

Analysis on the causes and Countermeasures of financing difficulties of small and medium sized enterprises in China -- from the perspective of information asymmetry

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Abstract: since the reform and opening up, China's socialist market economic system has been gradually improved, and a large number of small and medium-sized enterprises of different types have begun to emerge in the market, playing an indispensable role in China's economic construction. With the continuous development of the domestic economic system, the financing difficulties of these small and medium-sized enterprises have also become one of the focus of attention. This paper will analyze the reasons for the financing difficulties of small and medium-sized enterprises from the aspects of small and medium-sized enterprises themselves, financial institutions, intermediaries and other aspects, and put forward corresponding solutions accordingly.

Key words: small and medium-sized enterprises; Credit rationing; Information Asymmetry

1. Introduction

1.1 Research background and significance

Nowadays, the world's political and economic structure is undergoing great changes, and overseas Black Swan events frequently occur. According to the relevant data of the National Bureau of statistics, China's GDP increased by 3% year-on-year from the first quarter to the third quarter of 2022, of which the third quarter increased by 3.9% year-on-year in a single quarter. In such an economic situation, the financing difficulties faced by small and medium-sized private enterprises can not be completely solved. At present, how to strengthen financing efforts and solve financing difficulties for small and medium-sized enterprises has become an urgent economic problem to be solved, and the long-term and hidden risks behind it deserve high attention. In order to solve the problem of financing difficulties of small and medium-sized enterprises, this paper will analyze the financing status and reasons of small and medium-sized enterprises in China from several different perspectives, such as the enterprise itself, financial institutions, intermediaries and so on, and give corresponding constructive suggestions, for the reference and research of the same type of small and medium-sized enterprises in China.

1.2 Research review at home and abroad

1. overview of foreign research

To solve this problem, the relevant research time abroad is generally early. Although the economic market system and actual national conditions of various countries are different, the research and analysis of foreign scholars still have important reference significance for solving the problem of financing difficulties of small and medium-sized enterprises in China. Considering the timeliness, the following literatures are mainly referred to. Masiak et al. (2017) pointed out that due to the differences in the attributes of SMEs, they also show different preferences when choosing financing methods; Hasan (2018) studied the relationship between SME credit demand and market credit supply, explored the different impacts of foreign banks and local banks on SME financing, and then put forward relevant policy suggestions.

2. domestic research review

Domestic research on the financing difficulties of small and medium-sized companies started relatively late. However, with the continuous development of the socialist market economy and the daily improvement of the securities market, the relevant theoretical research is also increasing, and has become a hot research topic in the industry. At present, the representative views in China are: jiaofengjuan (2017) pointed out that the current constraints include policy lag, historical problems, financial system problems and enterprises' own problems. To improve the financing difficulties, we need to improve from many aspects; Linlefen (2017) proposed that compared with other provinces,

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Jiangsu Province and Shanghai have obvious scale advantages and perfect evaluation mechanism, and the financing modes available to SMEs are more abundant; Wanghaizhi (2017) proposed that compared with small and medium-sized enterprises in urban areas, the role of informal finance in rural small and medium-sized enterprises is more obvious; Luanjinping (2017) research shows that in the financing structure of small and medium-sized family enterprises in China, the proportion of internal funds is relatively high, while debt financing and equity financing will not be favored by such enterprises; Hou Zhiming et al. (2019) found that there is ownership discrimination in China's financial services, and it is more difficult for private SMEs to obtain loans than state-owned SMEs; Liruoyu et al. (2017) introduced enterprise profitability, credit rating and project status to consider when studying the factors affecting SME financing; Songjinxuan (2018) pointed out that government departments should formulate relevant laws and regulations and establish a perfect credit guarantee system to improve the loan acquisition rate; Wangzhenhong and wangliming (2019) believe that although China attaches great importance to the development of small and medium-sized enterprises and has issued a number of preferential measures, the financing problems of small and medium-sized enterprises still exist and have not been fundamentally solved; Wangyuwei et al. (2019) pointed out that when the growth stage is different, the risk preference of enterprises is different, which will lead to different financing preferences; Zhangshanshan (2019) studied the deficiencies in the financial leasing of small and medium-sized enterprises, made full use of its own advantages and resources, and put forward corresponding countermeasures based on its own, system, enterprise, product model and talent training; Xuqihui, Wang Di and Deng Zhiyin (2020) found that the factors of solvency, operating capacity, per share index and supply chain development ability of enterprises have a great impact on the credit rating of agricultural small and medium-sized enterprises; Meixiaoqiao (2021) pointed out that due to the lack of long-term strategy, imperfect enterprise system, low employment threshold and more traditional industries, small and medium-sized enterprises have insufficient competitiveness and are difficult to obtain an advantageous position in the market, which also makes it difficult for them to obtain the favor of capital; Zhanglirong (2021) pointed out that the financing of small and medium-sized enterprises has the problems of few financing channels, high cost and small scale. The main reasons are poor credit, serious information asymmetry between banks and enterprises, high default risk of small and medium-sized enterprises, adverse effects of financing mechanism, etc..

1.2 Theoretical basis

1. information asymmetry theory

This theory refers to that in social, political, economic and other activities, some members have information that other members cannot have, resulting in information asymmetry. Different people have different levels of understanding of relevant information. People with sufficient information are generally in a more favorable position, while people with relatively closed information are in a relatively unfavorable position. This asymmetry of information is likely to lead to adverse selection.

2. credit rationing theory

The theory can be explained from two aspects. From the macro perspective, it means that when the interest rate of the whole market is fixed, the loan provided by banks is in short supply; From a micro perspective, when the market has a fixed interest rate, the bank would rather refuse the money demand of some loan demanders than raise the interest rate to make the excess deposits available as soon as possible. This means that the demand for loans in the market can only be partially met but not completely met, and enterprises that cannot be met can not borrow from banks even if they pay a high interest rate in time.

2. Financing status of small and medium sized enterprises in China

Small and medium-sized private enterprises refer to private enterprises that are independently established in various parts of China according to law, but have relatively small staff size and business scale. They generally include medium-sized companies, small enterprises and micro companies. As the main platform for promoting mass innovation and innovation in China, they are increasing employment opportunities, promoting economic and social development, scientific and technological innovation and social security development and other important fields have an irreplaceable position, which has great strategic significance for national economic and social development. By the end of 2021, China's small, medium-sized and micro enterprises had reached 48 million, an increase of 2.7 times compared with the end of 2012. These small and medium-sized companies have become the main source of the country's alleviation of social employment difficulties, and a large number of scientific and technological innovation companies have also created more than 80% of innovative products for the society, and have become the main force of national independent technological innovation. Therefore, small and medium-sized enterprises are closely related to employment and national income distribution, which is conducive to the stable development of the socialist market economy.

In recent years, with the continuous rise of labor, capital, raw materials, land and resource and environmental costs, the RMB has always been in the appreciation stage, and China's economic operation has slowly bid farewell to the low price period. For small and medium-sized enterprises that rely on "cost driven" and are located at the lower end of the global industrial chain, it becomes more difficult to do business, especially in the face of the national "re industrialization" trend, China's economy is bound to be hit by a new round. Small, medium-sized and micro enterprises have weak strength, low profits, lack of management talents, weak risk control ability and poor anti risk ability, so the survival rate is low. It is difficult for small and medium-sized and micro enterprises to obtain bank financing due to irregular statements, less mortgaged assets, weak anti risk ability and low enterprise credit level. At the same time, the direct financing channels of small, medium-sized and micro enterprises are relatively narrow, and there are problems such as high threshold for going public and issuing bonds. For a long time, the development of small and medium-sized enterprises has always been difficult to finance, which makes it difficult

to achieve sound and rapid development.

3. Analysis of the reasons for the financing difficulties of small and medium sized enterprises in China

3.1 The characteristics of small and medium-sized enterprises cause financing difficulties

Due to the small scale of the company, in addition to the limited amount of fixed assets and the great difficulties in providing mortgage loans and obtaining capital guarantees, the company also encountered corresponding problems in its internal finance. The incomplete management system led to asymmetric internal information and untrue financial statement information, which seriously affected the investment of various institutions. In the field of financial work of small and medium-sized enterprises, because small and medium-sized enterprises generally do not have special management personnel, and there is no systematic understanding and operational risk understanding in the fields of capital use, liability and asset management, etc., the burden of liabilities and assets of enterprises is too heavy, even exceeding the scope of the operation and management ability of small and medium-sized enterprises. Some owners of small and medium-sized enterprises also have some wrong understandings about the performance of enterprise obligations. They think that small and medium-sized enterprises can delay the implementation of huge debts, and even try their best to close down and evade debts. Both of them have directly caused a serious decline in bank debt and a sharp increase in the level of bank loan risk, which further increases the difficulty of commercial banks' lending to them.

3.2 The loan requirements of financial institutions are more stringent

Due to the high cost of lending to small and medium-sized enterprises, financial institutions tend to be close to large companies and away from small companies. In order to reduce the credit risk, the bank has issued a number of policies to reduce the number of bad debts, such as the existence of credit standards, which objectively caused the deviation of credit indicators. At the same time, there is no perfect competition mechanism within the bank. Without sufficient competition, commercial banks can gain great advantages by achieving a balance of interests in the game with SMEs. However, for small and medium-sized enterprises, if banks do not raise interest rates, they rarely lend money. No matter what risks they are willing to pay, they are not willing to lend to enterprises, that is, credit rationing, which makes it difficult for them to lend.

3.3 The organizational structure of market intermediaries is not sound enough

A sound market intermediary service organization system will provide a perfect environment for the development of small and medium-sized enterprises. However, at present, the effect of social intermediary service organizations such as accounting firms on SME loans is also very limited. Some of them even issue false information for the consideration of enterprises, which leads to the difficulties of bank information asymmetry and information communication between banks and SMEs.

4. Suggestions and Countermeasures on financing of small and medium sized enterprises in China

4.1 Improve the indirect investment system based on Commercial Banks

Encourage the government to develop private commercial banks and social mutual aid finance to alleviate the investment problem of small and medium-sized enterprises. The emerging private commercial banks will let most of the government funds focus on undeveloped market areas, especially in some small and medium-sized enterprises and newly established private enterprises. In order to reduce concerns about the regulatory sector, the Chinese government has adopted relatively strict access and prudent qualification review for private banks. For small and medium-sized private enterprises, the financial and related parties can give corresponding support, or can establish a certain scale of policy commercial banks to serve their development.

4.2 Comprehensively strengthen the self construction of small and medium-sized enterprises

At present, small and medium-sized enterprises in China have imperfect management system, low authenticity and accuracy of financial statements, and their benefits cannot be guaranteed, which are often caused by the imperfect internal governance structure of the company. Building a modern company management system and improving the overall quality of the company is an important way to alleviate the difficulties of bank lending, so we should promote the diversity and sociality of the bank management system to promote the rationalization of the corporate governance structure. Banks should guide the development direction of capital socialization, change the management methods of traditional family companies, and absorb the new requirements of modern company system and management system; We should strictly standardize the accounting management system and promote the transparency of the company's internal financial situation.

4.3 Establishing and improving social intermediary services

We should change the current business concept of intermediary agencies to improve the service level. The existing market intermediary service institutions often sign up in the pursuit of business efficiency. For banks that require to provide financial advice to small and medium-sized enterprises and help establish and improve the financial service system in terms of investment accounts, they often forge accounts according to the wishes of small and medium-sized enterprises and submit a large amount of false data and information, In fact, this practice is not conducive to financing services for small and medium-sized enterprises, resulting in serious distortion of information, thus lacking the overall trust of financial institutions for small and medium-sized enterprises. Therefore, we should change the service concept of market intermediary organizations, improve the service level, and pay attention to their long-term interests. At the same time, we should form a perfect scientific and reasonable reputation evaluation system for small and medium-sized enterprises, which mainly includes the integrity system and guarantee system, enterprise credit information system, company credit evaluation system, integrity reward and punishment

system and anomie punishment system, as well as a fair and neutral credit intermediary system, and make it have practical and effective service functions. Because of this, we can not only reasonably evaluate the reputation of SMEs, but also supervise the reputation of service agencies in the evaluation.

4.4 Establish and improve the credit guarantee system for small and medium-sized enterprises

Building a credit guarantee system for small and medium-sized enterprises is an important link to alleviate the credit difficulties of private enterprises. First, for micro credit, private enterprises' own fixed assets and projects can be used as pledge guarantee, and gradually try to make banks establish a more perfect credit system themselves; Secondly, for the investment loans of some financial institutions, the government can try to explore the method of joint guarantee by several households to promote the cooperative development of enterprises. First, both enterprises can become guarantors for each other. Second, it can establish a joint guarantee fund for the investment of small and medium-sized enterprises, so that the investment of small and medium-sized enterprises has a strong financial backing, making the investment more convenient; Thirdly, in order to further improve the smooth progress of investment in financial institutions, the government can consider setting up an investment guarantee organization led by government departments, with private enterprises as the core and financial institutions as the backing, and establishing an investment guarantee fund to guarantee the investment of small and medium-sized enterprises.

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