

The Impact of Debt Disposal on Risk Prevention of Financing Companies: the Basis of Market-oriented Transformation Development

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Abstract: In the modern business management of investment and financing companies, how to resolve corporate debt and prevent corporate risks are both very important aspects of corporate development. If the debt is not resolved in time or in improper ways, it may cause structural risk, scale risk, credit risk and financial risk, which will seriously affect the company's operation, affect the company's safety, and even cause the increase of social instability factors. Therefore, we study the impact of debt resolution on risk prevention of investment and financing companies, which plays a positive role in reducing financial risks, improving credit rating, optimizing capital structure and enhancing market reputation of the company, and also lays a foundation and provides reference for the transformation and development of investment and financing companies. Therefore, this topic has certain practical significance and research value.^[1]

1. Background of the Study

Investment and financing companies are an important force to promote local economic development. However, with the increasing downward pressure of the economy at the present stage, the high stock debt accumulated due to historical reasons and the incremental debt risk derived from continuing operations have become increasingly prominent. The policy, economic and industrial environment faced by the operation and management of investment and financing enterprises have undergone great changes, especially the financial financing, private financing and other types of financing carried out by investment and financing companies, which have a significant impact on the operation and safety of the company, and also pose a great challenge to social stability and unemployment.

This paper takes an investment company in Henan Province as an example, carefully studies the financing policies and laws and regulations formulated by China, analyzes the changes in its operating environment and management environment, comprehensively finds out the specific situation of various types of debt, scientifically evaluates the causes of debt, and effectively improves the efficiency of debt use.^[2] Financing companies should constantly expand financing

channels and sources, and innovate financing management methods to formulate various rules and regulations for the company to resolve debt risks, reduce the company's financial risks, improve the company's credit rating, optimize the capital and asset structure, and enhance market recognition, so as to provide references for promoting the transformation and development of local financing enterprises.

2. Research Aim

This paper mainly studies the impact of debt resolution on risk prevention in the process of market-oriented transformation of financing companies. Financing companies have provided a large amount of funds for local governments to develop the economy and accumulated a large amount of debt, which has brought great risks to the normal operation and security of the company and aggravated social instability. This paper will study the specific situation of debt of various financing companies in Henan Province, objectively evaluate the causes of debt, and propose ways to resolve debt in terms of expanding financing channels and sources, innovating financing management methods, establishing and improving corporate governance structure, and fully stimulating the internal power of the company.^[3] This study will reduce the company's financial risk, improve the company's credit rating, optimize the capital and asset structure, enhance market recognition, and provide reference for promoting the transformation and development of local financing enterprises.

3. Raise of problem

This paper mainly studies the impact of debt resolution on risk prevention in the process of market-oriented transformation of financing companies.

4. Research Questions

What does the demographic profile of the interviewee include?

- (1) Type of companies
- (2) Amount of financing

What are the main aspects of debt solutions for respondents?

- (1) Private loans
- (2) Quasi-financial business
- (3) Financial business

In the following aspects, how much do the respondents know about risk prevention?

- (1) Financial risks
- (2) Credit risks
- (3) Risks in terms of scale
- (4) Structural risks

How much impact does debt resolution have on risk prevention?

What is the significance of debt resolution and risk prevention for the market-oriented transformation of financing companies.

5. Theoretical Framework

Based on the systematic analysis of external environment and internal resource capacity, this paper explores the transformation and development of investment and financing companies in Henan Province through the impact of debt resolution on the risk prevention of investment companies. The debt risk of investment and financing companies can be divided into internal risk

and external risk (Guo and Fan, 2021), direct explicit risk caused by credit constraints and contingent risk caused by moral constraints (Zhang, 2019), debt paying ability risk and debt pressure risk (Miao and Fu, 2022). The external risk caused by the uncertainty of the risk itself is not controllable or measurable.^[4] It is more realistic to describe the debt risk from the perspective of the scale, structure, interest rate and repayment risk under the internal risk. This study mainly includes the following risk theories and debt theories, which explain the origin of debt of investment and financing companies as well as the general principles of debt risk management.

5.1 Risk theory

The essence of risk is the loss impact of uncertainty on the target. In modern society, with the increasing transmission of risks brought by economic globalization, human society is faced with problems such as the difficulty of predicting risks and the cross-sector contagion of risks, which have a profound impact on private security and public security. The source of such public risks may come from natural or economic and social "natural and man-made disasters," whose impact far exceeds the limited risk tolerance capacity of individual citizens or market subjects, and the remaining part may be spillover and spread into public risks.^[5]

5.2 Debt Theory

It can roughly include budget management, debt scale control, debt risk early warning and supervision, etc.

From the perspective of budget management, the debt of an investment company is an important supplementary source of the company's income, and it is logical to incorporate the borrowing and management of debt into the budget management.

From the perspective of debt scale control, the current theoretical circles generally divide it into two categories: demand control mode and supply management mode. The former directly restricts local financing needs to achieve scale control targets by setting debt limits and other scale control indicators; In the latter case, the central bank indirectly controls debt by supervising the lending behavior of commercial banks and non-banking financial institutions.

From the perspective of debt risk early warning and supervision and management, debt risk early warning is closely related to debt scale control. At the same time, the debt risk early warning system is an important guarantee to get through the budget constraint, scale control, debt repayment and risk management. Debt risk early warning and debt risk management are inseparable, thus forming a comprehensive and three-dimensional monitoring and management of the debt of investment and financing companies.^[6]

5.3 Induction and deduction

This paper sorts out the current academic research results on debt risk and governance path, summarizes the main conclusions and achievements of the existing research, and puts forward the research objectives and research ideas in view of the existing problems and deficiencies.

5.4 Standardize research methods.

Based on the logical framework and analysis method of modern economics, this study introduces risk theory and debt theory to analyze and value the status quo, causes, hazards and risk early warning of investment and financing companies.

5.5 Quantitative analysis.

In the research and analysis of the debt risk of investment and financing companies, the combination of qualitative and quantitative analysis is essential. In the realistic consideration and analysis of debt, this study uses the data of local investment and financing platforms to estimate the debt scale of each investment and financing company after screening and processing, and uses chart analysis and KMV model to assess the risk of hidden debt of provinces.

5.6 Comparative research method.

After demonstrating and evaluating the investment and financing debt risks in Henan Province, this study compared the popular debt-oriented debt models in some regions in recent years and combined with the six debt-oriented debt plans proposed by the Ministry of Finance of China to propose a feasible plan design for debt-oriented debt in the current new era.

6. Research Paradigm

Input: 1. company data: (1) Type of companies, (2) Amount of financing. 2. types of debt: (1) Private loans, (2) Quasi-financial business, (3) Financial business. 3. Types of risk: (1) Financial risks, (2) Credit risks, (3) Risks in terms of scale, (4) Structural risks.

Process: 1. Induction and deduction; 2. Standardize research methods; 3. Quantitative analysis: (1) chart analysis, (2) KMV model; 4. Comparative research method.

Output: Transformation and development of investment on financing companies.

7. Target Respondents

This paper takes financing enterprises including state-owned enterprises, private enterprises and public-private joint ventures as the research object. These financing enterprises should have a certain registered capital, asset-liability ratio of more than 30%, and actual operating income and net profit. The company has at least financial department, legal department, risk control department and other functional departments, with more than 30 employees. Company employees should have a bachelor's degree or above, with senior titles. Through the research on the debt disposal of such companies, it is of important practical value and strong representation to explore the impact on the risk prevention and control of such companies and the research on the market-oriented transformation of financing companies.

8. Place of study

This paper mainly selects representative financing enterprises in Henan Province of China as the research object, such as Lushan Investment Group, Wuhan Iron and Steel Urban Construction Group, and Henan Water Ecology Group. Through the investigation, analysis and comparison of the debt situation of these enterprises and the solution methods, the paper sums up experience for the market-oriented transformation of financing enterprises and explores the development path.

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