Research on the Financing Difficulties and Response Strategies of Enterprises in the After COVID-19 Era

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Abstract. This article focuses on the many challenges and difficulties faced by corporate financing in the context of the economic downturn in the COVID-19 era. Given enterprises' financing difficulties and coping strategies, our paper uses the literature review method, through reasonable logical reasoning and reference to professional data, to systematically sort out and summarize the three core sections of corporate financing difficulties: "specific performance, deep causes, and effective coping strategies". The study reveals that the financing problems of enterprises stem from the double squeeze of internal and external environments. To effectively deal with this dilemma, enterprises not only need to actively adjust their business philosophy and business model to adapt to the current complex and changeable market environment, to regain the trust and support of investors; At the same time, the government's macroeconomic control and policy guidance also play an indispensable key role. These two complement each other, to be an important way to solve the financing problem of enterprises. However, the discussion on corporate financing issues is far from over. In the future, more in-depth and detailed investigations and research are still needed to continuously track and evaluate the latest developments and changing trends in corporate financing. This article aims to provide useful references and inspiration for solving corporate financing difficulties.

Keywords: Corporate finance, financing dilemma, financial institutions, small and medium-sized enterprises.

1. Introduction

In today's era, the global economic landscape has undergone profound changes. In 2020, the sudden epidemic swept the world like a storm, dealing a heavy blow to the world economy. According to the World Bank, the global economy contracted by 4.3% in 2020, one of the worst recessions since World War II [1]. During this period, the production and operation of enterprises were forced to be interrupted or slowed down, and supply chain disruptions were extremely common. At the same time, market demand has shrunk sharply, and many companies are facing difficulties such as reduced orders, declining revenues, and rising costs, and economic uncertainty and risks have increased sharply.

As the main body of economic activities, enterprises are facing many challenges, among which financing difficulties are particularly prominent. Specifically, banks and other financial institutions have tightened their credit policies for risk management considerations. According to a report by the Institute of International Finance (IIF), banks' credit standards have significantly improved after the epidemic, and the global credit tightening index has risen from -0.1 before the epidemic to 1.6 in mid-2020, making it more difficult for enterprises to obtain loans [2]. In addition, the equity financing market is also relatively sluggish, and investors are cautious about the market outlook. This has narrowed the channels for enterprises to obtain equity financing. At the same time, the cost of private financing is high, and enterprises cannot afford it. Relevant studies have shown that the annual interest rate of private financing in some regions has risen to 20%-30% after the epidemic, which is far higher than the normal financing cost range of enterprises. The survival and development of enterprises have been put to an unprecedented test. From the perspective of policy background, governments around the world have introduced a series of policies to cope with the impact of the epidemic. The Chinese government has also introduced some monetary and fiscal policies, such as reducing the reserve requirement ratio and increasing the refinancing and rediscount quota, but due to the downward pressure on the economy, the improvement of corporate financing difficulties still faces challenges.

In the field of academic research, the issue of corporate finance has received widespread attention in times of crisis and has become an important topic on academic platforms such as CNKI. According to the author's search, there are about 3,365 articles on the topic of corporate finance. Some of the literature has deeply discussed the key role of information asymmetry in corporate financing problems and pointed out that the special background of the epidemic has exacerbated the information asymmetry between enterprises and financial institutions, and further widened the information gap between the two sides. Although many in-depth studies have been carried out on corporate financing issues, the systematic analysis of corporate financing difficulties from a global perspective, especially in the COVID-19 era, is still insufficient and needs to be further expanded and deepened. Based on this, this paper aims to study the financing difficulties of enterprises in the epidemic era, discuss the reasons behind them, and put forward practical countermeasures, to provide a useful reference for enterprises to find a way to break through financing in a complex and volatile economic environment.

2. Performance of Corporate Financing Difficulties

2.1. Access to Financing is Blocked

To strengthen risk management, financial institutions have generally tightened credit policies. As a direct result of this shift in policy orientation, the business community, especially small and medium-sized enterprises (SMEs) in the economic system that are already relatively fragile and have limited access to resources, have encountered unprecedented barriers to obtaining financial support from traditional bank credit channels.

Furthermore, from the perspective of the bond market, due to the economic shocks caused by the epidemic and the widespread spread of market panic, the risk appetite of investors has generally declined sharply. Under the dominance of this market sentiment, the issuance of corporate bonds faces many difficulties. Potential investors' willingness to subscribe to corporate bonds has been greatly reduced, and issuers must face higher issuance costs and more stringent issuance conditions. This undoubtedly makes it more difficult for companies to expand in the bond market as a financing channel. Financing channels have been further compressed and restricted, and companies have encountered major setbacks in the implementation of diversified financing strategies.

2.2. Financing Costs are Rising

In the COVID-19 era, the financing cost of enterprises has generally increased. Bank lending rates have risen, a trend that is particularly evident in different regions. This high-cost financing method makes enterprises bear huge financial pressure when facing capital needs. Against this backdrop, companies are forced to seek alternative financing options to maintain operations and growth, or to reduce costs by optimizing internal management to meet the challenges posed by rising financing costs.

2.3. Asymmetry of Financing Information between Firms

In the COVID-19 era, when the economy has experienced a severe recession, SMEs are more likely to have mismatched financing terms than state-owned enterprises (SOEs) that occupy favorable policies under the supervision of government departments, due to difficulties in approval, blocked financing channels, and rising financing costs.

According to effective statistics, private enterprises are still an important source of economic growth for the country, with the added value of private enterprises reaching 38.5 trillion yuan in 2023, accounting for 60.5% of gross domestic product (GDP), and has become an important engine of China's economic growth. However, the economic downturn has also hit private enterprises hard, especially for small and medium-sized enterprises in the start-up stage, the capital chain is relatively weak, and capital flow and financial problems are frequent. Under the dual pressure of the economic downturn and the intensification of industry competition, private enterprises are more likely to fall into short-term operating difficulties and find it difficult to repay loans on time, and the mismatch of financing terms has become one of the common manifestations of corporate financing difficulties.

Mismatched financing terms also bring about a credit crisis. This is particularly difficult for start-up private enterprises. Problems such as loan defaults and unclear responsibilities increase financing risks, leading to a crisis of trust in private enterprises among investors and banks. In addition, due to the profit-seeking nature of the operating model of financial institutions, when companies are short of their own cash flow, they will find it difficult to trust the other party's more stringent loan conditions due to the risk of "mismatched financing terms", and corporate decision-making will therefore become hesitant. Due to the risk of mismatched financing terms, when there is information asymmetry between the two parties and a credit crisis emerges, they often fall into a vicious cycle of not wanting to borrow and not daring to lend.

3. Reasons for Corporate Financing Difficulties

3.1. External Factors

3.1.1 The economic environment has deteriorated

The shadow of global economic recession looms over the entire world. The shrinking international trade has led to a continuous decline in market demand, resulting in a decrease in corporate operating income. According to the World Bank report, the global economy shrank by 4.3% in 2020 [1], which reflects the severity of the economic environment. Enterprises are facing a decline in debt repayment ability and increased credit risk, which directly affects their financing capabilities. In addition, the outbreak has led to the disruption of the global industrial chain and supply chain, which has not only increased the operating costs of enterprises but also brought huge uncertainties. For example, some manufacturing companies that rely on the global supply chain must face the dual pressures of production stagnation or cost increases due to the unstable supply of raw materials.

3.1.2 Government support is insufficient

The lack of effective cohesion and coordination between the various support policies issued by the government has greatly reduced the effectiveness of the policies. For example, in the actual implementation of the policies formulated by the government to support enterprises, the policies may not be implemented in a timely and effective manner due to poor coordination between departments, information asymmetry, and cumbersome approval processes. Enterprises are unable to obtain policy support funds or enjoy preferential policies promptly, which affects their financing ability and capital turnover.

3.1.3 Operational constraints of financial institutions

To ensure the safety of their funds, financial institutions will give priority to meeting the withdrawal needs of customers and other debt payments. During the COVID-19 era, financial market liquidity may be impacted, and some financial institutions have reduced their investment in long-term, high-risk loan projects and instead held more liquid assets to ensure liquidity security. This has led to severe restrictions on long-term financing projects for SMEs, such as long-term project loans, long-term bond financing, etc.

3.2. Internal Factors

3.2.1 Poor corporate financial transparency and creditworthiness

When corporate financial transparency is low, investors cannot accurately obtain the true financial status of the enterprise. For example, a company may conceal debts or misrepresent assets or profits. For banks, it is impossible to determine the true solvency of a business when assessing loan risk. If the actual level of debt is higher than the statement indicates, then the loan issued by the bank may be at a higher risk of default.

Take small and medium-sized enterprises as an example. Some of them have irregular financial management and their financial statements may not have been strictly audited. It is difficult for financial institutions to determine whether the cash flow of enterprises is stable and whether the income is real and reliable. In this case, to avoid risks, financial institutions often tighten credit lines or increase loan interest rates, which will also lead to higher financing costs for enterprises and increase financing difficulties.

In addition, if the company has a bad record of overdue repayments, defaulting on debts, etc. in the past operation process, financial institutions will refer to the company's credit history when considering whether to provide financing to the company. If the company's credit rating is low, financial institutions will believe that the company is more likely to default, thus greatly reducing their investment intentions in the company.

3.2.2 The industry attributes and business models of enterprises

The attributes of the industry and the financial status of the enterprise have a direct and important impact on the financing dilemma. Industries that have been severely affected by the epidemic, such as tourism, catering, aviation, etc., are facing unprecedented difficulties in their operations. Tight cash flow and deteriorating asset quality have further exacerbated the financing challenge. In the tourism industry, for example, during the pandemic, many tourism businesses had to face a sharp drop in the number of tourists, resulting in a significant drop in revenue. According to relevant statistics, the average asset-liability ratio of some companies in the tourism industry has increased by about 15% during the epidemic [3]. This data highlights the significant financial pressures facing the industry. In addition, due to the uncertainty of the pandemic, it is difficult for these companies to plan for the long term, which further affects their financing ability and business development.

4. Coping Strategy Research

4.1. Government Policy

In terms of policy, the government should formulate more favorable tax policies to reduce the tax burden on private enterprises. Tax exemptions and reductions can be made for private enterprises, such as reductions and exemptions of corporate income tax and value-added tax. At the same time, more tax incentives can be given to high-tech and innovative enterprises that meet certain conditions to encourage them to increase technological innovation and R&D investment. Reducing the tax burden can improve the profitability and cash flow of enterprises and increase financing capabilities and capital turnover [4].

4.2. The Company's Strategy

Enterprises themselves are also actively adjusting and optimizing their financing strategies. On the one hand, enterprises should strive to optimize their financial structure, strengthen internal financial management, and improve the efficiency of capital use. On the other hand, enterprises should actively expand diversified financing channels, such as seeking new financing methods such as venture capital and angel investment, and make full use of Internet financing platforms such as equity crowdfunding. In addition, strengthening cooperation with suppliers and customers, and alleviating the tight capital situation through commercial credit financing and other means is also an effective strategy for enterprises to cope with financing difficulties.

4.3. The Use of Financial Technology

Financial technology has changed the face of traditional financial services through innovative means. With the continuous advancement of science and technology, the rapid development of financial technology has become an important tool for promoting the high-quality development of private enterprises. Specifically, the application of financial technology has significantly reduced the cost of financial services, making financial services more efficient and convenient [5]. For example, through the Internet and mobile payment technology, customers can conduct financial transactions anytime and anywhere without going to physical bank branches. In addition, financial technology has also accelerated the process of financial approval. The loan approval process that used to take weeks or even months may now be completed in just a few days or even hours.

For private enterprises with smaller scale, higher financial risks, and relatively weak risk response capabilities, the emergence of financial technology has undoubtedly provided them with huge opportunities. These enterprises can obtain fairer financing opportunities through financial technology, thereby expanding their business scale and enhancing their market competitiveness. For example, with the help of big data analysis and artificial intelligence technology, banks and financial institutions can more accurately assess the credit status of enterprises, thereby providing financial support for those enterprises that have difficulty obtaining loans under traditional assessment methods.

5. Conclusion

This article first conducts an in-depth discussion on the manifestation of corporate financing difficulties in the post-epidemic era and analyzes it from multiple angles, such as blocked financing channels, rising financing costs, and information asymmetry between enterprises. Whether it is the tightening of traditional bank credit channels, the difficulty of bond market issuance, sluggish equity financing, and the high cost of private financing, it makes it difficult for enterprises to obtain funds.

Secondly, combined with the financing situation of enterprises, this article also explores the reasons for the financing difficulties of enterprises. In response to these difficulties, the government, enterprises, and the financial technology field should actively explore countermeasures. The government aims to reduce the burden of enterprises, enhance the financial strength and financing capabilities of enterprises, and create a more relaxed policy environment for enterprises by formulating more targeted tax incentives. Enterprises themselves strive to optimize financial structure, expand diversified financing channels, and strengthen supply chain cooperation, striving to improve their financing adaptability and risk resistance. The vigorous development of financial technology has brought new hope for corporate financing. Its advantages of reducing costs, improving efficiency, and optimizing credit assessment are expected to break the limitations of traditional financing models and provide more fair and convenient financing channels for private enterprises and other disadvantaged groups.

Looking ahead, as the economic situation in the post-epidemic era continues to change, this aspect also needs to be continuously deepened. Future research can start by improving research methods, innovating theories, and deeply analyzing policy effects, aiming to provide more scientific and effective guidance for solving corporate financing difficulties.

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