

# Research on Financial Support Paths of Small and Medium Manufacturing Enterprises

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**Keywords:** Financial support path. Relationship financing. Social networks. Small and medium manufacturing enterprises

**Abstract.** Small and medium manufacturing enterprises are difficult to get loans, which is the main bottleneck restricting the development of small and medium manufacturing enterprises in recent years. This article attempts to study the financial support paths of small and medium manufacturing enterprises from the social network perspective, using three measurement dimensions of social networks, giving eight major assumptions, and then designing the financial support paths questionnaire of small and medium manufacturing enterprises from social network perspective, which is the foundation for the further study.

## Introduction

According to the Ministry data shows that the national industrial and commercial registration of enterprises is 15,278,000 at the end of 2013, an increase of 11.8% over the previous year, individual industrial and commercial households reached 45.641 million, an increase of 2.43%. Overall, the number of small and medium-sized enterprises (SMEs) is still growing, has become the country's largest number and most dynamic companies in the business groups. Currently, the value of final goods and services of small and medium enterprises to create is the equivalent of about 60% of gross domestic product, the tax amount is about 50% of total national tax revenue, providing nearly 80 percent of urban jobs. However, small and medium manufacturing enterprises loans, is restricting the development of small and medium manufacturing enterprises in recent years. The difficult problem of small and medium manufacturing enterprises loans is mainly because of the limited channel of credit, enterprise has no place to borrow. Bank is inclined to lend money to strength enterprises than weak ones, big enterprises than small ones, national enterprises than private ones. Especially, private enterprises basically rely on their accumulated funds, which is not conducive to enterprise development, is not conducive to business to resist risks. Because small and medium businesses are more likely than large companies to be rationed by external investors (commercial banks and other institutional sources of credit), financing is particularly important for these firms (Pettit & Singer, 1985)<sup>[1]</sup>. This article attempts to study the small and medium manufacturing enterprises financial support paths from the social network perspective, to solve the problem of small and medium manufacturing enterprises financing, which provides a new way of thinking. Research on small and

medium manufacturing enterprises financial support paths of social network perspective is a relational supplement theory of financing. Small and medium manufacturing enterprises obtain loans to a large extent depend on networks, the so-called relational financing. Perspective of social network analysis of the impact of social networking on the path of financial support from the micro level, but also enrich the use of the field of social network theory. Social network perspective but also to address the issue of financial support path provides a new idea. Small and medium manufacturing enterprises need to understand fully their social network status, and seek to maintain their relationships which can provide finance in the social network.

### **Literature review of financial support path of small and medium manufacturing enterprises**

Mohammad M. Rahaman(2011)<sup>[2]</sup> used a sample of quoted and unquoted firms to show that the effect of financial structure on firm growth is statistically significant and quantitatively important, which suggested a real effect of financial structure on growth via the channel of an external financing constraint. Aulia Nurul Huda (2012)<sup>[3]</sup> proposed government should provide data on the widely and have database of small and medium manufacturing enterprises in its region, which will allow the government act as strategic partner for the banks in its financing distribution to SMEs. Ralf R. Meisenzahl(2014)<sup>[4]</sup> Evaluated specific models of two agency problems against a comprehensive data set of U.S. small business credit contracts, finding strong support for the firm balance sheet channel but only weak support for the bank balance sheet channel. The number of research literature on the financial support path is more than 100 in the latest 10 years in china. Zhou Liquan (2013)<sup>[5]</sup> put forward several possible financial support path which should exert the role of financial fund, guiding financial institutions to increase support efforts and to improve the multi-sectoral communication mechanism. Feng Jin, Shi Louyan et al (2014)<sup>[6]</sup> stand in the perspective of commercial banks, proposed effective way to solve SME financing problem under the premise of considering corporate life cycle, such as financial products innovation. Commercial banks to support the development of SMEs, is to achieve sustainable development, adapt to the development requirement of financial industry of times. Banks can maintain mutually beneficial relationship with SMEs in this process, so as to promote the sustainable development of the commercial banks and SMEs.

### **Research ideas on small and medium manufacturing enterprises financial support path based social network**

Rely on social networks to obtain loans, the so-called relational finance has been for a long time. The theory of relationship lending is based on the idea that close ties between borrowers and banks may be economically beneficial . One effect of the relationship financing is to solve the asymmetric information. The reasons can conduct the relationship financing are: First, information communication is fluent, mutual understanding each other; second, frequent exchanges cause feelings to each other, which results in a mutual trust. Due to information production and repeated interaction with the borrower over time, the relational bank accumulates private information, establishing close ties between the bank and the borrower. Such ties create well-known benefits from the lending institution suggested in the literature: intertemporal smoothing, increased credit availability, enhancement of borrower's project payoffs, and more efficient decisions if borrowers face financial distress. the relationship intensity between a bank and a borrower is hard to observe directly , which needs an instrument to measure, and the social network analysis is the proper instrument.

Using social network perspective to study SME financial support routing problem, there are two research ideas, one is to understand the SME financial support network based self-report questionnaire method (or interviews), the other is to understand the specific financial support network for SMEs based nomination questionnaire method (or interviews). If it can understand the specific financial support network for SMEs, it is the best, but because of availability, the paper chooses to understand SME financial support network by self-report questionnaire method. Designing SME financial support questionnaire from social network perspective is follows:

**Research hypothesis:** Information flow refers to the interaction between the SME loan information in enterprise social networks and the flow of financial supporters. Energy flow refers to the interaction energy between the SME business community networks and financial supporters passed, referring to the positive energy of mutual trust between enterprises and financial supporters, and trustworthiness of the state. Network structure including network density, network centrality and network subgroup[30]. Network structure and information flow, energy flow, financing relationship between the paths the following assumptions:

H1:SMEs network density, the greater the flow of information;

H2:SME network density, the greater the energy flow;

H3:SMEs network centrality, the greater the flow of information;

H4:SMEs network centrality, the greater the energy flow;

H5:SMEs network subgroup, the greater the flow of information;

H6:SMEs network subgroup, the greater the energy flow;

H7:SMEs greater flow of information; the financing unobstructed path;

H8:SMEs greater energy flow; the financing unobstructed path;

**Questionnaire design:** According to the variables mentioned above hypotheses proposed to set observations for each variable, with Likert5 grade scale using self-report questionnaire design method as shown in Tab.1.

## Conclusion

The paper reviewed the research status of small and medium manufacturing enterprises financial support path ,and finding that the existing solution ideas can not be a good solution to the problem of SME financing. This paper presented a new perspective to address the problem of financing SMEs, due to lack of fixed assets and the imperfect financial system and so on, which led small and medium manufacturing enterprises difficult to obtain a large bank loans. while the study showed that a large part of SMEs to obtain loans is relying on relations financing, in order to understand better the relationship financing and promote SMEs' access to relationship financing, this paper proposed social network perspective to explore solutions to financial support path problem of small and medium manufacturing enterprises.

Tab.1 Social network questionnaire scale of self-report method

network density	D1: lenders (people or bank) often share information and communicate with your company	1	2	3	4	5
	D2: your company's lenders (people or bank) often communicate with each other	1	2	3	4	5
	D3: your company's lenders (people or bank) and your company are very united, solving problem together	1	2	3	4	5
network centrality	C1: your company get information conveniently from your financing support network	1	2	3	4	5
	C2: your company is a dominant in your financing support network	1	2	3	4	5
	C3: lenders (people or bank) keep directly with your company	1	2	3	4	5
network subgroup	S1: your company has your own financing network	1	2	3	4	5
	S2: credit information transfers faster in your own financing network	1	2	3	4	5
	S3: the more communication in your own financing network than outside of your own financing network	1	2	3	4	5
	S4: the more closely relationships than in your own financing network than outside of your own financing network	1	2	3	4	5
Information flow	Q1: though communicating with your own financing network, the more credit knowledge your company master	1	2	3	4	5
	Q2: though communicating with your own financing network, the more credit information your company master	1	2	3	4	5
trust flow	Q3: your own financing network has confidence in your company	1	2	3	4	5
	Q4: your own financing network and your company can keep the promise each other	1	2	3	4	5

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