A Literature Review of Financing Constraints of SMEs

Hao Li1, a, Rui Li1, *

1Business School, Beijing Normal University, Beijing, P.R. China
alihao@mail.bnu.edu.cn
* Corresponding author

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Abstract: SMEs are one of the important driving forces for China's market economy development, but SMEs are also generally faced with the constraints of financing constraints. Based on the systematic analysis of corporate finance theory, this paper analyzes the core reasons for SME financing constraints, as well as the mechanisms and advantages of relational financing, Internet finance and supply chain finance in alleviating the financing dilemma of SMEs, and finally proposes relevant policy recommendations.

Introduction

Since the reform and opening up, with the establishment of the socialist market economic system, SMEs, as the pillars of the private economic system, have played an important role in promoting the rapid development of the national economy. However, there are still many problems in the development of SMEs in China. The most important one is the financing constraints. There are many potential reasons for the financing constraints of SMEs, including the imperfect credit guarantee system, interest rate control, and weak government support, but it is fundamentally the information asymmetry between SMEs and commercial banks. From the bank's point of view, reviewing the qualifications of the lender and controlling the risk of the loan is a reflection of the bank's responsibility to the depositor. Compared with the “hard information” that can be collected and quantified by large enterprises, most SMEs have a small scale of production and lack of collateral. At the same time, the financial system is not perfect, the transparency is not high, and the information is mostly “soft information”. Therefore, banks are at the information inferior side in the financing transaction process. Due to this information asymmetry, the cost of information acquisition and supervision and management is relatively high when banks issue loans to SMEs. Therefore, banks are not willing to lend to SMEs. Leland and Pyle (1977) explained the role of bank credit in resource allocation from the perspective of information asymmetry for the first time. Stiglitz and Wessi (1981) used models to demonstrate that information asymmetry would lead to bank credit rationing. Lin Yifu and Li Yongjun (2001) pointed out that due to information asymmetry, SMEs have the advantage of using their information advantage relative to the bank in the prior negotiation, contract signing process and ex post fund stage to jeopardize the incentives of the fund provider. The adverse factors caused by information asymmetry and the moral hazard caused by post-information information asymmetry.

Based on the relevant theoretical literatures at home and abroad, this paper sorts out the background of the financing constraints of SMEs from the perspective of capital structure theory, and analyzes the relationship loans and Internet finance and supply chain finance to alleviate the financing of SMEs. Mechanisms and advantages in terms of dilemmas. Finally, summarize and propose policy recommendations.

Summary of Research on SME Financing Theory

Life cycle characteristics of SME financing. The capital structure theory represented by the classical MM theorem is the mainstream in the western enterprise financing theory, but its research
objects are mostly mature enterprises, and there is no dynamic analysis of the financing options of SMEs. By combining the capital structure theory with the life cycle of the enterprise, it can analyze the characteristics of the financing structure according to the different development stages of the enterprise, which has important guiding significance for the research of financing of small and medium-sized enterprises.

Berger and Udell (1998) extended the five-stage model of corporate financial growth cycle theory of Weston and Brigham (1978) in consideration of information constraints, pointing out that enterprises have small assets and no sound financial system in the initial stage. The information of business operations is opaque, and it is difficult to obtain external financing. The capital source is mainly self-owned funds and loans from relatives and friends. The information of business operations is opaque, and it is difficult to obtain external financing. The capital source is mainly self-owned funds and loans from relatives and friends. After the company enters the growth stage, the market scale is expanded, credit records are available, information is no longer closed, and financial services such as banks can be obtained. Institutions receive debt financing such as loans. After the enterprise enters the mature stage, the financial system of the enterprise is sound and standardized, and the stocks, commercial papers and bonds are publicly issued, and some small and medium-sized enterprises have also grown into large enterprises. Banerjee and Guinnane (1994) used the National Small Business Financial Survey (NSSBF) and the US Federal Independent Enterprise Survey (NFIB) data to examine the financing structure of US SMEs based on the corporate financial growth cycle model. The results show that in the development process of the enterprise, the proportion of debt financing first rises and then declines, and the equity financing ratio is just the opposite. It shows a trend of decreasing first and then rising, which is in line with the theory of corporate financial growth. Gregory (2005) used the data of 954 SMEs in the United States to test the theory, and its conclusions are basically consistent with the theory. Zhang Jie (2003) used the relevant data of the SME Development and Support System of Jinan University to test the financing structure of China's SMEs and concluded that the corporate financial growth cycle theory can basically be applied to the changing trend of China's SME financing structure. Cao Yu, Bai Bing, and Huang Jianbai (2009) used the Aghion-Dewarrippont-Rey expansion model to study the choice of financing methods for SMEs in China, and the conclusions were consistent with the theory of corporate financial growth.

Relational financing structure for SME financing. The relationship financing theory analyzes the stable cooperative relationship between SMEs and banks to eliminate the information asymmetry framework of the two parties, so that SMEs can obtain relational loans issued by banks, ease financing constraints. Berger (2002) believes that relational financing is a kind of proprietary information transmission, which is reflected in the bank's multiple contacts and services with SMEs, which can obtain proprietary information that is only known to both parties. Kano, Uchida, and Udell (2006) found that for small and medium-sized enterprises that do not have complete financial statements, SMEs are more likely to obtain loans from small banks by virtue of their partnership with banks. Behr, Entzian, Güttler (2011) surveyed the financing of individual industrial and commercial households and small and micro enterprises in Mozambique. The results show that when small and micro enterprises are more closely related to banks, they will spend more time obtaining bank credit. Less, and compared to other SMEs, can provide a lower mortgage guarantee. Uchida, Udell, and Yamari (2008) conducted a questionnaire analysis of small and medium-sized enterprises in the Kansai region of Japan, confirming that in small and medium-sized banks, loan issuers use soft information to review the eligibility of SMEs. Hernández-Cánovas, Koëter-Kant (2008) used empirical data from 3,366 SMEs in 19 European countries and conducted empirical analysis. The results show that strong bank-enterprise relationships can extend the maturity date of bank loans. He and Wang (2009) used the World Bank's sample survey data of Chinese SMEs to conduct an empirical study on the correlation between China's bank-enterprise relationship and the growth of SMEs. The results show the depth of relationship between SMEs and banks using relational lending financing. There is a significant positive correlation with the growth of the company.
Alleviate the financing constraints of SMEs through financial innovation

**Internet financing.** The two pillars of Internet finance are big data and Internet financing platforms. Based on big data technology, financial institutions can analyze the qualifications of borrowers from multiple angles and change the weak position of financial institutions in the past. Through the Internet financing platform, SMEs can attract individual loans at higher interest rates than commercial banks. There are four types of Internet financial models. The first one is the P2P model, in which the Internet platform acts as an information intermediary, where the fund demanders and lenders can communicate with each other and reach an agreement. The second is the crowdfunding model, which is equity financing. The third type is e-commerce platform financing. For example, Alibaba, Tencent and other companies directly or indirectly provide funds for SMEs. The fourth is that traditional financial institutions use online banking and mobile banking to provide convenient and effective financial service to SMEs.

Golić (2014) defines the concept of crowdfunding, explains the operating model of crowdfunding mechanisms, and analyzes the advantages of SMEs financing through crowdfunding. Zheng Zhilai (2014) conducted a survey on the Internet financing behavior of SMEs in China and found that using Internet financing can significantly reduce financing costs, and forced traditional financial institutions to carry out financial innovation. Wang (2015) believes that the financing needs of SMEs are in line with the thick tail theory, and Internet financing can alleviate the financing constraints of SMEs. Wang Hongsheng (2015) established a cloud computing model to prove that cloud computing and big data technology can solve the problem of information asymmetry between SMEs and fund lenders. Zhao (2014) pointed out that while seeing the advantages of SMEs financing through P2P, relevant departments should also strengthen the formulation and improvement of relevant laws and regulations in the field of Internet finance.

**Supply chain finance financing.** Supply chain finance is a financing model based on the analysis of the transaction structure of the internal supply chain. By introducing core enterprises and logistics companies, the core enterprises can provide financing guarantees for other small and medium-sized enterprises in the supply chain to realize the good operation of the supply chain. There are three models of supply chain financial financing, namely, accounts receivable financing, inventory mortgage financing and prepayment financing. The biggest difference between supply chain financing and traditional financing model is that the supply chain regards the supply chain as a whole, focusing on the transaction records of core enterprises and other SMEs, and then conducting credit evaluation and credit to SMEs in the supply chain.

Tian Haotian (2014) summarized the advantages of supply chain financial financing in easing the financing constraints of SMEs compared with traditional financing models, including reducing information asymmetry, effectively improving the liquidity of SME funds, and improving the production cycle efficiency of SMEs. Zhang Weibin and Liu Ke (2012) used the data of listed companies from 2001 to 2010 in China to test the cash-cash flow sensitivity of SMEs and found that the development of supply chain finance can alleviate this problem. Gu Qun (2016) used the empirical data of SMEs to empirically analyze the financing constraints of SMEs in the development of supply chain finance. The results also show that supply chain finance can alleviate the degree of financing constraints of SMEs. Significantly reduce the R&D investment-cash flow sensitivity.

**Conclusion**

SMEs are one of the driving forces for national economic growth and scientific and technological progress. As China's economy gradually enters the new normal, it is important to further ease the financing difficulties of SMEs and give full play to the endogenous growth capacity of SMEs. Through the analysis of domestic and foreign theoretical and empirical research literatures, the paper points out that the core of mitigating the financing constraints of SMEs is to reduce the information asymmetry between SMEs and lenders. For this reason, the following policy recommendations are proposed: Further improve the institutional environment for SME financing,
strengthen the protection of creditors, and reduce the incomplete information between banks and enterprises; second, promote the establishment of an effective credit rating system for SMEs, innovate and improve the credit guarantee model and protection of SMEs, and reduce the information of creditors. Asymmetric cost; the third is to improve the credit awareness and information transparency of SMEs, and promote the establishment of a new type of bank-enterprise relationship financing system; Fourth, on the basis of improving relevant regulatory systems, further exert the role of innovative financing means based on new financial technology to achieve Diversification of corporate financing channels.

References


