Research on Credit Risk Control Countermeasures of Small and Medium-Sized Enterprises in Supply Chain Finance Model

Wei Xing

Hunan Vocational College of Modern Logistics, Changsha, 410131, China

760933676@qq.com

Keywords: Supply Chain Finance; Small and Medium-sized Enterprises; Credit Risk Control

Abstract: The present paper explores the characteristics of the supply chain finance on the basis of in-depth analysis of its relevant theories combined with the study of the concept and development of supply chain finance business. Then, it conducts an analysis of the characteristics and the causes of small and medium-sized enterprise credit risk based on its concept and form. It is found that small and medium-sized enterprises can effectively control the credit risk by improving their business management, strengthening enterprise comprehensive strength, and maintaining the stability of the supply chain through stronger association between enterprises.

1. Introduction

Since the reform and opening up policy, small and medium-sized enterprises have developed rapidly, and they play an important role in the operation and development of China's national economy.[1] However, for a long time, small and medium-sized enterprises have been troubled by financing problems and difficulties due to their small assets size, operation and management levels, financial status, collateral quality and other factors.[2] With the development of economy and the innovation of financial products, the supply chain finance model has come into being. This model effectively combines the core enterprises in the supply chain with their upstream and downstream enterprises, and comprehensively evaluates the operation of the whole supply chain.[3] Although the supply chain finance that relies on the core enterprises and the whole supply chain has effectively reduced the loan risk, the risk has not completely disappeared. In order to improve their operating income, banks and other financial institutions should consider all kinds of risks in the process of issuing loans, especially the credit risks of small and medium-sized financing enterprises.

2. An Overview of Supply Chain Finance

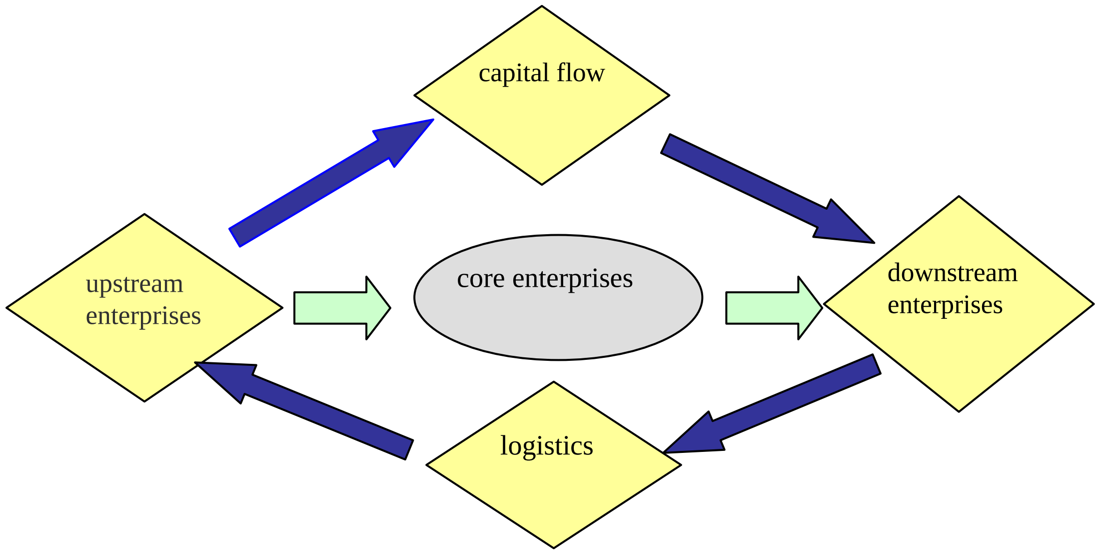

Figure 1. The supply chain finance

Copyright © (2019) Francis Academic Press, UK DOI: 10.25236/ecomhs.2019.261

Supply chain finance is a specific category of micro finance based on the industrial supply chain, which is different from the traditional bank lending, venture capital or other financial activities. [4]Financial institutions, centering on core enterprises, manage the capital flow and logistics of upstream and downstream small and medium-sized enterprises through certain methods and tools, so as to obtain more comprehensive information about their supply and marketing.[5] Its aim is to create financially added value by relying on the operation of industrial supply chain, and to promote the benign interaction and sustainable and healthy development of this chain and its participants. See figure 1 for detail.

3. Credit Risk of Small and Medium-Sized Enterprises

3.1 The Concept of Credit Risk of Small and Medium-Sized Enterprises

Credit risk refers to that one party fails to fulfill the obligations in the contract and causes losses to the other party in the transaction, that is, the possibility that the expected income of the creditor deviates from the actual income due to the borrower's failure to timely fulfill the obligation of repayment of principal and interest. The credit risk of small and medium-sized enterprises refers to the possibility that the creditor may suffer losses if the borrower of the transaction party is the small and medium-sized enterprise who cannot repay the loan in time. Generally speaking, small and medium-sized enterprises are small in scale, weak in operation and management, and poor in financial status, as a result of which they are relatively high in credit risk. The credit risk of small and medium-sized enterprises in the financing process has been greatly reduced thanks to the model of supply chain finance that links them with the whole supply chain, the support from core enterprises who provide credit guarantee for them, and the supervision of third-party logistics enterprises. However, this does not mean that risk does not exist.

3.2 **Causes of Credit Risk of Small and Medium-Sized Enterprises**

Under the supply chain finance model, the causes of credit risk of small and medium-sized enterprises are complex, which are mainly divided into internal and external causes. External causes mainly include natural disasters, political turbulence, terrorist activities, and market uncertainty while internal causes mainly include information asymmetry, supply chain status, small and medium-sized enterprises' strength, and banks' own risks.

3.3 **Characteristics of Credit Risk of Small and Medium-Sized Enterprises in Supply Chain Finance Model**

Compared with the traditional financing mode, enterprises under the supply chain finance model restrict, supervise, and coordinate with each other. Therefore, the credit risk of small and medium-sized enterprises is much smaller and has its unique characteristics that mainly include the following points.

3.3.1 Emergency

Under the supply chain financial model, small and medium-sized enterprises, as the issuers, are subject to its own relatively small scale, low management level, weak ability to resist risk, inadequate methods and ability to respond crisis. Easily influenced by external factors, they will face the crisis when the market situation changes, or other enterprises on the supply chain are in trouble in terms of management. As a result, the probability of credit risk is higher.

3.3.2 Transmissibility

Under the supply chain finance model, financial institutions, based on the whole supply chain, bind small and medium-sized enterprises with other enterprises in the supply chain for comprehensive credit evaluation. If a risk occurs to an enterprise in the supply chain, its operation will be in trouble and capital flow may be broken, which results in an increase of the credit risk. Correspondingly, the operation and capital status of other enterprises in the supply chain will be affected, with the credit risk of the whole supply chain increasing. Unavoidably, the credit risk of financing small and medium-sized enterprises will also increase. If the core enterprises in the supply chain have a credit crisis, the operation of the whole supply chain will be affected and the capital flow will thus break down. The credit risk may spread rapidly to the whole supply chain and the credit risk of financing enterprises will increase accordingly.

3.3.3 Non-systematicity

Under the supply chain finance model, the credit risk of small and medium-sized enterprises mainly depends on the individual operation of the borrowing enterprises, the overall situation of the supply chain and other factors. Therefore, compared with the market risk of macro factors such as economic cycle, market conditions, and macro policies, credit risk is more influenced by non-systematic factors such as the borrower's operating status, repayment willingness, repayment ability, risk preference, and strategic planning.

4. Countermeasures on Credit Risk Control of Small and Medium-Sized Enterprises in Supply Chain Finance Model

Small and medium-sized enterprises are the capital demander and the repayment party. In consideration of future credit and loan demand, they should actively control their credit risks. However, at the same time, they may be misappropriated or unwilling to repay loans, making them unable to repay in time and increasing their credit risks. Therefore, the self-control of small and medium-sized enterprises is the last and most important part to control its credit risk under the supply chain finance model. This paper proposes some strategies that small and medium-sized enterprises can take to control their own credit risk, which are as follows:

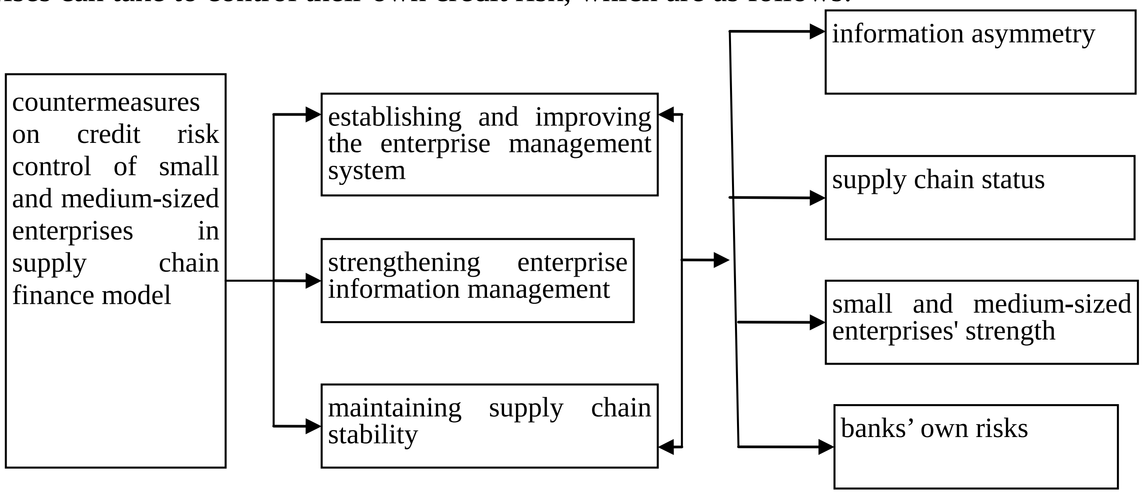

Figure 2. Countermeasures on Credit Risk Control of Small and Medium-Sized Enterprises in Supply Chain Finance Model

4.1 Enhancing the Enterprises’ Strength by Establishing and Improving the Management System

An important factor affecting the credit risk of small and medium-sized enterprises is the strength of the enterprise. Their strength is positively related to their ability to resist the risk. That is, their weak strength indicates weak ability to resist the risk, which shows the higher credit risk the bank has to deal with. Therefore, small and medium-sized enterprises should first formulate a strict enterprise employee management system for the benefit of standardizing the operation of employees and preventing employee moral from degeneration. At the same time, they should develop a certain reward and punishment system to stimulate the enthusiasm of employees. The second one is to establish a complete enterprise operation management system. This system helps the enterprises clarify their business objectives, standardize their operation methods, improve their operating environment, maintain their sustainable and effective operation, and enhance their comprehensive strength. Third, the risk management system should be established. Enterprises are affected by various internal and external factors in the process of operation. Therefore, enterprises should establish risk management system to eliminate internal risks, to control external risks, and to strengthen their risk resistance.

4.2 Strengthening Enterprise Information Management

Another important reason for the credit risk lies in improper information management, delayed disclosure, difficulty for financial institutions to obtain information, and information asymmetry between the two sides. Therefore, small and medium-sized enterprises should first establish a sound information management system to standardize the collection, integration, and disclosure of information, and to regularly check the financial and operational data which are subsequently made statements for review. Such practice can facilitate financial institutions to obtain information of small and medium-sized enterprises, which helps controlling their credit risk. Secondly, enterprise information should be strictly managed. The financial information and operation information of an enterprise can not only reflect its historical operation, but also contribute to the formulation of the following operation strategies, the adjustment of their operation direction, the maintenance of their effective operation, the enhancement of their strength, and the reduction of their credit risk.

4.3 Maintaining the Supply Chain Stability by Strengthening the Links between Enterprises in the Chain

The credit evaluation for small and medium-sized enterprises is associated with other enterprises on the supply chain since the supply chain finance is established on the basis of the supply chain. In this case, the close connection and cooperation between enterprises in the chain is conducive to enhancing the overall strength and the stability of the supply chain, as a result of which small and medium-sized enterprises in this chain will correspondingly increase their ability to resist risks and to control the credit risk. First, the cooperation between supply chains should be strengthened. The community of interests often exert the group power to integrate resources and accelerate the development of the supply chain. Second, it is necessary to strengthen the information transmission and sharing within enterprises in the supply chain. The information flow makes the information more comprehensive and richer, which is conducive to the development of the supply chain as well as small and medium-sized enterprises themselves. In addition, it can effectively enhance the enterprises' ability to resist risks and control their credit risks.

5. Conclusion

The supply chain finance has provided a new financing model for small and medium-sized enterprises who are facing financing difficulties. For small and medium-sized enterprise, credit risk control is a key link in the development of supply chain finance since it helps to deal with their financing problems. Meanwhile, it is not only beneficial to the development of banking business, but also to China's economic transformation and industrial structure upgrading, which promotes our steady economic growth.

References

[1] Inventory financing in supply chains [J]. Hofmann,Erik. International Journal of Physical Distribution &. 2009 (9)

[2] Logistics and Supply Chain Management: Strategies for Reducing Cost and Improving Service (Second Edition)[J] . Martin Christopher. International Journal of Logistics Research and Applications. 1999 (1)

[3] A holistic framework for short-term supply chain management integrating production and corporate financial planning [J]. Gonzalo Guillén,Mariana Badell,Luis Puigjaner. International Journal of Production Economics. 2006 (1)

[4] A Structural Analysis of Credit Risk With Risky Collateral: A Methodology for Haircut

Determination [J] . DidierCossin,TomasHricko. Economic Notes. 2003 (2)

[5] Short-Term Variations and Long-Term Dynamics in Commodity Prices [J]. Eduardo Schwartz, James E. Smith. Management Science. 2000 (7)