Research on Private Enterprise Financing

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Abstract. Private enterprises are an important part of the socialist market economy. How to solve the problem of private enterprise financing difficulties is a focal topic. This paper analyzes the current situation of private enterprise financing, the causes of private enterprise financing difficulties, and from the perspective of media reports to promote the transparency of private enterprise information and optimize the private enterprise financing strategies, raise the financing rate of private enterprises.

Keywords: Private Enterprises; Enterprise Financing; Financing Strategies.

1. Introduction

Private enterprises are a special economic system in China [1]. Private enterprises are economic legal persons and non-economic legal entities engaged in economic activities that are established and operated by Chinese citizens with their own capital and are characterized by self-formation, self-financing, self-management, and self-sufficiency [2]. According to the latest information released by the State Administration of Market Supervision and Administration,2012-2021, China's private enterprises grew from 10.857 million to 44.575 million, and the proportion of private enterprises in the total number of enterprises increased from 79.4% to 92.1% [3], which is the largest subject of China's economic micro-foundations. In 2019, China's private enterprises absorbed about 400 million people in urban employment, accounting for 87.90% of all employed people in urban areas [4]. However, private enterprises have long faced the problems of difficult capital financing and high financing costs. This paper analyzes the current situation of private enterprise financing and the factors affecting it analyzes the reasons for the difficulty of private enterprise financing and proposes strategies to promote the transparency of private enterprise information and optimize private enterprise financing from the perspective of media reports.

The financing methods of China's private enterprises are divided into internal financing and external financing [5] (as shown in Figure 1). external financing methods of enterprises include private financing, bank loans, equity financing, bond financing, and commercial credit. For private enterprises in the start-up period, banks and other financial institutions usually do not lend to start-ups in order to ensure the soundness and safety of the funds due to their small scale, low profits, high operational risks, and lack of financial strength to provide collateral. Equity financing and bond financing have strict requirements on the financial status of the enterprise and the standardization of business governance. Therefore, private enterprises in the start-up period cannot meet the requirements of issuing stocks, bonds, and bank credit. Private financing becomes an effective financing method for private enterprises in the start-up period. The source of funds for private financing is personal, family spare funds, etc., which can solve the short-term financial difficulties of private enterprises. Bank loans are a key way for private enterprises to obtain funds, and in March 2022, the CBIRC released data related to bank loans for private enterprises, and as of the end of 2021, the balance of loans to private enterprises nationwide was 52.7 trillion yuan, an increase of 5.5 trillion yuan over the beginning of 2021, an increase of 11.5% year-on-year, and the annualized interest rate for loans to private enterprises was 5.26%, a decrease of 0.09 percentage points. However, bank loans require private enterprises to have certain qualifications, such as the need for private enterprises to have collateral, or to engage in emerging industries with innovative technologies [6], so private enterprises in the growth period can rely on growing profitability to obtain the opportunity to borrow from banks, but it is still difficult for private enterprises in the start-up period or with low technology to obtain bank loans. According to a questionnaire survey conducted by a Beijing-based group in 2020 on 88 small and medium-sized private technology enterprises, 40% of them said it was more difficult to obtain bank loan support due to the lack of collateral. Equity financing refers to the shareholders of an enterprise giving up part of the ownership of the enterprise and introducing new shareholders by way of capital increase of the enterprise [7], and mature private enterprises carry out financing activities with the help of shell buying or shell listing. By the end of 2021, the number of private listed companies in China has exceeded 3,000 [8], but relatively few private enterprises have gone public compared to the base of private enterprises in China. Bond financing refers to the financing of enterprises through the issuance of bonds. Commercial credit is a borrowing and lending relationship between enterprises formed in commodity transactions due to deferred payment or advance receipt of payment. The specific forms include accounts payable, notes payable, and advance receipts [9]. Commercial credit has no financing cost, and high flexibility and the scale of financing will gradually expand as the profitability of the enterprise increases and the credit level improves, which is a suitable financing method for the growth period. internal financing mainly refers to corporate retained earnings and depreciation and amortization, etc.

China's private enterprises in the manufacturing industry are mainly financed by bank loans and lease financing. Private enterprises in the commercial service industry are mainly financed by loans from small and medium-sized banks or network financing. High-tech private enterprises adopt the way of absorbing funds from venture capital companies. Private enterprises in the start-up stage are mainly financed by internal financing and private financing. When private enterprises have profitability and are in the growth and maturity stage, they will consider using bank loans, commercial credit, equity financing, and bond financing.

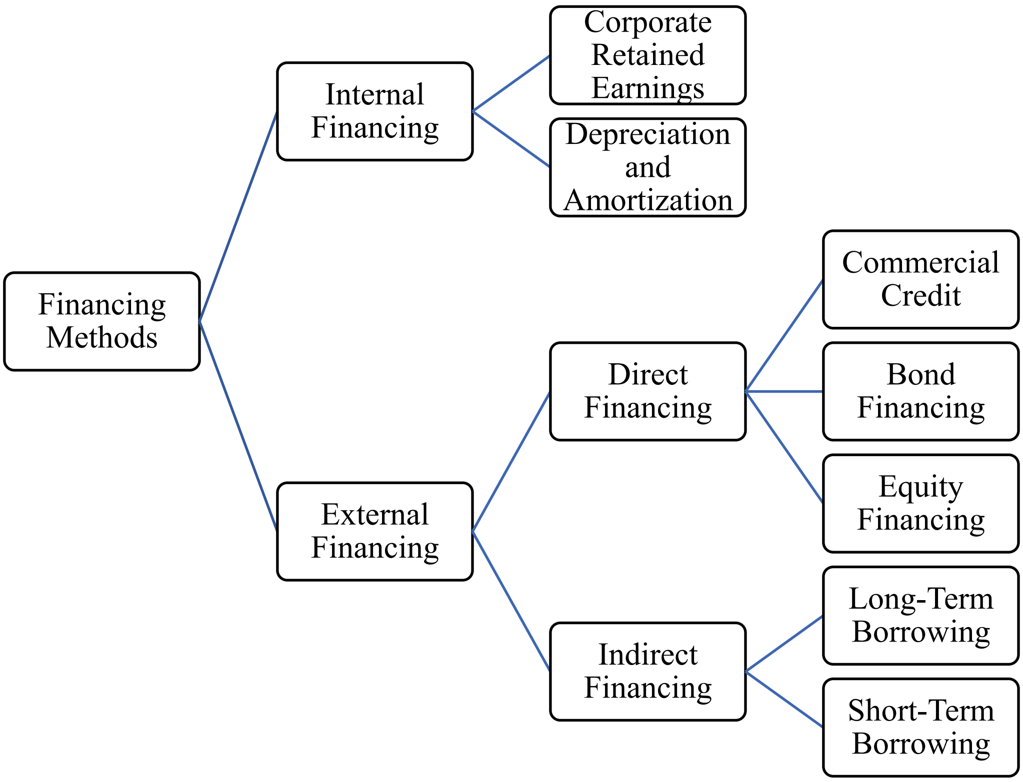

Fig 1. Financing methods of China's private enterprises

2. Problems Existing in the Financing of Private Enterprises

Through the above analysis, it can be found that the financing methods of private enterprises in the start-up stage are relatively single. Although GEM provides a new financing channel for some private enterprises, it only solves the financing problems of some high-tech enterprises, and the financing problems of most private enterprises cannot be solved through the capital market. The single financing channel makes the financing cost of private enterprises high. Small and medium-sized private enterprises need to pay higher interest and related financing costs through private loans, bank loans, and financing from financial institutions. Take private enterprise loans to financial institutions as an example. Corporate financing costs include loan interest, fees for registration and appraisal of the mortgaged property, guarantee fees, and risk margin interest. Loan interest includes basic interest and floating part, and the floating range is generally more than 20%. Fees for registration and appraisal of the mortgaged property, account for 20% of the financing cost. The guarantee fee shall be charged at a rate of 3%-5% of the amount guaranteed. Risk margin interest refers to the deduction of part of the loan principal by financial institutions in the name of reserved interest when making loans. As a result, the actual loan received by small and medium-sized enterprises is only 80% of the principal. Taking one-year loans as an example, the actual interest paid by private enterprises is around 9%, which is more than 40% higher than the bank loan rate. In 2021, using LPR as the benchmark, the average loan interest rate for China's private enterprises was 5.6%, while that for State-owned enterprises was about 3.8%. This shows that the pressure of principal and interest repayment of China's private enterprises is higher than that of state-owned enterprises. High financing costs have an impact on the financing and cash flow of China's private enterprises. In 2017, the average asset-liability ratio of private enterprises was 51.6%, and at the end of 2021, it rose to 57.6%, which not only shows the change in the financing environment. It also shows that private enterprises have encountered cash flow pressure.

In recent years, China has issued relevant policies to improve the financing environment of enterprises, but banks and other financial institutions mainly provide short-term small loans, and the main service objects of most financial institutions are state-owned enterprises. The limited business scope of some small financial institutions makes it difficult to support the development of private enterprises. Therefore, private enterprises are faced with reduced short-term financing difficulties, lack of long-term financing, and uneven benefits of financial institution business among enterprises.

3. Analysis of the Reasons for Financing Difficulties of Private Enterprises

This paper will discuss the reasons for financing difficulties of private enterprises from internal factors and external factors. The debt-paying ability, operating ability, development ability, and profitability of private enterprises in the start-up stage are weak. In addition, the management of most private enterprises is not standardized, the operation decision is random, and the financial statement is not standardized so financial institutions dare not provide funds for private enterprises. These reasons are inevitable problems in the development process of private enterprises. But as far as external factors are concerned, the primary factor that affects private enterprise financing is information asymmetry. Information asymmetry refers to the asymmetry in quality and quantity of information owned by buyers and sellers in transactions, and the incomplete transmission and disclosure of information, which leads to the problem of adverse selection or moral hazard [11]. Zhang Minghua believed that compared with large state-owned enterprises, the inconsistency of risk levels and serious information asymmetry of private enterprises are the root causes of their difficulties [12]. Most banks know the operating conditions of private enterprises through financial statements, but it is difficult to get accurate information on private enterprises. The imperfect social credit system and the imperfect development of financial institutions in China result in the lack of an institutional system to provide professional services for private enterprise financing.

4. Put Forward Relevant Strategies to Optimize the Financing of Private Enterprises from the Perspective of Media Reports

How to improve the information transparency of private enterprises and increase the possibility of financing has become a topic of concern in academia. Media is an important carrier for conveying information. The media play the role of information intermediary to the capital market. Media tracking reports can transmit relevant information about enterprises and improve the breadth and effectiveness of information dissemination. The rapid spread of media can promote the exchange and circulation of enterprise-related information among stakeholders and alleviate the information asymmetry of the internal and external situation, investors can use the media reports to make decisions, and private enterprises can also through increasing media exposure, improve the enterprise's popularity.

Some scholars believe that media reports will have an impact on corporate financing. Positive media reports have a significant positive impact on enterprises, which can attract investors' attention. In other words, media reports will have an impact on the external financing of private enterprises. For example, it has an impact on Initial Public Offering (IPO) pricing efficiency and IPO underpricing. Taking BYD (Build Your Dreams) and GWM (Great Wall Motor) as examples, Tan Kai conducts regression analysis with the total amount of media reports, the number of positive reports, the number of neutral reports, the number of negative reports, and the actual underpricing performance of enterprises in IPO. This study concludes that with the increase in the amount of media reports, investors' attention increases, and the amount of media reports is significantly positively correlated with the IPO underpricing in the automobile industry at the level of 1%. Positive media reports and negative media reports are significantly positively correlated with IPO underpricing at the level of 1%, and neutral media reports are significantly positively correlated with IPO underpricing at the level of 5%. In other words, there is a significant positive correlation between media reports and IPO underpricing. Many media reports create a hot atmosphere for market investment, attract the attention of potential investors, stimulate investors' desire to buy, and finally promote the phenomenon of high underpricing of corporate shares in IPO, to achieve the important purpose of successful financing of enterprises. However, the impact of neutral reports is lower than the impact of positive and negative media reports. Therefore, media reports are an influencing factor for investors to make investment decisions, media reports affect investors' attention, and investors' attention affects the result of IPO underpricing [13]. TongLi's study of media influence on the rate of IPO applications approved by the China Securities Regulatory Commission, it is concluded that the number of media reported positive and negative reports and the nature to have a significant impact on the IPO audit pass rate, the more positive reports, the fewer number of negative reports, the higher the possibility that the company finally passes the examination of the China Securities Regulatory Commission [14]. Zhao Lin reports in media reports can be divided into short-term and long-term media reports, to study the relationship between the tone, intensity of media reports, institutional attention, and IPO pricing efficiency. It is concluded that the short-term media reported number is negatively related to the IPO pricing efficiency. An increase in Short-term reports to improve the new shares to open the daily raising limit of underpricing rate. As a result, IPO pricing efficiency is reduced. The number of long-term media reports is positively correlated with IPO pricing efficiency because long-term media reports provide investors with a sufficient time limit to consider investment plans, reduce investors' irrational investment, and long-term released information provides a basis for institutional investors to test the authenticity of information and improve the effectiveness of investment decisions. Negative news has a greater impact on IPO pricing efficiency than positive news [15].

In addition, media reports will also have an impact on the scale of equity financing, debt financing, and total external financing of enterprises [16]. The increase in media attention and the positive media reports are helpful to increase the scale of equity financing, debt financing, and total external financing of enterprises. There is no significant difference in the impact of media attention on equity financing and debt financing, while positive media reports have a greater impact on equity financing than on debt financing. The increase in media attention and the tendency of positive media reports have a boosting effect on the increase of corporate external financing scale. Positive media reports have a significant positive impact on corporate external financing, while negative media reports have a significant negative impact on corporate external financing.

Media reports are a way to improve the information environment and reduce information friction, and they are also a source of information that market participants rely on. Positive media reports can improve the financing level of enterprises in the capital market. The more positive media reports, the more investors pay attention to them. The rise in the company's stock price caused by the high investor sentiment can increase investors' income, make external financing relatively easy and increase the level of new investment. On the contrary, Negative reports may cause investors' attention and investment enthusiasm to fade, which will lead to the rise of external financing costs, the intensification of financing constraints, and the reduction of new investment. In other words, media reports contain biased information that affects investor sentiment and expectations. The more positive the tendency of media reports, the smaller the financing constraint of the company. In addition, positive media reports can positively promote the scale of enterprise credit financing, while negative reports are on contrary [17]. The media plays the role of information intermediary in the capital market. By reducing the information asymmetry between enterprises and suppliers, the news media can further enhance the trust of suppliers and expand the scale of commercial credit. Negative media reports reduce the trust of suppliers and reduce the scale of commercial credit financing by exposing enterprises' real difficulties and violations.

To sum up, although the media does not participate in corporate governance, but different tones of reports of signal transmission to the public have different influences on the external financing of private enterprises. Effective positive media reports can promote the enterprise’s image, and make the enterprise get the trust of the banks, investors, and potential investors. However, when there is a negative report, enterprises should follow the timeliness, authenticity, comprehensiveness, interactive, and equality principle, in a timely response to negative publicity. Based on fully considering the psychological and emotional explaining questions asked by the report, and putting forward a reasonable solution, reduce the influence of the negative reports on the enterprise. In addition, private enterprises need to improve the information disclosure mechanism. On the one hand, it is necessary to ensure the integrity and authenticity of the disclosed information. The company should also have a correct attitude, operate in good faith, not collude with the media, and not use the media for profit. Strengthen business efficiency, so that media reports can be the basis for the public to invest.

As a third party other than market participants and market regulators, news media should play the governance role of information mining and transmission as well as third-party independent supervision. However, because the relevant legal and regulatory system in China is not perfect enough, the accountability for false and inaccurate reports is not strict, and there is a situation that the media and IPO companies collude to release false information. Therefore, the government and relevant regulatory agencies need to take measures to strengthen the standardization and independence of news media behavior in the capital market. We should establish and improve the enterprise information disclosure system, the integrity level of relevant media and the accountability system for inaccurate reports, to balance the supervision role of media, purify the media environment, and guide the news media to play a positive role in the capital market.

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