The Relativity between the Financial Structure and the Growth of the Small and Medium Sized Companies in China

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Abstract: Small and medium sized companies are one of the vital driving forces of social improvement and enhancement. At the same time, the fast pace of development of small and medium sized companies cannot leave without the financial cash flow support. So this article objectively and precisely focusing on solving the problem of fixing the finance structure of the small and medium sized company in China and the correlation with the growth. The article choose the data of small and medium enterprise board listed company between the 2014-2018 as the sample, which used the empirical research to establish two model. Besides, it provides several advices to the increase possibility of financing and reducing the cost of financing.

1. Introduction

The enterprises are living and sustain with the factor of capital, under this kind of goals. In many industrialized countries, governments are concerned that small companies find it difficult to obtain enough finance to realize their growth potential .In addition, small and medium sized companies are one of the vital driving forces of social improvement and enhancement.

Until today, as the developing of the finance market, the financing channel are becoming broader which improves the sustaining circumstances of the small and middle sized enterprises (SMEs). The development rise up manager's and the professors' attention since the first theory on the company finance structure—the MM theory announced by the Miller and Modigliani in 1958. It was based on the assumption that the capital structure was unrelated to the companies' investment and the value. But as the market development, the theories are also developing in a dramatic way. A vast amount of researchers focused on the co-relations between the debt financing and the sustainability by empirical analysis which enriched the methods in researching system. Both the academics feel important in establishing right finance structure of the companies; it reflects the company's management performance, the market competitiveness, the future of companies and guarantees the effective developing strategy. Investors bank on these finance ratios and make decide their own opinions. When there existed an information asymmetry between the internal executives and external investors or stakeholders on current capital and expected investment revenue, the company's finance structure and channel will become a reflection signal of company's finance ability and cost which will gradually impact on company's growth and development.

2. Literature Review

In modern economic system, financing is the necessity of a fast pace enhancement and the improvement of companies. The companies' financing can be divided into the internal and external financing. The internal financing contains the own funds and retained earnings. The external financing can be impart into the equity financing, debt financing, loans to the financial institution of all kinds, business credit and other informal financing channels.

A sizable portion of the research are focusing on the liability financing, since first theory of capital structure---"MM theory" in 1950s raised up by Modigliani and Miller. After the 1970s, the academic has focused on the balance between the equity finance and liability finance, along with the suitable portion and the content of liability finance. The academic review on the issue of finance in company from the perspectives of agent costs and tax, which is raised by Amir Barnea, Robert A [1] and Brick S, Abraham Ravid [2]. Lv yi [3] find the structural problems which refer to the low level of internal finance. The external accounts for the major portion and especially the equity finance have overcome for more than 50% in average which has already betray the rule of financing order. Varieties of problems are existed in the SMEs' financing channel such as simplification. Lu fei [4] take the SMEs in Zhejiang provinces for instance, as Qu Lu [5] take those in Hubei provinces for instance, the listed SMEs performs heavily in the equity financing preference while it may not be achieved by the undeveloped SMEs. As a result, the unlisted company depends heavily on the loan from the bank which rises up the risks of unreleased cash flow from the bank. In fact, most of the banks have the consideration in the SMEs' capability of repaying the loan which causes the great gap in capital and liability. Moreover, the Wang xiuxiang, Zhang Jianfang [6] and Yang suli [7] also mentioned that the comparative advantage of debt finance was set as the mortgage, business credit, and from the informal finance channel.

In conclusion, most of the researches focus on the correlation with liability and the company growth,the solution in order to tackle the financing troubles can be achieved only through improvement from government policies, channels, tools and financing cost, especially companies themselves.

3. Methodology and Findings

3.1 Related definition of factors

First tasks before the modeling is give brief definition of each concept used in the modeling.

Small and medium-sized companies. According to the standard small and medium –sized enterprises issued by the ministry of industry and information technology of People's Republic of China, the row type of standard notice give precise standard. The factors which defined the SMEs are mostly developed from the quality and quantity. The qualities are the organization, the financing and industrial position, while the quantity contains the amounts of employees, actual received capital and total capital.

Debt paying (profit making) ability. The index ratio used to reflects the short-term and long-term ability contains the debt asset rate, liquidity ratio, Long term debt asset, etc. this article choose the debt-asset ratio and debt-asset ratio index to reflect the debt paying ability.

Dependent variables. Total asset growth rate the scholars define the growth rate as the exploring and utilizing all kinds of undeveloped resources to achieve the sustainable development in the future. The indexes reflect the company's growths are Total asset growth rate, main business income growth rate, revenue growth rate, etc. considering the characteristics of SMEs; this article used the Total asset growth rate as a single y variable.

The control variables: the tax payment. The interest payment on debt was recorded as the costs in the balance sheet, it means the interest payment has the functions of reducing the tax which can decrease the expected tax payment and increase the total asset growth on value. The MM theory explain that the higher rate a income tax of profit it has, then the company are more willing to gain profit by the tax shield of debt interest through the debt financing. As a result, this article takes the tax payment as the control variables which refer to income tax divide profit. It will be used as TR (tax rate) in the following formula.

Control variables: Debt asset rate ratio. Debt asset rate ratio DB, debt value divide the asset value. Effective rate of tax which equals to the tax payment divide the excepted pre-tax accounting profit.

3.2 Overall and Sample Populations

Most and main part of the SMEs are facing burden on funds, along with the soaring prices of material and human resource costs which has already threat the survival and sustainable development. It can be included that the main issues are shortage of free cash flow, narrowed financial channels and unreasonable financial structure. In view of the availability of the data collection, the data was collected in the database of the listed company in Chinese middle and small company stock companies. All the data was published by the company’s annual financial report- asset and debt, cash flow statement. This article used the data to analysis the relationship between the financial structures especially the debt financing.

In view of availability, effectiveness and latest, the research period was settled in a five years period over 2014 to 2018. Moreover, in order to keep a continuous data on the companies’ operation and management, this essay took companies appearing on the middle and small enterprise board before 31st of December in 2014 and research on the regression analysis on the financial structure and growth of corporations.

In view of the foundation time of the growth enterprise market (GEM) in 2009, even it was earlier than the research period and listed companies on the market was also SMEs, the sample are not representative enough. Because the characteristics of GEM, it was set up with low barriers to entry in order to enlarge the opportunity to survive on the markets. More than the market specialty, the SMEs on the GEM also have the characteristics of instability, unrealistic, along with small scale, unremarkable performance. Due to all above, the SMEs on GEM would much more prefer the external financing and unsuitable with their growth of companies.

In view of the extreme data may affect on the research results, it get rid of the companies with title ST and ST*.

Eliminate the companies with insufficient financial information and abnormal data, do a truncation processing.

Follow the standards mention above, at last this article choose 706 companies as the sample data. The data comes from the CSMAR database on 2014-2018 company’s financial report. The data analysis and statistics use the software SPSS and be disposed as the cross section data. After the data process, the variables was settled with a linear regression analysis.

3.3 The Empirical Research

In order to primarily estimate the relationship between the financing and corporations investment, this article firstly use the Total asset growth rate (Totassgrrt) as the explained variables and then choose the Long-term debt asset rate (Ldbass) and the Current liabilities summation as explaining variables. In addition, to make the formula more realistic and could be accommodate the reality, it use the Debt asset rate ratio (DB) and the Income Tax／Profit (TR) as the control variables. The detailed models are listed as following:

$$\text{Total asset growth rate}=a_0+a_1\text{Ldbass} +a_2\text{DB} +a_3\text{TR} +\varepsilon \tag{1}$$

Table 1 The Coefficient Tests (Model 1) on B, Standard error, Beta, T, Significance and Collinear

Model	Non-standardized coefficient,B	Non-standardized coefficient, Standard error	Standard coefficient,Beta	T	Significance	Collinear statistics, Allowable	Collinear statistics, VIF
Constant quantity	19.296	2.355		8.193	0.000		
DB	-0.123	0.037	0.092	3.305	0.001	0.948	1.055
TR	-0.224	0.112	-0.055	-2.008	0.055	0.994	1.006
Ldbass	32.465	12.164	.074	2.669	0.008	0.954	1.048

The model mainly discusses the level of debt finance and the correlation with the company growth. According to the regression result, for SMEs, the debt asset rate react a negative correlation with companies growth and the significance are extremely strong. For SMEs, enhance and lengthen the ratio of short term debt ratio which is harm to the growth of the company. By the way, actual tax profit rate did not pass the significance tests. With regard to the co linearity diagnostics, all the variables all pass through the co linearity diagnostics. Now the formula then combines the current liabilities (Curtotlia) into the model (2).

$$\text{Total asset growth rate}=a_0+a_1\text{Curtotlia} +a_2 \text{ DB} +a_3 \text{ TR} +\varepsilon \quad (2)$$

Table 2 The Coefficient Tests (Model 2) on B, Standard error, Beta, T, Significance and Collinear

Model	Non-standardized coefficient,B	Non-standardized coefficient, Standard error	Standard coefficient,Beta	T	Significance	Collinear statistics, Allowable	Collinear statistics, VIF
Constant quantity	14.060	3.282		4.284	0.000		
DB	0.207	0.021	0.173	10.033	0.000	0.976	1.025
TR	-0.153	0.068	-0.039	-2.260	0.024	0.983	1.017
Curtotlia	0.019	0.033	0.010	0.587	0.557	0.984	1.016

According to the model, the current debt does not pass the modeling check while can infers that the current liability will not improve the growth of company, or to say, there is none relationship between both of the factors.

4. Conclusion

This results received above accord with the nowadays' situation in SMEs in domestic markets which is the SMEs normally has low asset-debt ratio comparing to the foreign. Unlike the pecking order theory, the SMEs have an extremely high preference in equity financing which occupies large percentages in the external financing. In consequences, the SMEs cannot logically take advantages of debt financing to promote the corporation's growth and enhancement.

In addition, considering the size of small and medium sized, the lack of standardization which result in the long term debt needs strict investigation, it caused to the SMEs can barely used to the debt financing channels in long term. So if long term debt financing are achievable this will offer a great help for the SMEs.

The other control variables considered in this article, income tax, have the same situation and policy in German which also issued by the government. Similar tax policy did not bring the same results in the end. High efficiency and active creation makes the SMEs in German has a great competitiveness in the world wide. Comparing to the German, the results in the policy of tax is not a reason for hinder the SMEs growth, which can deduce that solving the failure of operation in market and increasing the efficiency of the asset allocation is the priority. The external innovation of market will definitely assist the external financing ways of SMEs in the domestic market.

In order to solve and conquer the issue of finance hardship from SMEs by root, initially, established and perfecting the system of finance industry policy focusing on the SMEs development. Secondly, accelerate the improvement of the systems of financial intermediaries' services.

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