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Exploration of under the perspective of information asymmetry small and micro enterprises financing

Li Zhang

Luoyang Institute of Science and Technology, Luoyang 471023, (CHINA)

ABSTRACT

This study researched on small micro-enterprise financing under the perspective of information asymmetric. It mainly analyzed the information asymmetry financing difficulties of small and micro enterprises, which carried out a detailed analysis of the plight from small and micro enterprises and commercial banks ; commercial banks loan officers and commercial banks ; Financial services intermediaries and commercial banks, small and micro enterprises and private capital for the financing of small and micro enterprises. At the same time, it used Haiyingna model modeling to analyze. Research methods: Haiyingna model considered that many loans be made under uncertain conditions in accordance with the rules of conduct, which many loans generated by uncertainties affected. Results: small and micro enterprises and commercial banks, commercial banks and commercial banks credit officers, financial services intermediaries and commercial banks, small and micro enterprises and private capital, among them there are four levels information asymmetric, which made things worse and reduced the possibility of obtaining financing. In other words, these four subjects all existed obstacles for small and micro enterprises. So its financing channels blocked almost everywhere, and this will inevitably lead to the difficulties situation of small and micro enterprises financing. For these problems, its better to take appropriate measures to reduce the degree of asymmetry of information between the bodies, or reduce the cost of credit business of commercial banks dealing with small and micro-enterprise.

KEYWORDS

Information asymmetry; Small and micro enterprises; Financing; Private credit.



INTRODUCTION

Small and micro enterprises played an important part of China socialist market economy, which provides significant help for the development of China economic construction. Because of the problem of information asymmetric, resulting small and micro enterprises in a narrow way of financing and making financing costs remain high and hindering the company's development and growth. Methods: The main object is to start to explore small and micro enterprise financing and reveal difficulties in the financing process and using the detailed analysis of Haiyingna model. The purpose of this study is to solve information asymmetric under the perspective of small micro-enterprise financing problem.

OUR FINANCING DIFFICULTIES OF SMALL AND MICRO ENTERPRISES INFORMATION ASYMMETRIC ANALYSIS

Small and micro enterprises and commercial banks

Commercial banks' Credit is the most important externalities channels for small and micro enterprises. But for commercial banks, small and micro enterprises produce a high risk credit, much higher than the average large enterprises. This is mainly because there is a widespread problem of low education operators existing small and micro business, many of these entrepreneurs are getting rich in business with the use of easing policy in the early stages of reform and opening, which focused on short-term profits and didn't have long-term goals, especially in the nonstandard process of enterprise production and management, it is generous and easy to produce these problems. First there are suspicious of the financial statements, also the financial statements of enterprises provided a general without formal audit, what's more there are many modifications problem overall fraud; Even the audited financial statements, there are also small and micro enterprises and firms conspired to fabricate false financial statements to deceive the financial institutions. Second it is widespread tax evasion. Because of weak legal knowledge to business owners, small and micro enterprises tax evasion are widespread, which is vulnerable to be punished by the tax department, meanwhile, it has led to the financial statements of small and micro enterprises operating data and reporting the tax department revenues and profits would not consistent. In addition, many small and micro enterprises used personal accounts to pass in and out of corporate funds, in order to achieve the purpose of tax evasion. The following Figure 1 analyzed the behavior of bank credit rationing and the credit crunch caused by information asymmetric with economics of supply and demand curve:

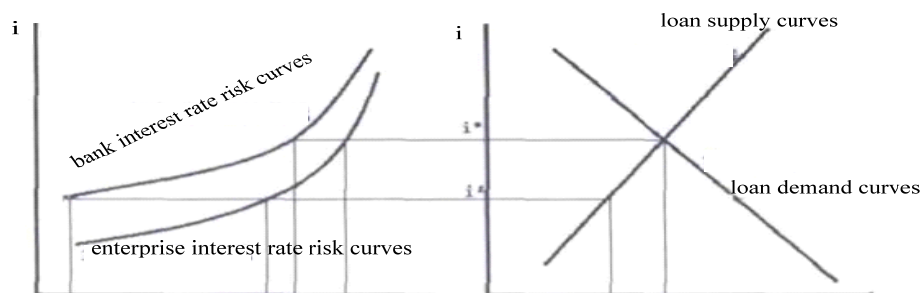


Figure 1 : The behavior of bank credit rationing and the credit crunch caused by information asymmetric with economics of supply and demand curve

Commercial bank credit and commercial banks

When commercial banks and small and micro enterprises begin to conduct business commercial bank credit officers are an essential part. However, for the quality of personnel credit and business standard, it is difficult for commercial banks to identify their business standards or professionalism effectively, etc., which is information asymmetry risk. To solve this problem, commercial banks set up

effective management means, while these means limit the development of small and micro-enterprise credit markets.

Commercial bank indicators for performance appraisal, which Commercial banks audit from up and down, assessment of key indicators is "enterprise scale". credit loan personnel often operate a large-scale enterprise more than a billion dollars, while operating a small micro-enterprise loans may be only 500 million, or even less, from the perspective of the contribution of indicators of credit and marketing units they are pretty different, while they are basically the same in the actual operation workload, furthermore due to the small and micro enterprises themselves lack of standardization, the operation of small and micro-enterprise credit business needs more in-depth investigation to get more information from a third party, which resulted in a greater workload. Households and small micro-enterprise credit, small and micro enterprises and other small micro-enterprise loans special assessment indicators only as one of many assessment indicators, and the proportion is not high. Currently, many commercial banks have not set up a special position in the first tier of public credit staffs who deal with small and micro-enterprise credit. Small micro-enterprise credit business "characteristic" is obvious. Its single amount is not high, credit risk,operational risk and compliance risk are relatively high,if it was not be operated by the special, the first tier credit line for public officers initiative in a small micro-enterprise credit business enthusiasm is not high.

Financial services guarantee agency and commercial bank

In the development process of Chinese market economy, there have been a lot of financial guarantee institutions, which by virtue of the principles of neutrality and integrity, service to financial institutions and commercial banks. Guarantee agencies use expertise in professional areas to fill gaps in economy market and play an important role in economic development, such as accounting firms, tax offices and so on. However, because the system is not perfect, poor oversight and other issues, part of the guarantee agencies contrary to professional ethics for their own interests, which results in causing the bad influence in the community. It is called "intermediary corruption". This is why financial institutions suspect the conclusions of the report issued by guarantee agency. Therefore, there is information asymmetric problem between financial services guarantee agencies and commercial banks, which resulted in further information asymmetry between commercial banks and small and micro enterprises. The relationship information between corporate and bank is shown as Figure 2. The relationship information among Financial services guarantee agency, Enterprise and commercial bank is shown as Figure 3.

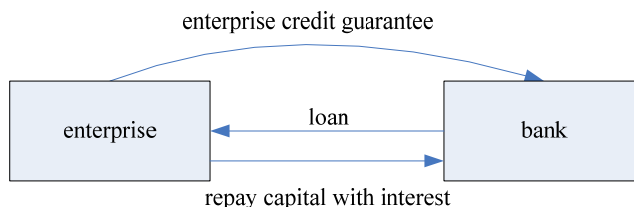


Figure 2 : Relationship information between enterprise and bank

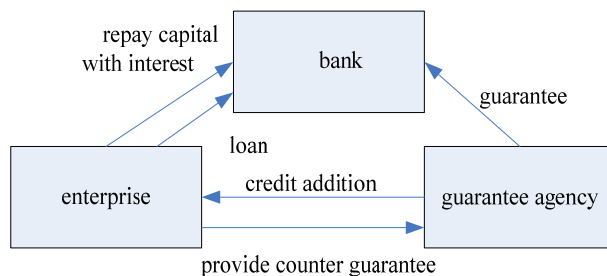


Figure 3 : Relationship information among financial services guarantee agency, enterprise and commercial bank

Small and micro enterprises and private capital

For private capital, it is inherently "profit-driven," many people make usuries in order to attempt to earn high profits. Small and micro-enterprise credit market is chaotic and information is asymmetric, it is difficult for legitimate private capital to get involved, the degree of influence is extremely limited, and the main method is financing Guarantee Company. But in reality, many of the financing guarantee companies are not very interested in traditional financing guarantee business, the reasons are high risks associated with information asymmetry and low income. According to point of Qingdao market view, for a sum of one-year flowing capital loans, guarantee company income is equivalent to 4% of the loan amount, while if the guarantee company directly involved in the "reverse loan", on one hand, due to the short term, the back section would be security, on the other hand, earnings will be higher. In previous years, funds face relatively tight market, the sum of the "inverted-prime 'monthly interest rate could reach 6 percent, the best is up to 12 percent. So even though part of the mainstream of professional security company in the banks are secured limit of credit, the credit rate is relatively low with the banks, in other word, the number of small and micro enterprises which obtaining bank loans by professional guarantee company is small, and financing guarantee companies are likely to be a kind of "reverse loan" business, which main target is small and micro enterprises that have credit balances of the bank.

ANALYSIS OF INFORMATION ASYMMETRY EFFECT ON THE FINANCING OF SMALL AND MICRO ENTERPRISES - BASED HAIYINGNA MODEL

Haiyingna (1986) believes that many loans were be conducted under the uncertain conditions according to the rules, Wosheli (1998) modified this model, Hongming Gao (2012) made further amendments in the study of Chinese decision-makers in Transition Economies direct lending behavior. In this paper, it takes example of Haiyingna model to explain that information asymmetry has an effect on the financing of small and micro enterprises.

Assuming objective probability of a given event is π , based on a subjective judgment of decision-makers on whether the event will happen, assuming that under the premise of its right to judge the event will occur, selecting the correct action of the conditions probability is γ , this right actions bring earnings is g . So when the expected benefit which decision-makers made the right judgment given event and take the correct action is $\pi \times \gamma \times g$. Instead, decision-makers for conditional probability of a given event make a misjudgment, which did not take proper action is w , the loss is l , the decision-makers make a wrong judgment at given event and thus do not take proper action expected loss is $(1-\pi) w \times l$. Under the uncertain conditions, decision-makers would produce a certain risk aversion for their own cognitive abilities, assuming risk aversion is k (decision-makers accept that their limited cognitive abilities will bring negative effect, so $k > 0$). In a fully transparent market economy model, without considering the effect of information in financial decision-making, therefore, on the financing of small and micro enterprises in Chinese market, you can make the following assumptions: π reflects the potential risk of borrowers (small and micro enterprises), according to the assuming of this article, the smaller the π is, the more potential risk of the borrowers; considering the information advantages to bring loan decisions makers to risk aversion is s ($s < 0$); when the expected benefits are greater than expected loss, decision-makers will take correct action, namely the condition of taking the right action is that:

$$\pi \gamma g - (1 - \pi) w \times l > k + s \quad (1)$$

After the transformation is :

$$\frac{\gamma}{\omega} > \frac{l}{g} \cdot \frac{1-\pi}{\pi} + \frac{k+s}{g\omega} \cdot \frac{1}{\pi} \quad (2)$$

The left of formula (2) is called the credibility of the ratio, which reflects the possibility of decision-makers make the right response to make the wrong reaction in a given event; the right is called thresholds of taking correct responses. Only the credibility of the ratio is bigger than a certain minimum

thresholds, decision-makers will take right action. By formula (2) and the third part of the analysis it can draw the following conclusions:

Information asymmetry between small micro-enterprise banks and commercial

Information asymmetry between small micro-enterprises and commercial banks makes commercial banks can not fully know about and constrain small and micro enterprises effectively. Therefore credit risk of small micro-enterprises for commercial banks is much higher than the large enterprises. At formula (2), for commercial banks the smaller π is, the larger its expected loss (l is larger), the expected income is small (g is minor), these effects will lead to the threshold of the right side at formula (2) increase. Then the possibility of taking right action will reduce, that is, the possibility of commercial bank choose small micro-enterprises as a loans target will decrease.

Information asymmetry between commercial bank loan officers and commercial banks

The possibility of bad debt in small micro-enterprises is large, while commercial banks take responsibility for handling non-performing assets, which leads to more loan officers do not want to face to small micro-enterprises. The assessment indicators of commercial banks make small micro-enterprises even more embarrass. In formula (2), the value of k is big, loan officers believe that their limited cognitive abilities will bring company bed effect, k value increases make the right side of the thresholds increases, the possibility of small micro-enterprises obtained credit reduce.

Information asymmetry between financial services intermediaries and commercial banks

Corruption of intermediary has greatly influenced the identification of small micro-enterprise credit in bank funds increasingly tense situation, because the lack of "third party" reliable proof of the report, small micro-enterprises at a disadvantage in the competition, therefore, the absolute value of s that represents small micro- enterprises should be small, considering the s is negative, it indicates thresholds of small micro-enterprises is large in the financial markets, which means it is difficult for small micro-enterprises to take right action.

Information asymmetry between small micro-enterprises and private capital

With respect to the commercial banks, private capital is more profit-driven. Compared with other simple profitable business on the market (such as "reverse loan"), crediting for small micro-enterprises expected return is small (g is minor), and the expected loss is large (l is large) undoubtedly, which in turn increases the thresholds and it is difficult for small micro-enterprises to get support of private capital.

The existence of the asymmetric relationships above has increased right side of the thresholds in formula (2) and reduced the possibility of making access to finance. In other words, there are barriers where the body in close contact with several small micro-enterprises to get access to information, then its financing channels blocked almost everywhere; it is inevitable for small micro-enterprise to develop financing problem.

ANALYSIS OF MEASURES FOR SMALL MICRO-ENTERPRISES FINANCING UNDER THE PERSPECTIVE OF INFORMATION ASYMMETRY

The Government set up a special financial institution risk judgment

Small micro-enterprises with improving economic vitality, increasing employment, expanding exports and other aspects characterized a typical of non-exclusive benefits, which is an important part of Chinese social market economy, so small micro-enterprises in this group exhibit certain characteristics of public goods. You need the supporting of nonprofit financial institution to establish specialized policy banks for small micro-enterprises, which is an alternative shortcut. The establishment of small micro-enterprises policy financial institutions, on one hand, it directly solves the problem of financing for part of the small micro-enterprises, on the other hand, it also gives a strong signal to market body that

government really attach importance to the financing of small micro-enterprises and determine to enlarge small micro-enterprises Chinese market, also it will enhance confidence of commercial financial institutions for the future development of small micro-enterprises groups. The following TABLE 1, P1-P6, respectively, six risk levels of the project, namely: technical risk P1, market risk P2, management risk P3, financial risk P4, production risk P5 and external macro-environment risk P6.

TABLE 1 : Six risk levels of the project

C	P1	P2	P3	P4	P5	P6
P1	1	1/4	1/3	1/4	2	1/4
P2	4	1	3	3	2	2
P3	3	1/3	1	1/4	3	1
P4	4	1/3	4	1	5	2
P5	1/2	1/2	1/3	1/5	1	1/4
P6	4	1/2	1	1/2	4	1

Guiding commercial banks represented by commercial financial institutions to increase financing support to small micro-enterprises and strengthen product innovation and innovation approval

In the small micro-enterprise financing market, it is not complete "market failure", but "part of the market failure", then, in addition to direct government intervention, we must continue to guide commercial financial institutions to intervene. There are joint-stock banks already have taken the first step in a small micro-enterprise credit, which was the innovative part of the approval process. For example, MinSheng Bank designed micro-credit product standardization of tea industry, which will be divided into three categories for the product of years of operation in accordance with the tea dealers, one of the categories is over a decade, another class is five to ten years, last is less than five years. Calculating the probability of bankruptcy respectively, and accordingly design a maximum credit amount, in this context, the approval of the tea industry for dealers will follow the standardization process and pay more attention to its "common" (industry, business life), while for consideration of "personality" factor will be less, at the same time, it improves processing efficiency.

Banking Board or the People's Bank can use its own regulatory resources to set up a special assessment indicators of commercial banks credit to support small micro-enterprises in the strength and depth, such as the proportion of small micro-enterprise loans and new loans of small micro-enterprises etc., meanwhile, introducing encouraging policy measures to enhance the interest of commercial banks to support small micro-enterprises, such as depositing ratio and other regulatory requirements for commercial banks of financing who do better in the loan with small micro-enterprises and giving relax in financial institutions to create a actively support small micro-enterprises atmosphere.

Commercial banks establish independent credit institutions for small micro-enterprise

As competition among commercial banks further intensified, the traditional approach around large enterprises or state-owned enterprises has become increasingly difficult to maintain the commercial banks expected to keep the level of profits, therefore small micro-enterprise credit market should be valued gradually, and special small micro-enterprise financing departments should be set up. For example, Merchants Bank establishes a small enterprise credit center headquarters in Suzhou. As an independent legal entity operating, this small enterprise credit center only do with single amount which is not more than 5 million Yuan of small business credit. As to credit officers and the various branches, there was only an indicator of the assessment; it is small business credit balances. However, domestic commercial bank which has established an independent legal personality with small micro-enterprise credit institution is only one China Merchants Bank. A majority of other commercial banks set up a special division of small micro-enterprises at the head office level, of assessment and management of subsidiaries on the development direction of small micro-enterprises was conducted from top-down.

Rational use of private funds and actively guides the development of private, local small and medium financial institutions

To guide private capital to set up local small and medium financial institutions, such as community banks, rural banks, technology banking, and financial leasing companies. General settlement remittance function was on traditional commercial banks, local small and medium financial institutions which set up specifically by private capital face with small micro-enterprises in the credit markets. It can fully mobilize private capital and guide its standardized operation, on the other hand, due to its function providing financing needs only for small micro-enterprises. Therefore the business is easy to conduct for professional operation that you can put all energy into the investigation and expansion of small micro-enterprises credit markets. These financial institutions "local" color is heavy and know more about local customers, so you can greatly reduce the degree of information asymmetry.

Further regulating business activities of social service agencies, including accounting firms, real estate appraisal firms, credit rating agencies and governance corruption agency. Providing an objective reference for the various economic institutions including commercial banks, and reducing information asymmetry

Intermediary Corruption has increased the information asymmetry between commercial banks and small micro-enterprises, which raising the cost of commercial banks operating small micro-enterprise credit business. Therefore, government agencies should joint intermediary trade associations, industry regulators and other institutions to regulate intermediaries strongly, by administrative penalties, economic sanctions, and resolutely exposure, etc., with urging intermediary's integrity, business law, to provide professional commercial banks and other financial institutions and objective reference. To reduce the degree of asymmetric information and the cost of commercial banks that operating small micro-enterprise credit business.

CONCLUSION

This study describes the subject of several financing small micro-enterprises in detail. For the problem of asymmetric information it put forward corresponding countermeasures. After the implementation of these policies, it can effectively reduce the cost of financing small micro-enterprises, and improving the financing capacity. And then, to improve the vitality and productivity of enterprises, for promoting Chinese economic development is of great significance.

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