in 1994 as one of the measurements to counter the lack of physical strengthen in Chinese players. This fitness test consisted of two parts – a 12 minute run and a (5-25) x 5 shuttle run.

The introduction of a fitness test has had the biggest impact for professional players. In the inaugural year of professionalisation, 359 players attended the fitness test in March. Of these, 114 players failed at their first attempt, including national team players, and 28

players even failed the benchmark for retaking the test (Wang, 2004). The result indicated that many elite Chinese players needed to improve their physical fitness in order to pass the test and to be fitter for professional competitions. We can now see a parallel development of the professional games, as players are now more capable of dealing with the test, fewer players fail each year and the physical side of the game is stronger. In addition, from 2003 onwards the test was changed to a yo-yo test⁷¹, but it was still a compulsory for all players to take part every year before the start of the new season. In the latest development, the CFA abolished the fitness test all together in 2011.

Despite the many changes that have taken place in the industry, the way clubs manage players remains largely unchanged. Chinese players live communally in their training bases, where players are less likely to stray from the straight and narrow path of clean living, regular daily routine, controlled diet and training. Jones (1999a) recognises that the practice of housing all players together is a part of the communist system in which players can be kept in a disciplined manner. Before professionalisation, players were housed by their local sports authorities and had to share bedrooms. Today, players are housed by clubs in training bases, where most players have their own studios. Food and leisure facilities are provided free of charge. A former Vila and Blackpool player Marlon Harewood sees the Chinese regime was a tough one⁷² and states (Drew, 2011, p4):

“Chinese managers have their strict rules and routines that they go by, for example, all players stayed at the same hotel for the duration of the season, it was like preparing for an away game every day”.

“The foreign players have the freedom to go out, the Chinese players have a 10o’clock curfew and their rooms are checked to make sure they are in, we could do what we wanted to a certain extent but we did not abuse it”.

⁷¹ A different type of shuttle run.

⁷² Harewood jointed Guangzhou R&F in July 2011 on a short-term contract.

Compared to European professional players, Chinese players appear to live like soldiers in an army compound. Although most foreign players are accommodated in the same way, they enjoy more freedom and may get better accommodation and special treatments.

Most players are used to this type of management, since they have experienced similar management as youth players in provincial central sports schools. Guangzhou FC attempted the ‘Western’ way of management in the early days of professionalisation, allowing their players the freedom to live where they liked, but found that this trial did not lead to success on the field. With this relative freedom, some players found themselves involved in unsavoury activities off the field, which were highlighted by local media. Due to the onslaught of negative publicity and debate about the ‘westernised’ living arrangement, the club reverted to its previous practice. As Lu Chang states: (personal interview, 31/08/08)

“Compared to European players, our players have a lack of self-discipline and professionalism, they are used to being controlled rather than applying self-control. Clubs do not want their players to make trouble off the field. The communal system is therefore the better choice”.

Tang Jing expressed a similar opinion: (personal interview, 04/08/08)

“The communal system may not be the best way but it is the most suitable way at moment for Chinese players. Chinese football is still in a transitional period, and so is its governance. I adore the life style of European players, but I can cope with the Chinese system. We have not developed to that stage yet”.

Chinese players are used to the communal way of living, and because not many players possess personal experience abroad, only a select few are able to make a comparison between the two types of player management based on their own experience. Zhang Xiaobin - a Ginde player who had playing experience outside China (in England & Australia), provides his view: (personal interview, 05/07/08)

“Our life style is too simple compared to Western professionals. The same eating-training-sleeping pattern is repeated everyday within the same training base, and makes our life quality low. It makes me feel depressed. I do not know anyone else outside the training base, and it is like a prison to me”.

Zhang Xiaobin also mentioned that western players have varied lifestyles and are free to do whatever they like after training. A varied lifestyle creates a good mindset for individual players as well as a good atmosphere overall for the team, which is an important and a positive element for players in producing high quality training sessions and matches. Hao Haidong⁷³ expressed the same thought in a CCTV documentary - he enjoyed to be free and to be close with his family after training, the life style was superb at Sheffield for him as a professional footballer.

Communal living and free living arrangements are two different ways of player management, and each one comes with its own advantages and disadvantages. Generally speaking, indigenous players without playing experience abroad prefer to be managed rather than manage themselves. Moreover, clubs also see communal living as a simple and effective practice, especially at the current development stage of Chinese football - players still lack professionalism and self-discipline. Many players lack awareness and knowledge about being professionals.

7.3 Relationships with other stakeholders

The economic reform brought ‘Western’ capitalist values into the Chinese society, including those of the sports field. These values are associated with the concepts of striving to be the best and individual liberty. This conflicts directly with China’s socialist ideology which is associated with collectivism, egalitarianism and discipline (Baruch *et al*, 2004).

⁷³ A player signed by Sheffield United in January 2005, he made little impact after suffering from injuries and worked mainly as a coach in Sheffield's academy before deciding to end his playing career and retire.

When compared to the pre-professional era, the advent of professionalisation created not only a brand new football industry, but also new relationships between the different stakeholders under the new values. As an important stakeholder group within the industry, players' relationships with other stakeholders are also affected by the game's transformation. Players attract constant media interest, without players, there are no clubs, no fans and no professional football. The view of the players therefore deserve acknowledgement.

7.3.1 The relationship with clubs

As a direct result of professionalisation, players' once permanent 'iron rice bowl' has now been replaced by seasonal contracts, which demonstrated a major change in players' employment status. Players and clubs are employers and employees, respectively. In the football industry, under the principle of the market economy, the two parties have diverse financial interest.

In Chapter Six, figure 6-4 indicates how the relationship between clubs and players has transformed from the Necessary Compatible to the Necessary Incompatible as the direct result of professionalisation. It is important that we recreate the figure below to refresh our memory.

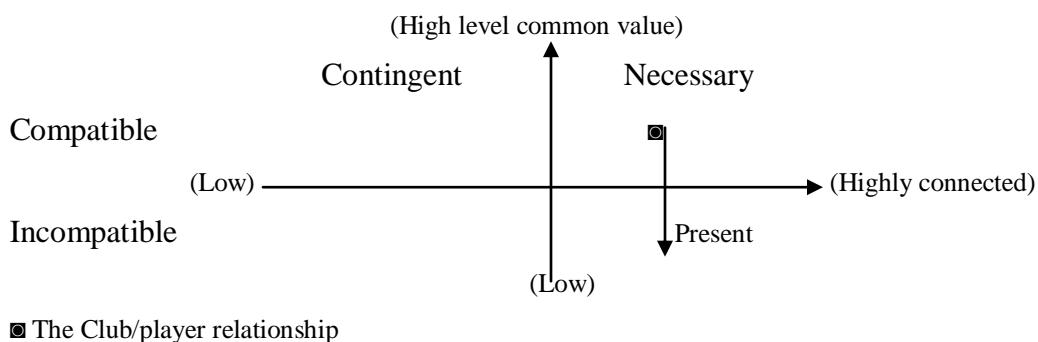


Figure 6-4 The development pattern of the Club/player relationship

In a resource dependence concept, players are highly relying on clubs to pay their salary, the level of players' dependence on clubs is high. In contrast, clubs' financial dependency on players is almost nil, the level of clubs' dependence on players is low, which leaves clubs to dominate the player/club relationship. With the financial strength they possess, clubs are capable of shaping the labour market. Especially since those players are not well-organised individuals. In the pre-professional era, even though players relied highly on elite teams, without the transfer market, elite teams were also highly relying on their limited number of players to function.

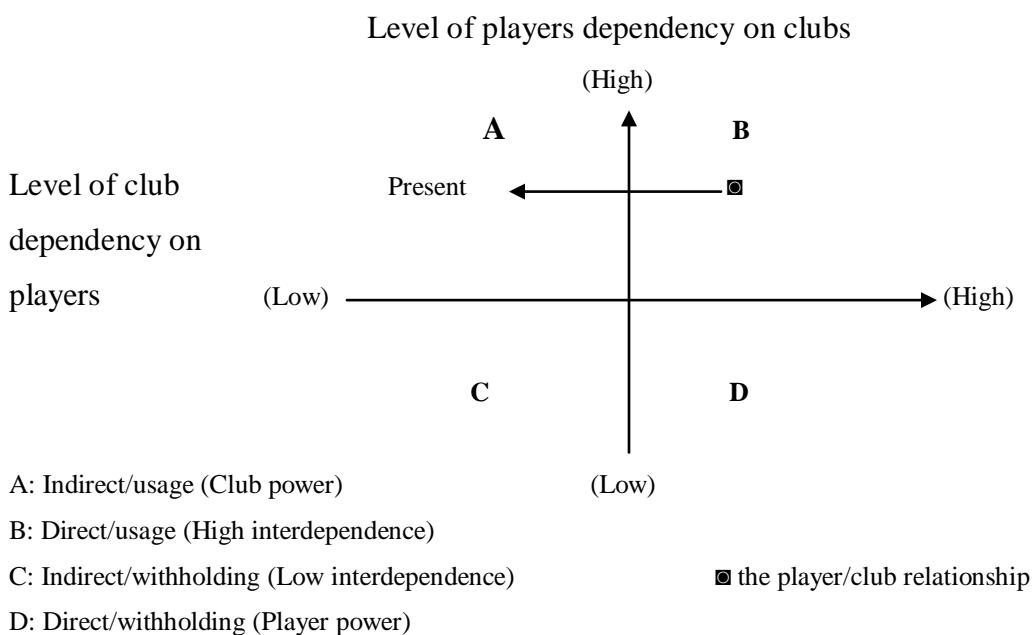


Figure 7-2 The player/club relationship

Figure 7-2 demonstrates how the player/club relationship changed. Under the state amateur model without the transfer market, players were relatively difficult to replace not only due to their stable employment status but also the low number available at the top level within the same region. Alongside professionalisation and introduction of the transfer market, not only players' employment status changed but there were also more players (including foreign players) available for clubs to select. As a result, the level of clubs dependency on players reduced and the player/club relationship moved to the left, the status changing from high interdependence (configuration B) to club power

(configuration A). The transformation put clubs in a dominate position in the labour market.

Furthermore, Chinese players lack organisation amongst themselves, and under the current political environment, they are not able to form a players' union to promote their own interests through a united voice. As a result, Chinese players can only manage a low-density network relationship amongst themselves. Compared to players, clubs are more centrally located within the industry network. Consequently, during any dispute between players and other stakeholders, players have to fight as individuals or as an inefficiently linked small group without support from an official organisation of their own.

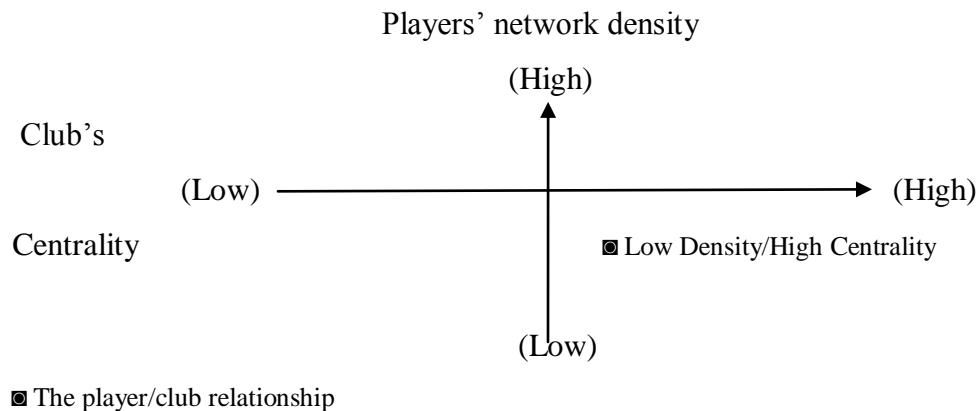


Figure 7-3 Players' influences over clubs

The figure 7-3 also explains the relationship between players and clubs in the labour market from the stakeholder centrality perspective. As clubs' centrality is high and players' network density is low, clubs are capable of resisting pressure from players, especially when they are acting as unorganised individuals. As the labour market is regulated skew towards clubs, therefore, in this relationship, the relative power balance is in favor of clubs. With better accesses to information and strong financial backings clubs can adapt a commanding role. In effect, clubs are capable of controlling players in a heavily regulated labour market. Chinese players feel helpless to address their interests when conflicts arise. As Tao Wei highlights the skewed relationship: (personal interview, 02/09/08)

“Our contracts are signed on a yearly basis, which provides only a short period of security. Despite the poor treatment, we have no right act dissatisfied. If you try to argue with your club, you are the one who gets hurt eventually”.

Despite the introduction of the Labour Law and the 1995 Sports Law, players have a hard time finding anything specifically related to professional footballers in these two laws. Moreover, the Sports Law has intentionally omitted rights of individual athletes, which makes it very difficult for an individual athlete to protect his/her personal interests or to raise issues against an established organisation (e.g. the governing body or a club) (Nafziger & Wei, 1998).

In contrast to those in Europe, trade unions in China are strictly controlled by the state. Chinese trade unions only have a decorative function with practically no power at all⁷⁴. This ironically illustrates the so-called socialist democracy with distinctly ‘Chinese characteristics’. As Lu Chang states: (personal interview, 31/08/08)

“Our status has changed from that of state employees to company employees. We lost all the benefits of stability and job security provided by the state during this transformation. Today neither the state nor the clubs take enough responsibility, our interests are not well protected”.

Under the state amateur system in the pre professional era, there was less need for a players’ union, as all players were treated in a similar way and enjoyed state job security for life with free medical care attached. Professionalisation has changed their employment status, life-long state job security has been replaced by short-term employment contracts, as clubs take no responsibility for players’ long-term welfare. Moreover, even short-term contracts are not fully honored when the clubs’ benefactors experience financial hardship. From the players’ point of view, a need to form their own work union arises in order to protect their own interests. Players in particular see

⁷⁴ The Chinese Constitution pronounces strikes are illegal.

themselves as a vulnerable stakeholder group within the industry. As the national team captain Li Weifeng said (Sinasports, 2008):

“Although players look glamourous in public eye, in fact, we are the vulnerable group. We cannot even protect our own interests and have no influence over the game”.

Li Weifeng’s statement echoes aforementioned analytical findings. Players especially those with overseas experience, see their welfare and individual rights as some of the top issues that need to be properly addressed. However, Chinese laws often provide implicit rights for individuals to challenge the decisions of authorities, but lack explicit legislation to protect their legal rights (Nafziger & Wei, 1998). Again, the Sports Law (1995) failed to articulate any rights for athletes, and with human rights being of low priority on the Chinese authorities’ list, a players’ association cannot be created without the government’s blessing. As a result, it is impossible in the current political environment for players to form a union to promote their interests, despite many players’ desire to do so. Tao Wei explains: (personal interview, 02/09/08)

“Our welfare and rights are only covered during the time disclosed in the contract, and even that cannot be guaranteed. We do not feel any security, especially in the case of the older players. The uncertainty at the end of each season can affect a team’s performance and takes our concentration away from competitions”.

Furthermore, there are no measures in place to ensure that players are paid on time and according to their contracts. There have been cases in which some clubs delayed players’ payment. Despite collective action from players in complaint, the central position and superior power that clubs hold over players allows clubs to resolve such conflicts on their own terms. Apart from the skewed power that clubs hold over players in the labour market, the CFA’s transfer regulations (2001, 2004) ensure that players continue to feel powerless even after the expiration of their contracts.

Apart from other primary and secondary data, the researcher's own experience and observation at Shenzhen FC also reflects the players' position of low centrality and high dependency in the player/club relationship. For example, there were three professional clubs in Shenzhen and all of them had pay disputes with their players over either salary or bonus, including the researcher's own club. Players were powerless to address the issue, even at a point of three months delaying. As Liu Shuai complains (Personal interview, 02/08/12):

"We were paid on time for just once this season, sounds like a joke but it is a reality of the club and the industry. The situation does affect our competitiveness and match preparation. We did a couple of mini strikes (in training sessions) this season but those were not effective enough. We do not want to strike, it has negative impacts on our match fitness but we have no means to hold the club to be accountable."

7.3.2 The relationship with fans

After professionalisation, the importance of fans has become more obvious to clubs. The market-orientated reform forced clubs to pay more attention to their supporters, as fans are part of the product of the game and are becoming increasingly important for clubs' revenue stream. In contrast, although players acknowledge the fans' contribution to the game, they are less concerned about fans' financial input towards their clubs and the industry as a whole due to a community-based football infrastructure has not been soundly developed in China.

The clubs' relatively short history and heritage has resulted in limited social engagement and links between clubs, players and fans. Despite enjoying a high social profile, players show a lack of awareness about their community roles and responsibilities, especially as role models for youngsters. As a result, both clubs and players are void of any vision in employing well-designed initiatives to explore their social status effectively, which in turn can affect clubs' long-term development. According to Tang Jing: (personal interview, 04/08/08)

“Fans are important for creating atmosphere, with fans behind us we play football better. The links we have with our fans are mainly through our club’s initiatives, and a closer relationship between players and fans helps to develop the local market”.

The statement indicates that players mainly meet local fans in pre/post-season events, and players judge the closeness of their relationship with fans simply based on number of such events their clubs hold each season. On these occasions, players are only there to help clubs explore local markets. Nevertheless, most players do feel that a close relationship with local fans is necessary for the modern game.

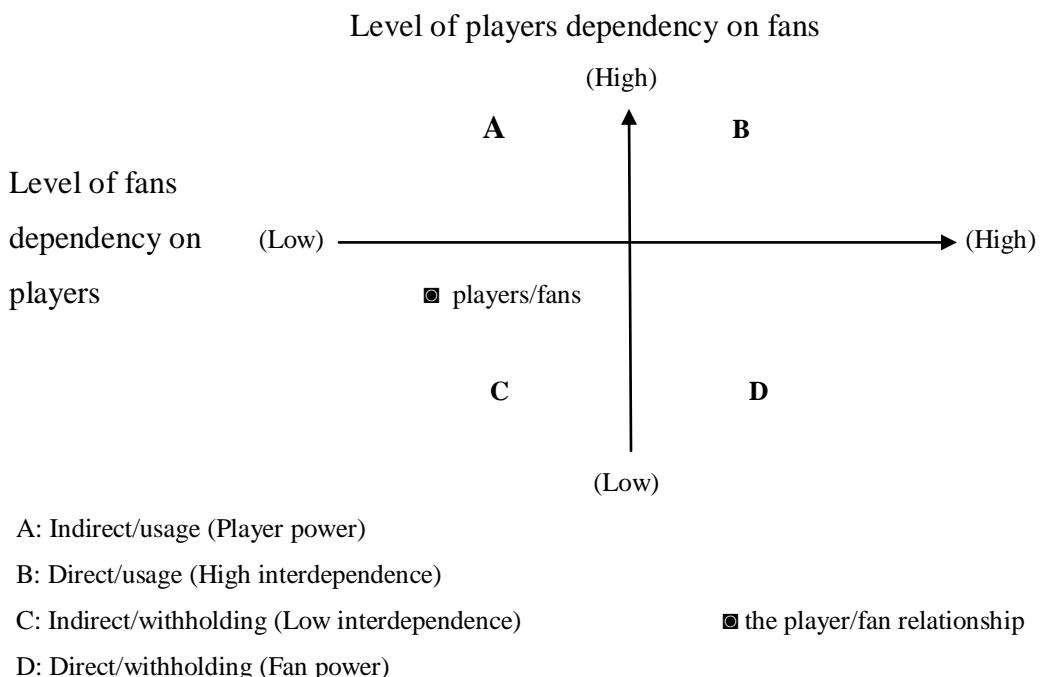


Figure 7-4 The player/fan relationship

Players and fans are two different stakeholder groups with a corresponding functional interest, thereby making their relationship a Contingent Compatible arrangement within the industry. In the current football market, Chinese clubs depend little on direct financial contribution from supporters. Players' salaries are mainly contributed by clubs' sponsoring corporations, therefore, from a financial dependency point of view, the

relationship of the two parties is also one of Low Interdependence, as illustrated in Figure 7-4 above.

Although fans only account for limited direct financial contribution to the game at its current stage of development, many stakeholders acknowledge that fans deserve better treatment regardless of their direct financial input, as they are an integral part of the game and a stakeholder group with normative legitimacy. Compared to players, fans are better organised at the local level. Organised fans are more demanding than individuals, especially after professionalisation. Despite the current football infrastructure not being prepared to include fans in the decision-making process at any level, a well-organised fan association is always respected by its club and other stakeholders. As the Chinese football market matures little by little, the low interdependency status of player/fan relationship will further intertwine and developed, especially in the digital era today. Mr Wei Kexing (ex-Chinese international and Guoan player) Vice General Manager of Guoan FC explains (personal conversation, 02/09/08):

“Players are passive and only act as a link to connect clubs and local fans. Both players and clubs focus only on fans’ direct financial contribution and market expansion, but they should realise that fans’ social involvement is also vital for the game’s long-term development. Fans are important stakeholders for a market-orientated football industry for certain.”

Despite efforts made by the players (and clubs) go to local schools and colleges to promote football and their clubs, there remaining a lack of coordinated initiatives between clubs and local authorities for the purpose of exploring the social function of the game in order to establish clubs as focal points of their local communities. In other words, to establish football clubs as social institutions. Players have not been effectively deployed to forge strong bonds between themselves and their supporters within the infrastructure of community initiatives. Zhang Xiaobin explains: (personal interview, 05/07/08)

“We go to colleges to attract young supporters, how loyal those students will be after graduation remains a question. Moreover, I have not seen our club or local authority run any planned community programmes. We have much less social engagement compared to European players, there are many things we need to learn”.

7.4 The players’ perspective on the game’s development

Players have witnessed and experienced some great changes since the advent of professionalisation. The commercialisation of the professional game has inevitably raised the profile of Chinese football. But looking beneath the surface, one can appreciate both the positive and the negative impressions that have derived from the game’s transformation.

7.4.1 The positive impression

From the players’ point of view the quality of the game has certainly improved. In spite of debates surrounding the fitness test, a strictly physical test set to higher criteria, coupled with the introduction of foreign players and coaches, has enhanced the playing standard, and has brought the game to a new level. Lu Chang states: (personal interview, 31/08/08)

“Competitions are strong and competitive; results are related to players’ salaries, which create an incentive for players to perform better. Apart from financial rewards, foreign players and coaches brought new knowledge and skills into our game, which enhanced the game’s quality and competitiveness”.

The environment surrounding the game has also changed. Not only are players competing for places, but coaches are also under pressure to perform. Their jobs are even less secure than those of the players. Lu Chang explains further:

“In the pre-professional era, there was little in the way of pressure, a few bad results could not threaten a coach’s job. Now it is a different story, no one is secure in the game,

which makes things more exciting. Sometimes you feel a cruel side of the game, but that is the way professional football goes”.

Many players have experienced the game’s transformation with the belief that professionalisation has made a positive impact both on the development of the game and on their own play. Financial reward is the most obvious impact on players. Their salary has been on an upwards spiral since 1994, standing on a level that is many times higher than that of the national average. Moreover, with improved overall commercial backing, professionalisation provides more opportunities for players to gain international experience. For example, clubs do not only recruit foreign players and coaches but are also able to play more international tournaments and friendly matches. As Tao Wei explains: (personal interview, 02/09/08)

“We play many pre-season international matches and post-season commercial exhibitions. Furthermore, we play the AFC’s Champions League during season. Both clubs and players have benefited from these opportunities. Professionalisation provides more opportunities for us to experience international football, which helps to improve our game’s competitiveness”.

Professionalisation has not only increased the quantity of international experience but has also enriched playing style. During the pre-professional period, Chinese football accrued international experience, accumulated mainly from playing the Soviet Bloc countries (Liang 2003, Simons 2008). After professionalisation, Chinese football established links and regular exchange programmes with countries from all over the world. Especially with more advanced football nations in Europe and South America.

The professional leagues’ home-away formation provides regular opportunities for fans to watch their own clubs at home, and more fans are able to access matches directly in stadiums. As a result, the professional leagues are closely followed by a steadily increased number of people week-in week-out compared to the pre-professional era. With

an increased fan-base, the game has a much broader social influence than the state amateur model at both the national and the local levels.

7.4.2 The negative impact of professionalisation

Professionalisation has changed many aspects of the football industry significantly, including the games' integration of professional and amateur, the financial structure and the labour market. Although the national playing standard has improved, it has made relatively little progress compared to some neighbouring countries, especially at the top level. For example: Korea and Japan have been making consistent appearances in the Worlds Cup Finals since the 1990s, compared to China's only one in 2002. Other points of contention include the current unpromising overall football environment, the commercial approach at the grass-roots level and the weakened cohesion between different layers of development within the pyramid structure.

The commercial approach taken at the grass-roots level has raised the financial threshold for children to participate in training sessions at football schools. Many parents are reluctant to pay for their children to join, or simply cannot afford 'the luxury'. As a result, some talented children are priced out of the systematic training & selection structure that marks the very beginning of a career in football. By contrast, children who do participate in this system do not necessarily possess a talent for the game. As Tao Wei explains: (personal interview, 02/09/08)

"I feel our academy players are worse than before, their maturity comes quite late and ability-wise they are no better. They have been spoiled too much at home, which affects their training attitude. Coaches are not better either, the money-oriented approach does not help our grass-roots development".

Furthermore, after witnessing the state of Chinese football after a few years of professionalisation, many parents become more rational no longer see professional football as a promising career for their children. Adding to this is the current birth control

policy, which leads to many children are spoiled, and also puts pressure on parents to not allow their only child to take part in such a risky venture, as failure is not an option even at an early age in Chinese culture. Yu Zhen – Fujian Junhao FC player expresses: (personal interview, 30/09/2012)

“When I was younger, many of my friends back to home liked to play football. However, they played only for fun and very few tried to pursue a football career like me. They were not encouraged by their parents or even teachers. Apart from financial costs, professional football is no longer considered as a proper career these days.”

Due to the twin aspects of the game – the sports aspect and commercialisation have not been integrated as well as originally expected, which causes the selection system and the development of grass-roots players to suffer from the market-driven approach, rather than benefit from it. Having lived through the fostering pyramid system, and being able to observe the transition process, players see the failings of the system, and blame the incompetence of the CFA’s governance. The fact is that the governing body places its emphasis on the professional leagues. It has become more interested in making money out of the game than in putting money into the development of a well-integrated and balanced structure. As Tao Wei states in the same interview:

“Grass-roots development should be strategically planned to attract as many young kids as possible. The money-orientated market approach has been proven as a failure, especially at the grass-roots level. We cannot afford to go on like this. The CFA should come up with an alternative to not only can rebuild our football foundation, but also to strength our professional game”.

Another negative aspect having arisen from professionalisation concerns players’ personal behaviour. Chinese players are not used to being managed passively. Compared to players from Western nations, they are lacking in both professionalism and public awareness. In the professional era, the relaxation of state control, the mobilised labour market and their raised social profile did not help them to improve their weakness in their

self-discipline. As a result, players are often dragged into news headlines for all the wrong reasons. Zhang Xiaobin explains: (personal interview, 05/07/08)

“Players should behave like professionals and consider themselves as role models for youngsters. Bad behavior and negative images not only damage players’ reputation but also damage the credibility of the game”.

Match-fixing, ‘black whistles’ and falsification of players’ ages are also recognised by players as great threats to the game. The current anti-corruption movement led by the state Police Department has resulted in a few high profile arrests, indicating that the industry needs greater transparency and tighter regulations in order to withstand public scrutiny and improve the game’s credibility from the harsh reality of the present. As Lu Chang explains: (personal interview, 31/08/08)

“There is a long way to go to fight corruptions. Although the media is relatively open and critical towards the game, it cannot criticise the government too much, especially with regards to the number of age falsifications that were deliberately fabricated by local officials. Laws and regulations have to be respected and severe punishment must be handed to corrupted individuals without any excuse. That is the only way to reinstate public confidence”.

7.5 The way forwards

As the game has been developed in a commercial way, the intertwined development of the game’s sport and business aspects requires proper regulation in order to move the game forwards.

In practice, at the grass-roots level, increased accessibility should be ensured with more government funds in place to ease the financial burden of parents. There have been suggestions made to include football in school’s curriculums, even though not every

school has enough space to accommodate the game properly. Lu Chang explains in the same interview:

“Something has to be done to bring children back to the game. Pay-to-play is not the way it should be. Grass-roots football needs to be supported more financially even under the market economy, the CFA and the government should take more responsibility to support grass-roots development”.

At the club academy level, on-field performance is over emphasised. Clubs need to take on the full responsibility of developing their youth players comprehensively. A balanced approach between study and training provides those young players who are not able to break into the professional levels with a better preparation for their lives outside football in the future.

At the professional level, more concerns are raised on how to protect the players' interests. Players believe that they are powerless - one of the weakest links within the industry. The legislative framework provided by the Labour Law and the Sports Law is implicit, and too general to apply to players' individual cases. Furthermore, third party representation to provide professional services (e.g. agent, the players' union) to players would be a great improvement on the current situation. In a stakeholder society, authorities need to address individuals' rights better. Too much propaganda with too little practice is not an ideal way to move the game forwards.

7.6 Summary

Professionalisation in Chinese football may have been introduced too quickly without any proper development strategy. One could argue it was entirely justifiable - the reform was led by crisis, and demanded by China's top leaders. On the other hand, the CFA had plenty of good examples to draw from. Such as European football – how the professional game is governed.

Players are an important stakeholder group, as they are one of the main pillars of the industry and have the most familiarity with the game's transition. This chapter has considered professionalisation through the players' perspective to underpin the theoretical framework – the stakeholder approach. The stakeholder analytical models are intended to allow a clear understanding of players' relationships with clubs and fans as well as how they influence each other in different ways, which answers the related sub-research question – how has increasing professionalism affected players? The understanding of the stakeholder relationships within particular configurations can provide predictions for strategic management in the form of “if-then” solution.

In the current Chinese social and political environments, professionalisation is unable to adopt many of the desirable elements which exist in European football. Although Chinese authorities and the CFA argue that the intertwined development of Chinese football possesses its own unique characteristics, these Chinese characteristics do not meet the demands of the modern industry practice, and this may well explain the slow progress of the Chinese game.

Compared to the state amateur model, the Chinese football foundation has been weakened by the process of professionalisation. For example, senior players are not satisfied with the quality of younger players, who have made it to the professional level through academy rankings. Furthermore, there are concerns over both availability and quality of academy coaches, especially in those purely market-driven, privately owned football schools.

Professionalisation has raised players' awareness on the subject of their personal welfare and financial rewards, especially in the case of players who possess overseas experience and are willing to promote players' interests both individually and collectively. However, when considering Chinese players' lack of professionalism and awareness of their social obligations, one could say that the players' social value has not been fully employed to benefit the game's development.

Chapter Eight: The Fans' Perspective

Fans are an indispensable part of the game, and the extent to which they are included and made meaningful stakeholders of a football club has been the focus of many debates. In Europe, and in particular in the UK - the involvement of fans has been a topic of much importance in both legislative and social contexts, with European fans becoming progressively more involved in activities and initiatives of football development.

In China, although fan associations are receiving more attention from other stakeholders when compared to those of the pre-professional era, their needs and activities are yet to be thoroughly understood. This chapter will provide an analysis from the fans' perspective, along with an examination of the country's wider social background, cultural influences and stakeholder relationships in order to further illustrate the impact of professionalisation on the development of the game. It will also serve to provide a better understanding of the specific characteristics of the Chinese football fan.

8.1 Fandom development

What is a fan? The term is not easy to define as there are many definitions available. Fandom (noun fan affix – dom) is a term used to refer to a subculture composed of “fans”, who are characterised by a feeling of sympathy and camaraderie with others sharing a common interest.

Hills (2002, p.ix) suggests that “A fan is somebody who is obsessed with a particular star, celebrity, film, TV programme, band; someone who can produce reams of information on their object of fandom, and can quote their favoured lines or lyrics, chapter and verse”.

Sandvoss (2005, p8) defines fandom as “the regular, emotionally involved consumption of a given popular narrative or text in the form of books, television shows, films or music, as well as popular text in a broader sense such as sports teams, and popular icons and stars ranging from athletes and musicians to actors”.

Finding a single definition of “fan” has proven difficult. As Hills (2002, p.xi) points out: “Fandom is not simply a ‘thing’ that can be picked over analytically, being a fan is not just a label or category, it is also an identity which is (dis-)claimed, and which performs culture work”.

Despite the many definitions of what constitutes a fan, there is one constant: the interests of a fan can be narrowly defined. Whether it be an individual celebrity, a hobby, specific fashion or a sport, fans normally spend a considerable proportion of time, energy and money on their object of interest, delving into minute detail, and, in extreme cases, developing an interest which can grow to dominate their lifestyles. In the popular culture, the word “fanbase” is normally used to refer the totality of fans devoted to a particular area of interest, such as in the entertainment industry, and regardless those fans are organised or not.

Sandvoss (2005) focuses his academic study of “fandom” on specific social and cultural aspects of committed groups of fans and how they interact with institutions and communities, rather than on the activities of individuals. Jones (2000a) argues that individuals seek their social identities within these groups, and that one of the most important social identities comes from groups of a larger scale, such as any identity derived from basing itself on sports.

In terms of football, a club is a vehicle for its fans to share their experience, and to express solidarity with their fellow fans. The Football Task Force (1999) recognises that the football industry is fundamentally about the community and not the individual, and is centred on a sense of shared emotional ownership. “Fan equity” is the term that has been used (Salomon Brothers 1997, Hamil 1999) to describe the relationship between fans and their football clubs within a commercial context. Fans associate themselves with clubs by attending matches and buying merchandise, their consumption demonstrating loyalty, emotion and shared identity, so making clubs into valuable businesses and the game into a lucrative industry (Hamil, 1999). Moreover, a fan’s loyalty rarely shifts regardless

their clubs performance. Winning is desirable but not a condition (at least not in the short-term) for their support.

Hamil (1999) sees the fan/club relationship, or the characteristic of “fan equity”, as the driving force behind the commercialisation of football, and believes that clubs have been taking “fan equity” for granted.

Modern football was codified in England, where spectating always meant a highly participatory role from the very beginning. Taylor (1992) points out that in the early days of the game’s development, supporters were closely related to their clubs, with bonds often based on personal friendship or locality. Membership not only gave access to matches, but also involved fans in the running of their clubs. Football flourished in England during 1870 – 1900, with thousands of local teams playing across the country. In the early days of the professional era, football clubs often appealed for additional money from local fans to cover their costs, and supporters could be encouraged to provide it on an *ad hoc* basis (Morrow, 2003). From an historical point of view, without the active engagement and generosity of the local community and fans, football could never have spread so widely or grown such deep roots.

It has been proven that local support is essential for the existence of a football club. With this in mind, although football as an industry needs to be managed as the business that it is, it is inappropriate for clubs to be run with conventional governance techniques and structure (Hamil 1999, Taylor Report 1990). Football fans deserve better treatment from other stakeholders, particularly their clubs. The rampant commercialism and overexploitation on “fan equity” damages the game’s link with the community as well as the traditional values and fans’ emotional involvement.

8.2 Football fans in China

8.2.1 Fans in the pre-communist era

The modern game of football had been brought to China by British service men after the Opium War, with Hong Kong being the first place where football was played in the

country. Matches were played between “scratch” teams made up of British personnel. Spectators were mainly other British servicemen and the odd local. When the British firmly established a settlement in Hong Kong, they introduced football into schools for their own children (Twydell, 1994).

Football spread along the coastal cities of China during the period from the 1880s to 1890s. Despite the playing of football amongst locals having been encouraged by the foreigners (especially missionary schools such as the YMCA), it was not until the 20th century that the game was widely played in both missionary and local schools. As the Chinese started to get to know the game better, football spread into wider society - from schools to local communities, from the coast areas to the inland regions. Coastal cities such as Shanghai and Tianjin became the leading football regions. In Shanghai - the largest foreign settlement at the time, comprising of around 60,000 foreign residents - different sport clubs were formed and competitions were organized (*ibid*). In 1887, the FA committee (Shanghai city) decided football clubs had to separate from generic sport clubs and became independent clubs (*ibid*).

By 1902, there were already football competitions taking place between different universities in Shanghai, the most well-known being the annual meeting between St John’s University and Nanyang University (*ibid*). As early as 1907, Shanghai had its first league competition. College teams competed within the education sector and local clubs competed within local leagues. By the early 20th century, most clubs represented geographical locations and were rooted in their local communities. However, the game remained very much dominated by foreigners at that time, especially by the English speaking clubs. Hong Kong and Shanghai represented the highest standard of play in Chinese football.

At the time, the fanbase was composed of college students and local populations (including foreign settlers) who maintained connections with their local clubs. All football clubs were of amateur status, and their membership was community-based. Twydell (1994) recorded that to become a member of Shanghai FC, the only requirement

was a payment of a \$5 membership fee. Within the same city league, there would be clubs with an exclusively foreign membership, clubs with mixed foreign & Chinese membership⁷⁵, and clubs that were wholly made up of Chinese members.

The size of early crowds varied depending on the status of the competitions and venues, with big occasions generating a great deal of interest. For instance, the “China-Scotland” match in the 1926 International Cup in Shanghai (which was drawn 2-2) attracted a crowd of 9,000 people. 10,000 people attended the following replay match (which ‘China’ lost 4-0). That same year, the football competition in the All China Games drew over 20,000 spectators for the first match alone (*ibid*).

8.2.2 Fan development in the New China

During the Second World War, most football activities were suspended, as few cities had any organised football competitions. When the Communist Party took power after the Civil War, the way of organising football changed forever. As the Chinese establishment adopted the Soviet governance model, city FAs were reorganised and were made a part of local authorities. Under the new regime, sport development was regarded as part of the planned economic system. As a result, football and other social activities were totally planned by related government departments. The various local clubs of the pre-communist era that had been based on the membership structure, and rooted in local communities, disappeared – they were replaced by state-funded, work-union structured, provincial/city elite teams. Football, at both national and local levels, was developed according to planned government sport programmes.

Although, there had been over one hundred elite teams across the country in the middle of the 1950s, rarely had two elite teams existed in the same city. Local leagues that organised during the pre-communist era, no longer existed. As national league competitions were organised in a round-robin championship format, it meant that few teams had any real opportunity to play on their home grounds. In terms of accessibility to

⁷⁵ Chinese elites and their family members were welcomed by foreign settlers, it was quite an international atmosphere within settlements in coast cities.

high level matches, only fans in big cities (e.g. Beijing or Shanghai) had the opportunities to watch matches in stadiums, as major national competitions and international friendly matches were normally held in big cities. By contrast, fans from other places rarely had the chance to watch either the national team or their local teams.

Under the planned economy, the elite teams were not dependent financially on the local communities, and no direct linkages between the two parties. With no regular football matches to offer locally, local fans did not consider any elite team as a part of their social lives, therefore these elite teams became no different to other state-run work unions in other industries. As a result, fans' loyalty and emotional attachment to local football teams suffered. The only connection between an ordinary local fan and an elite football team was their common geographical identity without the fundamental social roots. The Soviet-style governance model simply destroyed the strong community roots and local connections that existed in the pre-communist era.

On one hand, the new infrastructure and centrally-planned football programmes were efficient ways for the state to control the football development pattern and to lift the playing standard in a short space of time following the Civil War; on the other hand, they damaged links that existed between a local team and its community, and destroyed a club's traditional role as a social institution. The Soviet-style sport structure was not able to maintain an optimal football environment for fans to thrive.

In the early days of the PRC, the low standard of economic development and tight state control led to a monotonous social environment, whereas sport events, or any form of entertainment, generated big social interest. Therefore football matches, in particular international matches, were well-attended. In fact, many spectators went to the stadium to enjoy football as a sporadic entertaining occasion rather than to show their support to the teams. In addition, it was common practice for the government to order local work unions' employees or army soldiers to attend matches in order to create a better atmosphere.

By the end of the 1970s, the Chinese government adopted the “Open Door” policy of economic reform. Shortly after China rejoined FIFA in October 1979, the national team played in the qualifiers of the 1982 World Cup. The team progressed well, generating huge excitement across the country. All qualifying matches were broadcast on TV and radio. Millions of people watched live coverage, and all seats for home matches in Beijing were taken. Despite the Chinese national team failing to qualify at the last play-off, the whole campaign was followed by millions of people, many of whom eventually became real football fans. During the qualifying process, football established itself as the most influential sport in the country, and fans’ expectations were further increased by the 1984 Asian Cup Finals, where the Chinese team finished as the runner-up.

Fans’ high expectations were dashed by the national team’s performance in May 1985 when China suffered an unexpected defeat to Hong Kong at the group stage of the World Cup qualifying campaign. Fans from Beijing gathered around the stadium smashed 28 cars belonging to foreign diplomats and reporters, which led to 127 arrests, five of them being subsequently sentenced (Dong & Mangan, 2001). This incident, remembered as the ‘May 19th event’, has been described as the most serious riot in Chinese football history (Hua, 2004). The event generated a huge social debate, and shocked the Chinese government, which was used to well-behaved spectators. When the dust gradually died down, fan development entered a different phase.

Fans started to organise themselves, and several fan organisations emerged, among which were the Shenyang Fans Association, Chongqing Fans Association, Anshan Fans Association (all founded in 1986) and the Chengdu Fans Association (founded in 1987) (*ibid*). From that point on, fan associations began to sprout across the country, many of them based in cities that did not even have a local elite team participating in national leagues.

The Chinese government has always been sensitive about non-governmental organisations. It is not prepared to tolerate any organisation which harbours any potential threat to challenge its authority. Fan associations certainly have this kind of potential, as

they have the ability to incite crowds into mass eruption. Hua (2004) argues that the initial tolerance of the creation of fan associations was the government's attempt to allow those fan associations to organise their members in order to prevent the spontaneous breakout of riots like the 'May 19th Event' in the future. In fact, the actual statistics showed that more violent incidents occurred across the country after the establishment of the first fan associations than any time since 1986. Despite the increasing trend of football-related social disturbances, fan associations have been accepted by authorities as one means of helping to organise football fans.

8.3 Fan culture

Let us look at the development process of the fans' movement in China. The earlier model of the pre-communist era was similar to that of the European fan movement; local fans closely attached to their local clubs, and the fan culture based on social links, plus the concept of community loyalty. Most competitions were organised at local level, although there being some ad hoc inter-city tournaments, a national league did not exist.

When the Communist Party assumed power, the government took a controlling role in building both the national economy and people's social lives. Under planned institutions, football no longer played a significant role in communal affairs. Although elite teams still represented their geographical locations, the original club names of these district associations were replaced by regional names of covering wider geographical areas. In addition, elite teams did not depend on financial support or emotional loyalty from local communities to survive, therefore they showed no interest in maintaining the traditional relationships with locals, even though most provincial teams "represented" regions with millions of residents. The community-based club model was destroyed along with its cultural tradition.

China's social and economic systems were based on Marxist ideology, and sport was used as an effective tool to not only build strong national unity and further a sense of patriotism, but also to demonstrate confidence in the advantages of a socialist approach

and deliver hope for the renaissance of the Chinese nation (Kolatch, 1972). The concept of patriotic emotion is another distinctive feature of Chinese fan culture. Fans always closely follow the national team. On one hand, it can be put down to the strong influence of nationalist propaganda used by authorities - sport and football have been used as a political tool to bond people together in order to foster socialist collectivism and national pride (Clumpner & Pendleton, 1978); on the other hand, the lost relationship between fans and local elite teams resulted in an opportunity for the national team to fill the emotional gap. Furthermore, the national team has always been easier to follow than the provincial teams, with good media coverage giving it the edge in generating interest across the country.

8.3.1 Fans' attachment to clubs

The Chinese national team has always been passionately supported throughout the country, in part due to the Soviet-style top-down sport model, which exercises a good elite fostering system and a tendency to positively-developed nationalism. At the local level, fans' connection with elite teams is mainly based on a geographical identity and personal passion for the game, rather than community links or clubs' traditional values. This characteristic is quite a contrast to European fan culture - which is based on clubs' traditional values and community connections. Julianotti (2002, cited by Morrow 2003) observes that traditional fans have a long, more localised and popular cultural identification with a club, with loyalty indicating an intense kind of solidarity and identification with the club. The "Club is a living symbol for its fans and their identities and supporters have emotional ties to the club's ground and to its community significance" (Morrow, 2003, p51).

By contrast, the state-owned elite teams lack both traditional values and social connections with locals. In this case, a fan's attachment to a team is based solely on a sense of geographical identification. It is not difficult to understand that Chinese clubs do not possess the strong symbolic status in their local communities that most European clubs enjoy. As a result, fans are not deeply attached to the club that they support and

their loyalty is relatively weak. Such insights were highlighted by some personal interviews (4th July, 2008) with Hu Ge, President of Changsha Red Pepper Fan Association, illustrates this phenomenon:

“We support Ginde FC, only because it represents our city and our province. Before Ginde moved to Changsha, we supported Xiangjun FC⁷⁶. We support any club as long as it represents Changsha city or Hunan province”.

In another personal interview with Mr Yuan Qiyou, Chariman of Jiangsu Sainty Yuanyou Fan Association on 7th July 2008, Mr Yuan states:

“We love football first, then we love our hometown football. We always support Jiangsu football. Sainty FC has been established more than eight years, Jiajia FC and Maint FC represented Jiangsu province during 96-00 and 94-95, respectively. Before Sainty FC, we supported them too, as long as a football club can represent our province, we can be its fans”.

Mr Yuan Haishan, the President of Henan Jianye Football Fan Union states (personal interview 09/07/08):

“Our motivations are driven by football fever, football first, and then hometown football, we have passion for the game, that is why we support our hometown club.”

Those interviews provide insights to demonstrate that how Chinese fan culture is different to that of European ones, in which traditional value and community links play a significant role. When comparing the two, supporters' attitudes towards their clubs, motivation, solidarity and emotional attachment are at entirely different levels. Moreover, due to the lack of common value between fans and a particular club, a fan can simultaneously support all local clubs, as their loyalty is interchangeable. This kind of behaviour is common amongst Chinese fans across the country, if one city has two or

⁷⁶ Dissolved after 2006 season.

more football clubs, fans normally support them all. However, the bigger club with a longer history may have some advantage. As Mr Yuan Qiyu, Chairman of Jiangsu Sainty Yuanyou Fan Association stated (personal interview, 07/07/08):

“Although we are fans of Sainty FC, we still go to Yoyo’s⁷⁷ matches to cheer for them as they represent our city too. During derby matches, of course we support Sainty FC. I think that provincial football is bigger than city football, in this case, despite being from Nanjing city, I stand by Sainty FC, it represents Jiangsu province.”

Mr. Meng Ran, the President of Beijing Green Storm Fan Association highlights this in an interview (07/08/08):

“We support both local teams as they all represent Beijing City. If there is a derby match⁷⁸, we may support Guoan FC more as it has longer history and bigger influence, however, we do hope Hongden FC performs well”.

The fan/club relationship can be explained like so - fans love the game first, and have a secondary attachment to their hometown or provincial clubs. Chinese fans’ attitude towards local rivals is astonishing in the eyes of European fans - there is no way for an Everton fan to support Liverpool, or a Manchester City fan to support Manchester United. Compared to European fan culture, Chinese fans and clubs lack common traditional values and community links, and this has led to weaker fan loyalty. Although the common concept of geographic identity is deeply rooted, fans’ sense of football tradition and emotional involvement are simple. Mr Sun Zhimin – President of Shenzhen Fan Association concludes (personal interview, 20/07/13):

“We follow all three clubs in Shenzhen, not particularly closer to anyone of them. However, derby matches are exciting and there are inspirational stories, the tales that

⁷⁷ Yoyo FC is a Jia League club and represents Nanjing city. Nanjing is the capital city of Jiangsu province.

⁷⁸ Beijing Guoan FC plays in Super League, Beijing Hongden FC plays in the Jia League, where derbies can happen in cup competitions.

make you feel pride to be involved in such occasions beyond a particular favourite team.”

Both Hamil (1999) and Salmon Brother (1997) mentioned that irrational ‘fan equality’ is a different cultural asset. In the Chinese culture, ‘fan equality’ is the loyalty a fan shows more towards the game and their geographical identity than any loyalty to a club or its heritage. This is a characteristic which is very important for other stakeholders to understand, especially for those investors and foreign clubs who are interested in exploring the Chinese football market. A football club can win local support easily in China as long as it represents the region and plays football. For it to forge strong social links based on shared values and to foster real fan loyalty however, is a different story. Bringing fans into stadiums week in and week out is a huge challenge for all Chinese clubs. Developing a successful football club based on a sustainable business model requires good vision and an appropriate strategy, and, more importantly, a long-term commitment and professional knowledge of the industry.

Although at a club level, Chinese fan loyalty is ‘misplaced’, at the national level, fans are quite patriotic. The national team has always been well-supported throughout the country, regardless of its results. As the most popular sport, football has been used as a vehicle to deliver communist values, self-assertiveness and national pride. Fans’ emotional involvement and commitment are at highest during international matches; victories intensify national pride amongst Chinese people, and by contrast, defeats bring huge disappointment. The strong ‘fan equity’ in the national team cannot be simply evaluated by considering traditional community links. As the former national team manager Klaus Schlappner said: “China has no top level players, but has top level fans.” (Dong & Mangan, 2001, p90).

8.4 The Fan/club relationship

Hunt (*et al* 1999) classifies five different types of sport fans: the temporary fan, the local fan, the devoted fan, the fanatical fan and the dysfunctional fan. They suggest that each

different type of fan has a different type of motivation and behavior. Dolles & Soderman (2005) propose a different dimension, and identify two types of fan in modern football: local fans and international fans - local fans having close geographic connections, and international fans being based abroad. In reality, only a few big clubs and high profile national sides have international fans, such as Manchester United, the Brazilian national team. In terms of Chinese football, local fans are the only fan base for clubs to explore. Eaves (*et al*, 2003) divide Chinese fans into three broad categories: professional elder fans, young affluent urban fans and female fans. Despite his classification being based on a national survey undertaken by one of the biggest Chinese sport newspapers, the survey ignored fans' geographical identities. Moreover, the survey only identified fans individually, not collectively as organised associations.

In terms of social influence, fan organisations possess more strength than individual fans. Although different fan organisations have different needs according to their structures, they provide a formal entity for individuals to promote their interests collectively; the legitimate rights and demands of fans can be enhanced by fan organisations. As Morrow (2003, p52) quoted from Michie & Ramalingam (1999), fan organisations offer individuals the opportunity "to transform the power of their voice from one that can be heard to one that is listened to".

The relationship between clubs and fans seems straightforward - fans support their clubs and clubs need fans' support to develop their business. This relationship, however, is not as clear-cut as it seems. It is not only individual fans who can be categorised, in this study, fan associations are also sub-categorised according to their different organisational models. The next section analyses the fan association/club relationship for two forms of fan associations - an independent position, and a dependent position. It primarily focuses on local fan associations and extends to how they maintain their organisational structures and manage their relationships with local clubs.

8.4.1 The dependent position

Fan associations bloomed in the 1980s, when football fans voluntarily formed their own associations throughout the country as independent non-governmental organisations, which were then eventually sanctioned by the government (Hua 2004). Alongside commercial development of the football industry and further professionalisation, clubs realised that fan associations possessed both social and economic values which could contribute to their long-term success. With business in mind, clubs gradually established direct contacts with their local fan associations. For example, some clubs set up fan departments to develop effective communications; some clubs even formed their own fan associations.

Similar to football clubs, fan associations are ritually identified with a geographic location and are associated with certain territories. Although the majority of fan associations maintain an independent status, fan associations under the leadership of a particular football club still exist, and now even more clubs intend to form their own fan associations. A dependent fan association is under the leadership of the club, and its actions largely follow the club's instructions. "Explicit contracts" exist between the two parties, due to the fact that they have the same goals under the same framework of being a Club Company. As a result, their relationship can be classified as Necessary Compatible. Figure 8-1 shows the relationship between a dependent fan association and its club. This relationship was explained by Mr Yuan Qiyou, Chariman of Jiangsu Sainty Yuanyou Fan Association (personal interview, 07/07/08):

"We, the fan association, have our own regulations and a management team which includes a Vice-Chairman, a Secretary, and an Accountant. We are, however, under the leadership of the club. Furthermore, we have good access to club management, players and coaching staff.

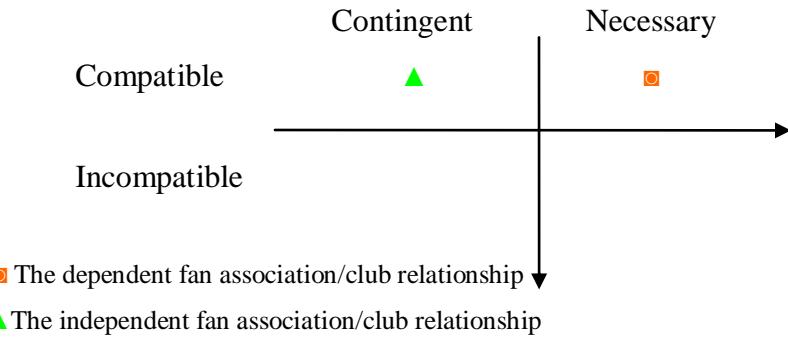


Figure 8-1 The fan associations/clubs relationship

The Necessary Compatible relationship forms effective communication channels between clubs and fan associations, allowing fan associations to pass their suggestions or criticisms to both club management and playing staff easily. As Mr Yuan explains further:

"The voice of our association can reach to top management. For example, I am able to see the club's CEO often, we can discuss issues informally in places like the staff canteen, and formal meetings can also be arranged. In addition, we have a very good relationship with playing staff at both personal and professional levels. However, the good relationship does not prevent our criticism over their performance. We can go to the training base to express our views to playing staff.

In terms of financial dependency, despite the fact that dependent fan associations have their own financial income through membership fees, their operations heavily rely on their clubs' financial support. This dependence entails an asymmetrical involvement: such associations need clubs monetarily, not the other way around. On the one hand, some association members enjoy clubs' subsidies to attend matches; on the other hand, they need to serve clubs' interests. For example, when preparing stands for other fans and the association band before kick-off, moreover, they are required to chant in unison. As Mr Yuan explains in the same interview:

"It is free for us to go to home matches. Some members can go to away matches with costs paid for by the club. All members go to an away match with subsidies (e.g. ¥20

lunch fee, drummers get ¥50). The club arranges transport for nearby away matches free of charge and even pays for key members' flights to go to long-distance away matches. From the association point of view, we are not in stadiums to simply attend matches and cheer our team on, it is also a great responsibility and obligation to show our support".

Figure 8-2 also shows the relationship between a dependent fan association and its club from a resource dependency perspective. The continuation of the association relies greatly on financial support from the club; by contrast, the level of a club's financial dependency on its fan association is very low. The result, as shown in the figure below determines their financial dependency, the relationship of the two parties at the status of **D** – giving the club great power over its fan association.

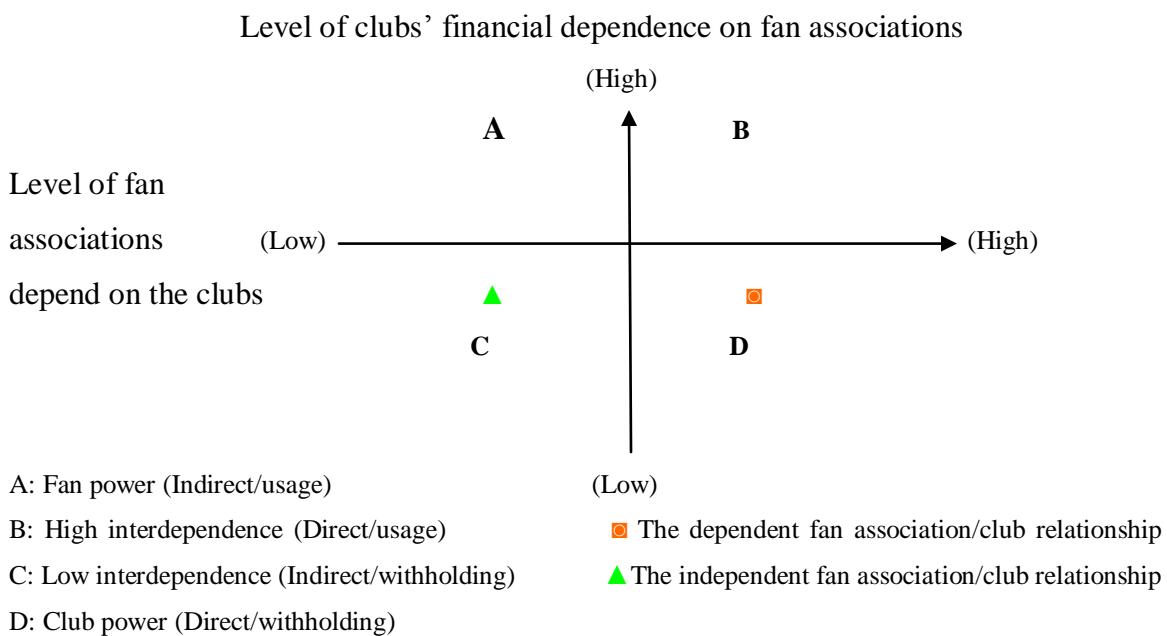


Figure 8-2 The fan association/club relationships

A dependent association, on the one hand, has good communication channels with its club; on the other hand, its inferior position and financial dependence limits its influence over club governance. In fact, clubs are in a very strong position to dominate this relationship. As Mr Yuan admitted in his interview, his fan association has to follow the club's instructions, even if it conflicts with their own wishes – “*Our advice can be*

adopted if the club considers it to be valuable, regardless of the outcome, we have to accept the club's decision, as the club leads us".

Despite the limited impact of the dependent associations' involvement in the club's decision-making, this relationship provides effective communications between the two parties. Financial subsidies play an important role in this particular type of fan/club relationship. It enables a club to attract more supporters to join its fan group, however, such subsidies are difficult to maintain within a mature market environment, especially on a large scale, and this introduces doubts over clubs' long-term financial sustainability. Arguably, the tactic of using subsidies can therefore only be employed as a temporary measure and cannot be maintained in the long term.

8.4.2 The independent position

The majority of fan associations are independent organisations that are financially autonomous. These associations deal directly with individual fans and their clubs. As most Chinese clubs play under regional names and normally represent provinces, they need to deal with the different fan associations within the same provincial boundaries⁷⁹ that support the same club. To add to this, some of these associations, from different provincial locations, voluntarily formed a fan union under the same club banner.

Figure 8-1 also shows the relationship between an independent fan association and its club. They are separate organisations that exist without explicit contracts between them. Despite sharing only external links, the two parties have one major goal in common – building a successful club. Therefore, their relationship status can be referred to as being Contingently Compatible.

Despite fan associations supporting their local clubs within the Compatible structure, the actual relationship varies according to their size, location and their clubs' perception and policies. This research finds that independent fan associations describe their interactions

⁷⁹ The average size of a Chinese province is similar to the size of Great Britain in terms of both population and geographical area.

with clubs as three types of relationships – the close relationship, the distant relationship and the partnership.

The close relationship possesses efficient communication in both directions. Clubs and associations coordinate their efforts during business practices in order to develop simultaneously and derive benefit from that coordination. This relationship was explained by Mr. Meng Ran, the President of Beijing Green Storm Fan Association (personal interview, 07/08/08):

“We have efficient contact with the club (Beijing Guoan FC). I can call club management anytime, the club also call us to discuss (or for meetings) related issues (e.g. crowd control and ticket distribution). In particular they consulted us about this season’s price increase, as they qualified for the AFC’s Champions’ League. As a result, seasonal tickets still work out much cheaper for our members, and that helped us to increase our membership this year. Moreover, our close relationship is also based on the business aspect the club has approved us to sell club merchandise”.

The statement demonstrates that the fan association participates in some of its club’s business operation, and there are well maintained communication mechanisms between the two parties. From the stakeholder theoretical point of view, fan association’s normative legitimate claims are respected and considered in the club’s decision-making process.

By contrast, a distant relationship provides for less efficient communication – mostly one-way traffic of information from clubs. Although clubs acknowledge the necessity of maintaining a compatible relationship with local fan associations, they do not take the extra care or measures to manage the ‘special’ relationship with these associations. Mr. Yu Fuzhi, Vice Chairman of Changchun Fan Association explains the distant relationship with Changchun Yatai FC (personal interview, 01/08/08):

“The club doesn’t treat the association as an important stakeholder. We feel that they treat us the same way as they would do to any other organisations or individuals, which makes it hard for us to recruit members. Of course, they welcome our support during football matches and other social events. Nevertheless, they seem not to care much about how strong our support is. The price of seasonal tickets has risen 100% this season⁸⁰ without consulting us – making it the most expensive in the country. Even though we try our best to support our club by any means, we don’t feel the club appreciates our efforts very much. The dialogue between the club and us is symbolic – they have no senior managers to deal with us.”

Mr Yu feels his association has not been treated fairly. The communication channel with the club does not exist for them. It is a typical behavior from a stakeholder relationship status of low dependency/low centrality, therefore, club’s normative claims are simply ignored.

The partnership relationship consists of clubs and associations communicating and coordinating for mutual benefit. In this partnership, both coordination and conflicts may occur according to how each party’s interests align over particular issues at particular times. There is effective communication between the two parties, who not only share information but also strive to understand each other’s opinions. Mr Sun Changlong, President of Shenyang Fan Association - the first fan association formed in China to see ‘partnership’ as the best word to describe their relationship with Liaoning FC explains (personal interview, 30/07/08):

“We coordinate with the club over many events. The club needs us for its business development (as fans have been seen as part of football product in the market economy) and we need football as a platform to grow, it is a reciprocal synergy. Although the interests of the club and the association do not always go in the same direction, we are trying to understand each other’s positions and to work accordingly for mutual benefit. Furthermore, we hold our own press conference regularly, and have also bought regular

⁸⁰ Yatai FC won the Super League in 2007 and qualified for AFC’s Champions’ League in the 2008 season.

TV times to broadcast our own programmes in order to make our voice louder and more influential towards the club”.

Despite each of the three types of relationship between fan associations and their clubs having their own individual characteristics, they have one common ground - it is the associations' financial independency. These fan associations' exist and operations do not depend on their clubs monetarily, and vice versa. Therefore, the relationship between an independent fan association and its club is of Low Interdependence, as shown in Figure 8-2. The Low Interdependence relationship suggests fan associations could try the indirect withholding strategy in order to force issues. An example of this is Shenyang Fan Association's use of media (buying broadcasting time from local TV stations) as an effective tool, not only to generate more widely appeal to society, but also to gain extra weight and influence in its relationship with Liaoning FC.

Unlike most individual independent fan associations, some associations within the same province voluntarily formed a fan union. A fan union is a collection of associations - its memberships consist not of individuals, but of different fan associations within the same provincial boundaries. Each member of the fan union consists of a large amount of individual fans throughout the province. Despite a fan union being a collection of relatively loose organisations, its members have one collective voice. As Mr Yuan Haishan, the President of Henan Jianye Football Fan Union explains (personal interview, 09/0708):

“We are a union that consists of 33 association members. Each of them operates independently in their own area. We hold elections at the annual congress, where representatives from all members elect a President of the union and board members. Currently we have 13 board members who work collaboratively on different areas. For important issues, we make decisions collectively within a democratic process”.

As local fan associations are different in size and in their ability to influence clubs, a fan union, as a well-organised society, increases fans' influence by giving them an even

bigger unanimous voice. A fan union is therefore powerful in terms of social influence. Keeping this in mind, clubs will acknowledge a union's influence and are happy to work with the union over both social and developmental issues. As Mr Yuan further explains, the case of Jianye Fan Union:

"The club has improved their relationship with the fans since we formed a union. We are now able to organize for fans from different areas to meet players. Moreover, the club provides us with an office and union leaders can use all the facilities like other club administration staff. Because we have a limited income, the club subsidizes partial wages of all 13 board members. This indicates that the club treats us as an important stakeholder. In addition, good communication channels are in place, our views can be expressed at regular and irregular meetings with club management, responses from the club are normally quick".

The constitution of a fan union as a whole has enhanced network 'density'. Compared to that of individual fan associations, the structure of a fan union provides a more efficient connection amongst its members. Links amongst member associations become denser, and information flows more freely. As a result, a fan union possesses more influence and power than a single association or individual fans. It is more resistant towards other stakeholders, including the club it supports. Figure 8-3 shows this relationship.

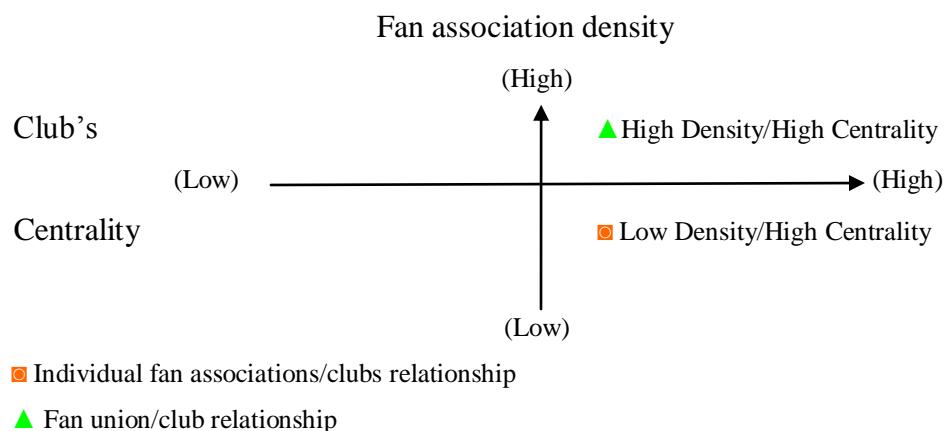


Figure 8-3 Fan associations' influences towards clubs

Generally speaking, clubs hold more power in the industry, and in the fan/club relationship, clubs are in a dominant central position. Fan associations, as opposed to the club they represent, are less influential, and maintain a less central position, especially as an individual association without close/dense links with other stakeholders. Knowing this, the association/club relationship is one of Low Density/High Centrality. By contrast, the fan union structure possesses efficient internal communication links, which create coordination and the possibility of collective and unanimous action amongst union members. The fan union as a whole, with its enhanced organisational density, enjoys a different status in its relationship with a club, which can be described as High Density/High Centrality.

In the High Density/High Centrality position, a fan union is capable of influencing a club in many ways. According to both the institutional theory and resources dependent theory, “organisational decision makers have a strong preference for certainty, stability and predictability” (Oliver, 1991, p170). Therefore, a club is friendlier towards a fan union, and is more likely to adopt an inclusive approach and willingness to compromise and negotiate a mutually satisfactory position with a fan union. Jianye’s case demonstrates this relationship. Just as Mr Yuan states in the same interview:

“We meet club’s top management to discuss many issues, such as crowd control, or the price of seasonal tickets. Although the club is the one to make the final decision, our opinions are respected and we do get feedback and explanation afterwards”.

According to Mr Yuan, the Jiaye Fan Union is included in some forms of decision-making processes. It shows that fan organisations can make a certain impact on club governance through good organisation. However, when a fan union takes financial subsidies, especially in the case of board members who are partially paid by its club, just like in the case of the Jiaye Fan Union, it raises concerns over the union’s “true independence” and a possible conflict of interest. Furthermore, a fan union does not

consist of individual fans. It is therefore questionable how effective a fan union is in terms of representing the needs of individual fans.

In short, professionalisation has changed the nature of the fan/club relationship. As clubs adopt industrial practices with increased business awareness, fan associations are gradually being acknowledged as an important stakeholder group, even though their direct financial contribution towards clubs is still at a low level. Under the market economy, clubs cannot afford to ignore fans' demands completely, even in a distant fan/club relationship fans are still a part of football product, which is marketed as a whole. Indeed, efforts have been made by both clubs and fan associations in order to understand one other, and the once alienated fan/club relationship that existed in the pre-professional era has moved much closer together since the advent of professionalisation,

Good communication in both directions is one of the key elements for building a close fan/club relationship. It can improve mutual understanding, especially when both parties are pursuing compatible goals. By contrast, a distant relationship with inefficient communication creates more conflicts between a club and its fan associations. This distance can cause dissatisfaction amongst fans, which undermines their support for the club. Moreover, it discourages fans' initiative and therefore jeopardizes the club's long-term financial resources and the promise of sustainable development.

Despite improvements made to the nature of the relationship, fan associations in general have limited influence over club governance, and especially lack involvement in a club's decision-making process. A dependent fan association has the least influence over club governance and can contribute little to club developmental issues during the decision-making process. Independent fan associations have various ranges of relationship with their clubs in terms of closeness. Although they may still lack influence over club governance, some of them are able to pursue their interests more actively and effectively by using different strategies. For instance, by using a third party, or forming an alliance.

As for club subsidies, on one hand, they help fan associations to develop themselves and encourage fan participation; on the other hand, they reduce an associations' independence and cast doubt on who it is they represent.

The fan union structure has been managed using a proactive approach, which demonstrates that fans have a desire to get more involved in the game, not only as spectators but also as an important stakeholder, especially at the club governance level. It demonstrates that fan associations can be developed to be more influential as a meaningful stakeholder group. With the right approach, and with appropriate managerial skills and strategies, their voices are not only just for others to hear, but should be listened to. Being listened to, as opposed to merely being heard, can become a metaphor for being understood and being valued.

The following section unveils how professionalisation has been perceived by fan associations.

8.5 The fans' perception of the football industry

Under a planned economy, football existed purely as a sport. The specialised elite teams relied on the state budget, and fans had limited opportunities to watch their local teams. In this situation, the fan/team relationship was distant, with no inter-relationship between the two parties. This meant that Chinese fans were presented as self-disciplined, and caused very little trouble, and in many selected matches and events, spectators had been instructed to attend by the government (Hua, 2004). In reality, fans were lacking in their own initiative and awareness, and did not know any better ways to express their demands and opinions.

The real change came after the 'May 19th Event', when the government adopted a different approach towards crowd control, which allowed fan associations to prosper across the country. Today, fan associations are one of the few real non-governmental organisations in China, many of which have consolidated their positions in their

respective regions. Although different associations have different structures and operate in various forms, they undertake almost the same activities (e.g. organising travel, distributing tickets). More importantly, the government and clubs see them as strong allies to tackle sport-related social disorder.

8.5.1 The governance structure

Despite improved governance and a more inclusive approach at the professional level, the current structure of the CFA has been heavily criticised by fans. The two different governance functions (the external function as the CFA which is a member of FIFA, and the internal function as the CFMC under the leadership of SGSA) of the governing body have conflicting goals, as its political interests conflict with the modern industry practice under the market economy. FIFA's rule clearly states that its member associations cannot be interfered with by political powers in the running of the governing bodies. The President of the CFA is appointed by the Chinese government, and its politically-led causes and shortsighted practices harm the game's development in a long term. Mr Yuan Haishan, the President of Henan Jianye Football Fan Union points out (personal interview 09/07/08):

"The CFA is one organisation with two different faces. In fact, under the market economy, more political interference harms football development. As we can see, the CFA officials are short-sighted, especially on youth development, as all leaders of the CFA have one thing in common – focusing on the national team and sacrificing youth development, because good results from the national team can lead to their own personal promotion".

The top CFA officials are appointed by the government, and do not have the patience to work on grass-roots development. Furthermore, the dual roles of the governing body do not fit the purpose of modern football development, which may explain the failure of the academy system after professionalisation. The CFA carries the banner of sport reform, however, the politically-led reform promoted an unbalanced approach and short-sighted practices towards youth development, which undermined the old fostering system. For

example, the well-designed Soviet style cohesion amongst different development layers was destroyed. This, coupled with a lack of strategic planning in the process of professionalisation, has resulted in the weakening of the foundation of Chinese football and the decline of the national team's FIFA ranking. Mr Sun Changlong, President of Shenyang Fan Association explains (personal interview 30/07/08):

"Despite professionalisation being a step forward compared to the state amateur model, the gap has widened between us and our neighboring countries (e.g. Japan, Korean). The governance system seems improved in terms of an European-like package and commercial development, however, the improvement cannot be fully justified by the results on the international stage".

The football reform focuses on professionalisation, the commercial approach, and market development, which leaves youth development in a shambolic state - with 'no financial support'; 'no policy'; 'no development strategy'; 'no regulation' and 'no effective management'. Many football schools pursue a short-term financial gain rather than well-planned, long-term sustainable development. Once the cash flow dries up, schools have no options but to close. As Mr Sun explains further in the same interview:

"At the beginning of professionalisation, there were many football schools competing for students, and now, 90% are closed. The CFA and local FA did not have clear visions and appropriate measures from the very beginning, and weak regulations coupled with an overly-commercial approach wasted our limited resources and cost us the academy system".

Football schools are not strictly regulated, many of their coaching staff and equipment are not up to standard. Most schools are extremely money-orientated and lack a long-term development strategy. This phenomenon was also pointed out by Hu Ge, President of Changsha Red Pepper Fan Association (personal interview, 04/07/08):

“Football schools are expensive, only kids from rich families can afford to attend, which sends the wrong signal to society. It is the governance failure after professionalisation”.

Mr Ma Jianming, the former Director of the Youth Department of the CFA summarised the unhealthy development trend: “There were more than 1,000 football schools across the country at the beginning of professionalisation, in fact, most of them could not satisfy the basic requirement as a football school, few of them can be self-sustained, the situation is not promising” (Ran, 2008a). By 2000, there were only 84 football schools registered with the CFA, with 37,051 amateur (so called youth players) players; by 2007, there were only 56 football schools registered with 13,524 youth players (ibid).

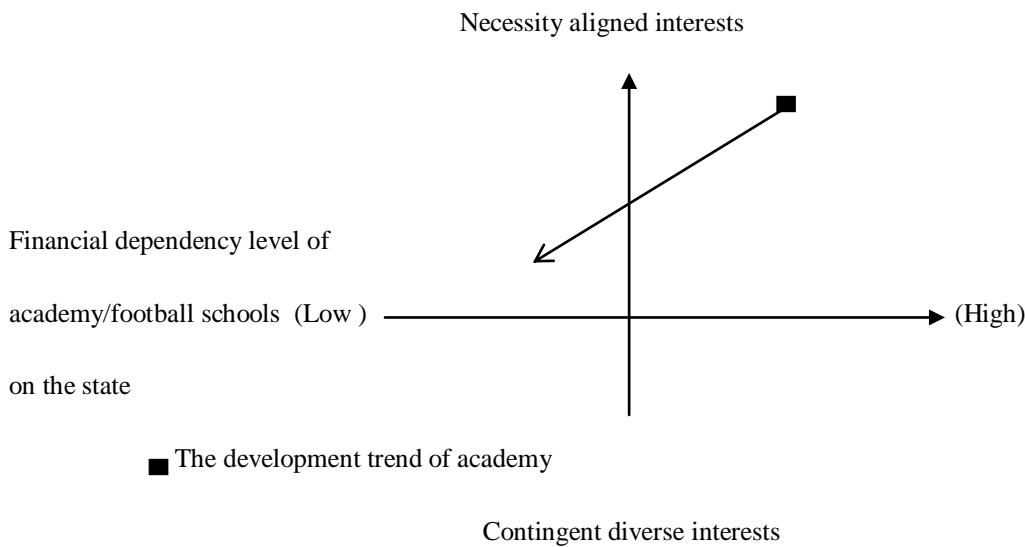


Figure 8-4 The development pattern of the clubs/country relationship

Figure 8-4 shows the development trend at an academy level. Before professionalisation, all football schools were owned by the state and relied fully on the state investment. In the Soviet structure both the state and all football schools had aligned interests. When the state budget was reduced, football schools were forced to adopt the market approach, coupled with the emergence of private schools in the market, the aligned interest was diversified along with reduced funding. Private schools especially can adopt the market approach more aggressively even without satisfying basic requirements. For some of them, making a profit is more interesting than developing football.

Due to lack of long term strategy and regulation to develop the grass-roots market in a sustainable manner, the foundation of the football pyramid has been damaged, which in turn affected professional clubs and the national team at the top level. The fact is demonstrated by the gradually widening gap between the performance of Chinese teams and its neighboring counties on the international stage.

8.5.2 Fans' impression of players

Fans consider Chinese players are not professional enough. Professionalisation brought in the Western style league formation but failed to adopt its professionalism and managerial mechanisms. Despite much-improved salaries and increased social profile, most players failed to meet their new responsibilities both as professional footballers and role models for young people. Players have been accused of lacking even minimal professional ethics (Bristow, 2008), which has raised concern over their behavior.

This problem has been highlighted again by a fight on the pitch between players of the two top clubs during a league match⁸¹, and more recently in the 2010 National Games qualification, when four players were punished for chasing referees. One of these players was banned for life for his part in the incident. A combination of high salaries and a lack of discipline has caused a negative image, which damages the game's credibility. As Mr Yuan Haishan points out (personal interview, 09/07/08):

"Look at news about players, can you see anything positive? Gambling, drinking, fighting etc, which reflect the overall governance standard. The managerial competence at both the CFA and club levels is questionable, they are not professional enough - the old style management does not answer new questions".

Match attendance had a promising start in 1994, when the Jia A League attracted over 20,000 spectators per match. However, negative incidents damaged the credibility of both

⁸¹ League match between Beijing Guan FC and Tianjin Taida FC on 16th Nov, 2008.

players and the game, and, 14 years on, with ongoing scandals, attendance has declined. Due to the many negative images generated by Chinese football⁸², the CCTV stopped broadcasting league matches in November 2008 (*ibid*).

Indeed, professional football is experiencing more difficulties than ever before. According to Hu Ge, the President of Changsha Red Pepper Fan Association (personal interview, 04/07/08):

“Despite being in the JiaB League at the beginning of professionlisation, it was very hard to get a ticket. The stadium was so full every time the club played that even plants around stadium died on match days (people stepped on them). Now we are playing in the top league, attendance is only 8,000-10,000 per match, and many spectators get free tickets. The playing standard has improved, however, the overall football environment has declined”.

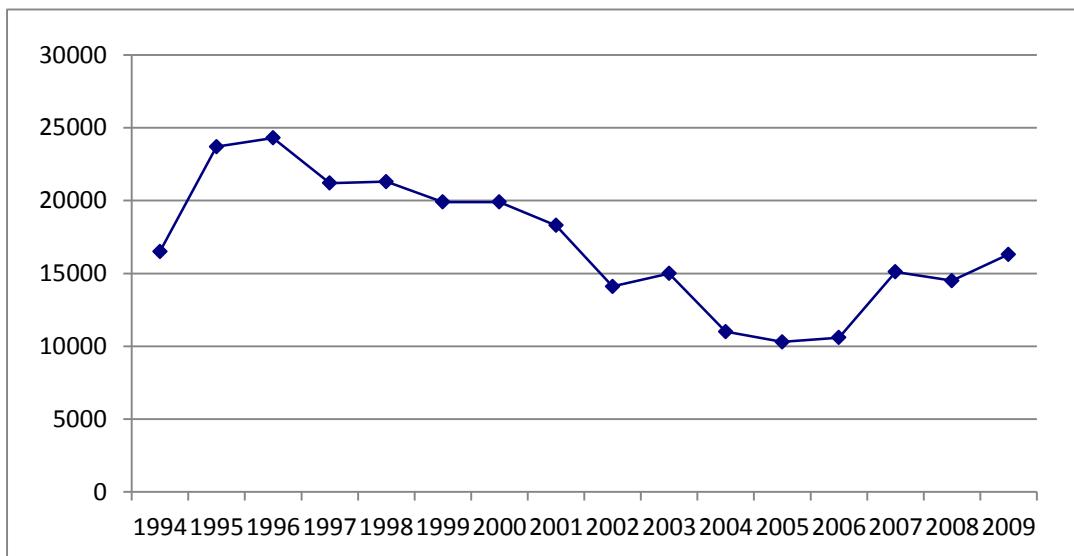
Mr Sun Changlong, President of Shenyang Fan Association, expressed a similar experience relating to the decline (personal interview, 30/07/08):

“When the professional league first started, tickets were in short supply. You really had to know someone in order to get a ticket. With the increasingly commercialised approach, the football market became sloppy. We have had discussions amongst our members about this sloppiness, and we do not think the playing standard has dropped, actually, the game has become more competitive. The partial explanation for this may be increased availability of other entertainment - people have far more choices now, and football needs to compete for spectators. Moreover, players’ bad examples, corruption and bad results from the national team also affect the football market severely”.

Figure 8-5 indicates that the average match attendance soared immediately after professionalisation, especially in the first three years, where it was improving every

⁸² CCTV broadcasted the last two rounds of the 2009 Super League, and live coverage resumed in the 2012 season.

season. Although the attendance dropped after 1996, it maintained the 20,000 per match mark up until 2000. The Jia A League did not design relegation for the 2001 season, and in the following 2002 season neither promotion or relegation were designed by the CFA, coupled with widely speculated ‘black whistles’ on the field, the attendance plunged to under the 15,000 per match mark. Despite the CFA’s clean-up efforts, attendance did not improve much in the 2003 season. The ‘G-7’ event and other scandals combined with the CFA’s unprofessional practices imprinted on the inauguration of the Super League, and match attendance remained at a low of just over the 10,000 mark for three consecutive seasons. When the AFC was preparing to re-launch its reconstructed Champions League⁸³ in 2008, the 2007 season provided an opportunity for clubs to maximise their performance in order to qualify on the continental stage. As clubs had more incentive to play well, attendance picked up.



Source: The CFA League Department

Figure 8-5 The average match attendance per match

As football clubs are not deeply rooted in local communities, supporters can turn their backs on the game with relative ease if the CFA, clubs and players do not take responsibility and run the game with an appropriate degree of accountability.

⁸³ The Super League entitles four entries.

8.5.3 Fans' concern about the current development problems

Apart from the positive impact that market-oriented reform has made, corruption and incompetent governance within the industry has caused fans to foster serious concerns. Mr Yuan Haishang, President of Henan Jianye Fan Union highlights that it is not only the players that are involved in the many incidents such as gambling, fighting and drinking, that have blemished the game, but also match officials (personal interview, 09/07/08):

“Even though referees have improved these couple of years, some of them are not up to the desired standard. They can referee matches only because they know someone in the CFA”.

He goes on:

“Incompetent governance is the main reason causing the industry to decline. Firstly, the governing body has few competent staff; secondly, with the governmental background, it places emphasis on short-sighted politically-led practices. At the club level, few clubs have high standard academies, many clubs prefer to buy youngsters instead of fostering their own.”

The quality of the national team is determined by the quality of leagues and professional clubs; the quality of clubs is largely determined by whether their academies and youth development programmes are scientifically designed and well-implemented. As no Chinese clubs have deep community-roots, they have little to offer in the way of history and heritage. As a result, contemporary credibility of the game plays a more important role in Chinese football development than tradition, with emphasis on the performance of the national team. The performance of the national team has a great effect on fans' enthusiasm, the overall football environment and on league attendance. As Hu Ge, President of Changsha Red Pepper Fan Association explains (personal interview, 04/07/08):

“The overall football environment is not good, especially as the national team has lost too many games. That damaged fans' participation, as well as the football market. When

coupled with corruption, this has led to a tough environment for football development at all levels.”

He explains further:

“The CFA places emphasis on the national team, clubs concentrate on their first teams, what about the grass-roots football? In Changsha city, there is not enough space for kids to play, even in their schools. Without a good coherent structure, how can we build quality clubs and the national team?”

Professionalisation broke the old cohesive structure of the game. It is making a negative impact on both the long-term development of the industry and the current performance of the national team. Poor international results coupled with scandals damage the game's contemporary credibility and put Chinese football into a vicious circle. The community based grass-roots infrastructure has been debated. However, explicit plans and implementation are still off the agenda, even though these are essential elements in achieving sustainable development under the market economy.

What is the best way forward for Chinese football? Ashton (2002) points out that every sport, including football, relies upon the savvy of their governing body to develop, implement and oversee regulations, as it cannot rely on civil law for all its specific issues. It is a real challenge for the industry, which is experiencing a vicious circle of corruption and lack of transparency. As Mr Yuan Haishan, President of Henan Jianye Fan Union suggests: (personal interview, 09/07/08)

“Cutting off direct government links and making the CFA a real NGO; establishing appropriate governance mechanisms and setting up good youth development programs”.

The dual position of the CFA and its organisational structure determines its own accountability. The governing body is simply not fit for purpose. As a result, it neither meets the demands of the modern industry practice at the professional level, nor does it fulfill its duty to promote the game at the grass-roots level.

8.6 Summary

Jones (1998, cited by Morrow 2003) indicates that fandom is characterised by a particularly strong level of commitment and self-identification, which means die-hard fans continually support their team irrespective of performance. However, in the Chinese case, the fan/club relationship and fans' loyalty are not based on community connections and clubs' traditional values. 'Fan equity' is relatively weak in terms of commitment and emotional attachment towards a particular club. Fans' loyalty is, however, strong towards the game and the national team. Indeed, many people claim they are die-hard football fans when in fact few are die-hard fans of a particular club, even though they do support their local clubs in general.

Despite some fan associations being successful in terms of maintaining a dialogue with their local clubs, few of them are drawn into the actual decision-making panels by their clubs and treated as an important stakeholder group, which, as fans, they deserve. Compared to European fans, Chinese fans are less demanding. Although Chinese fans have football knowledge as well as business awareness, they are in a weak position when required to take more initiative and display determination in order to drive their own issues forward. In fact, fans are not properly consulted on all major issues facing the game, and are excluded from having any meaningful say in the decision-making bodies.

Chinese fans are not against the commercial approach, however, they are recognising problems such as incompetent governance and corruption. Fans want to see fewer poorly run clubs, governing bodies, proper behaved players, and more credibility in the Chinese game. This chapter draws upon the Chinese fan culture to set the background, then uses stakeholder analytical models to outline different relationships that fan associations have with their clubs. Findings are intended to allow a clear understanding of the impact that professionalisation made on the relationship between supporters and clubs. Although fans are aware of their legitimate rights, they lack the eagerness to play more important roles (such as demanding more involvement in the decision-making process at different levels) in order to improve the integrity and the governance structure of the game.

Chapter Nine: Conclusion

This thesis draws on stakeholder theory as the theoretical framework of analysis, and examines corporate governance in the Chinese football industry from various angles – different stakeholders' perspectives to assess the advent of professionalisation and its impact on the development of the Chinese game. The justification for employing the stakeholder theory for studying the football industry comes from the widely accepted concept that particular features of certain stakeholders within the game require a balanced analysis need to be addressed with a balanced approach in order to raise the industry's accountability⁸⁴ (Morrow, 1999, 2000, 2003). This thesis sets the overriding research question: "**How has professionalisation impacted on the governance and development of the football industry in China?**", and it is the first work to employ the corporate governance concept and theoretical framework of stakeholder theory into the Chinese football industry. The research question particularly focuses on the game's modern development, gathering information from key stakeholder groups in order to explore the state of Chinese football. The ultimate purpose lies in reviewing the evidence and arguments that concern the game's governance and stakeholder relationships within the Chinese football industry, assimilating and evaluating them and reaching a logical and timely conclusion supported by research. The contribution made by stakeholder theory to Chinese football led to a better understanding of the game from the corporate governance aspect by utilising stakeholder relationship models, which providing predictable mechanisms to describe different stakeholder relationships and their development trends within the industry. A few recommendations are also made based on findings regarding how to mitigate conflicts between stakeholders at different levels in order to improve the governance standards of the Chinese game. The next section tries to discuss how research findings help to answer research questions.

9.1 Discussion

- **The top-down governance model turned to stakeholder network**

⁸⁴ See also Chapter Two Literature Review section four.

In an increasingly commercialised environment, the top-down football governance model and the exclusive managerial approach have been challenged by many stakeholders within the industry. Stakeholder theory and the inclusive approach have proven valuable concepts utilised by many sport governing bodies and professional clubs to meet the demands of the modern industry practices. This was most notably achieved by reducing the level of conflict between sporting and financial issues, as well as between different stakeholders, therefore, enhancing both transparency and governance standards. Examples of IOC, FIFA, UEFA and the SLC in China's football governance have demonstrated how different sport governing bodies implement the inclusive approach to bring a wider range of stakeholder groups in their decision-making process. In other words, this represents a governance shift from a model of direct control from the government or sporting authorities towards a model with a more inclusive decision-making mechanism. As Rahman *et al* (2003, p12) state, "The role of management becomes immeasurably more challenging, when stakeholders are no longer seen as simply the objects of managerial action but as subjects with their own objectives and purposes".

Looking at the development trend of Chinese governance model, the CFA's centralised position has been consistently challenged by other stakeholders, especially clubs. The governing body gradually facilitated the changes with enhanced transparency and a more inclusive approach at the decision-making level to accommodate the more diversified interests of other stakeholders. For example, opening its bank accounts to clubs; the creation of the SLC. Such governance reform shows the CFA concedes some powers to other stakeholders, especially to clubs after its dominant position weakened. Nevertheless, the power balance between the CFA and other stakeholders is not static, it can skew towards either the CFA or its stakeholders on different occasions, and such a balance depends on various elements, such as the level of their financial dependency, the third party influence and other stakeholders' connections.

Another debating point is the self-conflicted function of the governing body as both a government organisation – CFMC and a non-governmental organisation – CFA. Due to

the “two” bodies carrying different missions with different interests, such an awkward position casts doubts over the governing body’s accountability and its governance practices. For example, the officials of governing bodies at different levels being appointed by their related governments, the practice not only contradict FIFA rules, but also leave football governance heavily influenced by government decrees, rather than industry professionals. Clearly, separating the CFA’s government functions and football practice is the best way to move the game forward. It will not only eliminate the CFA’s self-conflicted functions but also reshape its governance structure to fit for purpose. Under the current system, government officials are too eager for quick success. Mr Wei Di (Mulvenney & Liu, 2010) the former leader of the CFA, has also recognised this necessity. However, he still sees a certain degree of government involvement as a preventative measure, keeping the game from completely chaotic and fundamental problems.

Within the Chinese football industry, conflicts between all stakeholders were not exposed under the planned economy. All stakeholders had similar interests and little conflict within the state funded system. However, the football reform moved the game into the territory of the market economy. With more stakeholders from different backgrounds becoming involved in the game, more conflicts emerged. By applying stakeholder analysis, findings at different levels confirm that the necessary compatible relationships of CFA/local FAs, CFA/clubs and club/country have developed towards the necessary incompatible direction with a more diverse interest between stakeholders.

Indeed, the top-down governance structure was not designed for transparency, nor for balancing stakeholders’ interests, but specifically for issuing orders and implementing policies. Without close public scrutiny and transparent mechanisms, the CFA can hardly keep its credibility in line with other stakeholders’ expectation and demands, coupled with the governing body’s unprofessional practices, the reputation of Chinese football and its sustainable development under the market economy have been put in jeopardy. As Mr Zheng Jinlong – Senior Vice President, Acting President of AFC (personal interview, 20/04/12) states:

“It is the wrong administrations (and) management make the Chinese game suffering. Chinese football should pay more attentions to reform its organisations and administrations. We cannot blame players and coaches, they are working hard and they are serious. It is the administrators and the FA, they are not serious to contribute towards football development in China.”

The modern game governance requires both market knowledge and experience, and appointed officials often lack business sense and expertise. Many officials only know to copy the professional models of the European game, but fail to understand that their models were growing out of communities, based on the universal concept of fair play (Lau, 2010).

- **Clubs became business entities with increased power and influence within the industry**

At the clubs level, football clubs are unusual business entities, and many social, commercial and emotional attachments from other stakeholders can have financial implications for clubs. The majority of Chinese clubs are owned by big corporations, corporations will seek to benefit from their investment directly or indirectly. Many corporations use clubs not only to raise their brand profiles, but also to maintain a close association with their local governments in order to gain a business advantage. As clubs rely heavily on the financial support of corporations, clubs' own brand integrity is compromised, which has a harmful effect on long-term sustainability and supporters' affinity⁸⁵. It is a big challenge for Chinese clubs to find the right mechanism that retains the positive involvement of corporations, while at the same time giving clubs greater consistency of ownership, strategic direction and brand profile (Eaves *et al*, 2003). As Morrow (2005) points out: “An unbalanced narrative about the club’s position and prospective requiring the discharge of financial prudence and common sense is simply iniquitous”.

⁸⁵ See examples in Chapter Six, Section Two.

Clubs form the basis of the football industry, both economically and socially (Ducrey *et al*, 2003). Running a football club is not only an economic issue, it has social implications too. The interdependent relationship between clubs and their combined objectives, namely the sporting objective and the commercial objective as well as the unique club-fan relationship, demonstrate that a football club exists as both a business and as a social institution (Morrow 2003, 2005).

The study shows that within the football industry, clubs gained substantial power towards other stakeholders including football authorities. At the professional level, clubs are directly involved in the decision-making panels and sharing power with the CFA. They are in a strong position with strong influence. The club/fan relationships in this study also shows that Chinese clubs increased their awareness of the game's social implication, however, they failed to understand how important this social dimension can be in benefiting clubs' long-term development. Moreover, a lack of professional knowledge, coupled with a grave misunderstanding on how to build a community based football club at this level, has led to clubs' human and material resources not being fully utilized to engage with fans and local communities. As a result, local markets are left largely underdeveloped, which in turn affects clubs' long-term revenue stream and self-sustainability. From the Western perspective, clubs' most loyal fans are from local communities, and this is the concept that Chinese clubs have not been able to learn and understand entirely. Chinese clubs are trying hard to develop a straight consumer-supplier relationship with their local fans, instead of fostering a club/fan culture based on common values and deep social connections. Although fans may pay considerable sums to watch the national team or European club tours, the football merchandise market has performed poorly, which confirms the immaturity of club development (Beere, 2009). This fact partially explains why Chinese clubs are lacking their own die-hard fans⁸⁶.

⁸⁶ A community based club model with an inclusive approach has many advantages, which need to be acknowledged by the clubs, regardless of their ownership structures. Firstly, a community based club model creates social bonds between a club and its local community, which gives the club true representation and identity. Secondly, as clubs' influence go beyond the realm of economics, various community schemes can be utilised to boost clubs' positive social image and popularity, especially amongst their local authorities and supporters. Thirdly, the inclusive governance approach at the club level needs the involvement of players and fans – two crucial elements for clubs' long-term sustainable

- **Players became a vulnerable group in a highly regulated labour market**

Professionalisation has brought changes to players' employment status at the same time created a transfer market. Alongside these developments, increased conflicts between players and clubs emerged. Even though players have gained more flexibility to change clubs compared to the pre-professional era, the labour market is heavily restricted. Despite them being able to negotiate contracts individually, they are poorly organised as a whole. Stakeholder analytical models demonstrated that players are highly dependent on clubs financially, coupled with their inefficient organisation amongst themselves, players are not occupying an influential position (they are in the low centrality/low density position) in the football network. As a result, players' demands are often ignored.

The research finding illustrated that there is a growing need for players' voices to be heard and interests to be considered, especially in a decision-making process at all levels. As one of the important stakeholder groups, there is a lack of professional advisory bodies available to players. A players' union does not exist, and coupled with dearth of agents, players' welfare is not properly protected. Mr Zhang Xiaobin concluded that Chinese football needs time to mature, to create a players' association is not realistic in the foreseeable future. The clubs' lack of vision surrounding community football coupled with players' lack of awareness of their social responsibilities have led to a very passive player/fan relationship, which limits the relationship to a purely market-orientated fragile bond, based on nothing more than autographs and PR photographs.

- **Fans have a limited influence over football governance despite being well organised at the local level**

The fan/club relationship is beyond a conventional 'customer relations' status, therefore it can be argued that fans deserve more say over the game's governance and development. The Chinese fan culture is different compared to European culture. Many individual fans

development and stability under the market economy. Fourthly and finally, adopting best practice in all aspects of corporate behaviour is essential to ensure improved governance (Morrow, 1999).

are ‘star driven’ rather than ‘club driven’. Despite the fan loyalty being relatively weak, fan associations are well organised locally. The study shows that in the fan/club relationship, fan associations have a limited influence over their local clubs, and they are not included in any important decision-making process. Despite this fact, fans want their voices to be heard. For example, some independent fan associations are capable of employing a pro-active strategy in order to demonstrate that fans have the desire to increase their influence and to get more involved, especially at the club managerial level, and there is indeed room for improvement. Moreover, a club needs to be accountable in order to address fans’ emotional involvement appropriately, including being respectful to fans’ views in order to foster the club culture and market, and to enrich ‘fan equity’ as well as to strengthen the special bonds between them.

9.2 The way forward

The multi-disciplinary nature of corporate governance theory has led to different perceptions relating to how an organisation should be governed due to peculiarity of the football industry. For example, the interdependence between clubs, the uniqueness of fan equity and monopoly of league sports. The stakeholder approach and its related analytical models can offer fresh insights and a better understanding of the Chinese game.

To apply the stakeholder approach to the football industry has been justified in previous chapters. By taking into account multiple viewpoints with some further development of analytical models of stakeholder relationship to address the development trends and consequences of Chinese football professionalisation, the thesis has made a contribution to both Chinese corporate governance study and better understanding of football governance. This approach is especially poignant in the current Chinese corporate governance study environment, due to the whole research field of being dominated by studies of SOE from the agency theory approach, which lacks both stakeholder approach and non-SOE subject matter. The research introduced the stakeholder environment by identifying different stakeholders within the Chinese football industry, then it collected an analysis from some key stakeholders’ perspectives to answer the overarching research

question comprehensively and at the same time revealed governance implications for each of the main stakeholder group.

The CFA

With sufficient power available, the governing bodies must take a leading and proactive role to employ best practice. This especially entails being proactive in order to lead constructive development on the governance structure and revenue distribution mechanism rather than being reactive to changes. Moreover, setting up a healthy infrastructure will ensure the game's credibility, integrity and stakeholder involvement are protected (Morrow 2003). The governing body has to consider the football institution as a whole, not just the legal, or economic but also the social aspects, which are essential in operating the governance model as designed – in the best interests of the game. As Morrow (2003, p183) states: "But when it really matters, it is inescapable that while some football communities have sufficient power to look after their own interests unaided, other communities or stakeholders – often those whose objectives are likely to encompass social concerns – are powerless. This is why governing bodies must take a leading and proactive role".

The CFA has certainly taken initiatives in terms of improving its governance standard at the professional level, most notably with the creation of the SLC, which includes all Super League clubs and their local FAs. The change demonstrates a marked improvement compared to pre-professional era, however, the current study contends that there remains room for further improvement. For examples, in order to mitigate conflicts, players' representatives need to be directly involved in the decision-making process and included in the SLC. Media, sponsors and fans are important stakeholder groups and must be taken into consideration as credible media scrutiny significantly reduces bad governance and corruption within the industry. A more transparent mechanism need to be in place to make the CFA more accountable, especially in terms of its financial accounts and the revenue distribution process, which should be subject to strict scrutiny. The stakeholder approach also enable the identification of different type of stakeholders and their related interest, which the governing bodies can use it as a guide to improve their governance

standards at different level. This could be achieved by establishing regular dialogue and official communication channels between the CFA and all provincial/city FAs to run grass-roots schemes more effectively in order to rebuild the overall cohesion of the game, thereby consolidating the foundation of the pyramid.

The Clubs

Professional clubs draw the largest fan base, therefore their interest must be fully considered. As clubs are gradually taking a strong position within the stakeholder network, the top flight requires increased autonomy in order to meet the challenges posed by the rise in football commercialisation. The licensing system sets minimum criteria of club operations and governance for the interest of sustainable development. Moreover, clubs should not simply adopt the name of their principal sponsors or owners, their own brand images must be respected and developed in the long-term.

The community based club model possesses a different football philosophy, which not only enriches the current Chinese football culture but more importantly encompasses club development and community building. Ultimately, this establishes clubs' local roots and social integration. Furthermore, the community based club model provides sustainable resources for clubs' sustainable development under a market-oriented economy. The inclusive approach and the transparent process require clubs to be accountable, and these practices will eventually transcribe into clubs' business advantages and benefits, intertwined with their overall financial and social development.

Players

A players' union which can truly represent players' interests would be an ideal improvement to a well-balanced modern football governance structure. However, the reality of establishing such an organisation under the current environment in China is pessimistic. The recommendation for players would be, to unite within their own clubs first, and to have their own representatives involved in clubs' decision-making structures in order to protect their own interests at the club level. Moreover, creating a close relationship with other external stakeholders (e.g. lawyers, fan groups and the media),

would utilise the third parties' power, ensuring that their desired messages are respected by the top levels of management.

Fans

Fans are not just customers, they are part of “match product”. Fan support is an important element of football development under the market economy, in which the game needs to gain popularity not only in terms of participation and revenue generation but also in terms of emotional support from fans. A well-developed local market requires fans' involvement and a club's proactive approach in order to draw fans into its various community schemes and business practices. If the Chinese football model fails to focus on mass participation at the grass-roots level as well as failing to actively listen to fans, the game will unable to develop into the people's game, and the right football infrastructure will unable to be created to allow Chinese football to prosper. The fan union model is notably successful as it has increased density amongst individual associations - the Jianye Fan Union has been treated with respect by Jianye FC, and has been involved in club's normal operations to a certain degree on a more regular basis. The case demonstrates that as long as fans are well organised with the right strategy, they are capable of playing an active role.

9.3 Summary

It can be argued that the football industry is developed in a market-orientated environment and should therefore be governed through a business approach, especially at the professional level. On the other hand, its social aspects (football clubs have been deemed social institutions) and football's characteristics as a league sport restricts the game's governance by employing purely economic practices, especially at the grass-roots level. The football industry is complex and consists of multiple stakeholders with different interests. Morrow (2005, p4) argues that it is necessary to identify “how the game's economic basis affects its community – those affected by its actions – or, to use the language of business, its stakeholders”. In this case, Morrow's statement underpins the method of using the stakeholder theoretical framework for answering the overriding

research question – ‘How has professionalisation affected the governance and development of the football industry in China?’ from different stakeholders’ perspectives.

The stakeholder mindset moves beyond stakeholder engagement and responsibility, it is a new view of modern management. Inclusivity is the ‘golden key’ in a complex web of relationships, allowing an organisation to solve various conflicts between different stakeholder groups. The football industry is more than just a business, and stakeholders’ values are even more related to the game’s further development compared to other conventional industries. Ideally, all stakeholders directly involved in the production of football should be represented at the decision-making level, in order to find a way of balancing the game’s sporting and business objectives, as well as to meet demands of the modern industry practice. Building such governance structure requires an inclusive approach and awareness that all stakeholders’ legitimate interests need to be respected. As shown in Figure 5-4, the researcher has chosen the four main pillars of the Chinese football industry as focal stakeholder groups for analysis and omitted others. The reasons for this are partly time and financial constraints; more importantly, the focused key stakeholder groups were considered fit for purpose for this research.

At the political governance level, FIFA and AFC set the major international regulatory frameworks. Since the thesis focuses on the Chinese game’s ‘bottom-up’ response to commercialisation domestically, FIFA and AFC’s perspectives were not deeply studied. Media is a big contributor in the European football industry, especially the TV sector; by contrast, TV provides a very limited financial contribution to the Chinese game. Despite this, there are potential opportunities for media to play a more important role in the game’s commercial development, especially in the new media era. At the present time, traditional TV money is small, and new media platforms are still immature. As the researcher has limited accessibility in this sector, media as a stakeholder group was not examined in depth. At the organisational governance level, sponsors are big financial contributors compared to the media sector. In fact, the biggest sponsors are club owners. In its current stage of development, the Chinese football market has not been able to attract big commercial deals. Nevertheless, the analysis of the clubs’ perspective (Chapter

Six) does reflect some main sponsors' points of view (as clubs' owners). Even though more community elements have gradually emerged in the commercialised Chinese football industry, Chinese clubs have not emerged from the community based football culture and share little of the values of their local communities. More importantly, an understanding of the different views can help detoxify the hostile situation and allow stakeholders to make necessary adjustments. This thus provides the industry with an increasing amount of opportunities, rather than challenges, for a sustainable and healthy development (Morrow, 2003).

The challenges facing Chinese football have to be addressed at professional and strategic level, and strategic vision is required to understand a wide range of stakeholders who have vested interest within the game. Looking back on the whole process of professionalisation in China and the CFA's government background, the truth is, that on the one hand China will never copy any of the European football governance models entirely, on the other hand, Chinese football professionalisation involves using a variety of elements, including the fundamental philosophy of European football⁸⁷. As Amara *et al* (2005, p195) state that: "a hybrid between the traditional centralised control of vertical government of the game and the network system of governance evident in the European context". It is important for Chinese sporting officials to realise that traditional football nations' successful models cannot be simply copied, but first need to be understood authentically, without compromising the core value and spirit of the game. As professional leagues have become the main feeders for world football, an integrated network of all stakeholders involved in the governance structure is essential to ensure the healthy and sustainable development of the football industry. Football's long-term success is dependent on popularising the game through a broad section of the population, rather than just a few elite clubs. Mass participation, community spirit, traditional values and credibility are the key elements in developing a healthy industry and a powerful football nation. Based on this research, other stakeholder models can be developed in order to explore the Chinese football industry for further studies, not only at the professional level but also at grassroots level.

⁸⁷ Reflecting the Bird-cage theory in Chapter Five Section Two.

On-field fighting, off-field corruption and other related controversies should not prevent Chinese football from moving forwards. The overall impact of professionalisation on football development has been positive, as the game has continued to grow. The transformation of football from a state amateur model under a planned economy to a Western style professional model under a market-orientated economy reflects not only the progress that Chinese football has made, but also the socio-economic changes that have occurred, both globally and domestically. The healthy development of Chinese football relies on a balanced, inclusive approach and effective integration of the game's sporting, financial and social dimensions. The inclusive approach and involvement of more stakeholders in the decision-making process are the key elements for the modern game in tackling conflicts caused by commercial development. With all stakeholders' collective efforts combined, Chinese football can be cherished in the future.

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⁸⁸ Mr Jin was coaching the National Team and Beijng Guoan FC at the late 1990s, he is also a senior consultant for the CFA.

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Han Gongzheng - Deputy General Manager of Luneng Taishan FC, 05/01/08

⁸⁹ Played in England with Stock Port and played in Australian Super League.