Section 4. Finance, money circulation and credit

https://doi.org/10.29013/EJEMS-23-1-29-33

Wang Yubo,
Hubei university of economics
Undergraduate in Economics, the Faculty of Economics

A SUMMARY OF THE RESEARCH ON THE INFLUENCING FACTORS OF TRADE CREDIT FINANCING

Abstract. Starting from the concept and characteristics of trade credit financing, this paper summarizes the main factors affecting trade credit financing based on existing research conclusions and theories. The factors affecting trade credit can be divided into external factors and internal factors. The external factors include monetary policy, external audit, analyst coverage, financial marketization, market competition and industry prospects, etc. Internal factors include the nature and market position of the enterprise, enterprise scale, enterprise financial status, reputation level, corporate governance and internal control, etc. This article may provide some implications to corporate managers, capital markert investors, policy makers, and other firm stakeholders.

Keywords: trade credit; financial market; influencing factors; literature review.

1. Introduction

According to the reaserch of Hu and Cui [16], Trade credit financing is an indirect credit behavior formed between enterprises due to the separation of funds and goods in time and space in the process of commodity transactions. That is, the lending activities provided by enterprises in the form of commodities when buying and selling commodities, act as the most common creditor-debtor relationship in economic activities. From the financial point of view, trade credit is equivalent to a short-term financing given by the seller to the buyer. Trade credit is widely used in the business activities of enterprises because of its simple procedures, easy access and low cost. In this article, I review the existing theoretical and empirical research to summarize its influencing factors.

The existing literature has studied the possible influencing factors of trade credit financing from multiple perspectives, and empirically analyzed the influencing mechanism of different factors on trade credit financing. On the basis of the existing research, this paper sorts out the external and internal factors that have a direct impact on trade credit financing, and expounds the influencing mechanism, the correlation and degree of different factors' impact on trade credit financing, hoping to provide some reference for related research.

The structure of the remaining paper is organized as follows: Section 2 expounds the theoretical research related to trade credit financing. Section 3 and Section 4 respectively summarize the external factors and internal factors that affect trade credit financing. Finally, Section 5 makes a summary and provides some suggestions.

2. Theoretical Research on Trade Credit Financing

From 1960 s, the academic circles began to discuss the application of trade credit financing. Deferred payment and increasing accounts receivable are the ways for large companies to provide credit financing to small companies. As a supplement to direct financing and indirect financing, trade credit financing has its own unique features, and relevant research is abundant. Through review the previous research literature, the theoretical theories obtained in this paper include: operating motivation theory, credit rationing theory, financing comparative advantage theory, trade credit redistribution theory.

1. Operating motivation theory

According to the theory of operating motivation, companies can use the time difference to divide the time of commodity trading and currency trading. If the transaction is carried out in advance, the seller's buying and selling expenses can be effectively reduced and the income can be increased, thus increasing the income ofsellers. However, due to the delay of the transaction, there is uncertainty risk in the future. Therefore, when choosing trade credit, the company should adopt different credit strategies for different customers, so as to obtain the indirect price difference and realize the best profit of the company.

2. Credit rationing theory

In trade credit, the credit rationing theory holds that if banks do not provide loans to companies, then companies can only obtain trade credit instead of bank loans for short-term financing. Therefore, "credit discrimination" is an important reason for trade credit because of the financing requirements of companies [1]. (Hu et al. [9]) Because banks and other financial institutions discriminate against large enterprises and small enterprises, small and medium-sized enterprises can't get loans from financial organizations like banks. In order to meet their own capital needs, small and medium-sized enterprises have adopted trade credit instead of bank loans. Trade credit financing is an important way to supplement the working capital demand of small and medium-sized enterprises in the process of economic development (Yu et al. 2010).

3. Financing comparative advantage theory

According to the financing comparative advantage theory, compared with bank loans, trade credit is more convenient and efficient. Especially, compared with bank credit, the advantage of trade credit is that its financing cost is lower than that of bank credit, and it is more convenient to obtain. A survey by Ge et al. (2007) shows that trade credit plays an important role in trade and product sales. Through trade credit financing, enterprises can establish a corporate image with good financial status and good product quality to the outside world. It improves the sales volume of products, and it is easier to establish a long-term and stable cooperative relationship with customers, thus improving the firm value and the producrs production efficiency.

4. Trade credit redistribution theory

According to the theory of trade credit redistribution, after a company can obtain a large number of bank loans, the company can redistribute the bank loans to make loans to the companies that need loans through trade contract, thus realizing the redistribution of financing. Ge et al. (2007) found that compared with large enterprises, small and medium-sized enterprises pay more attention to trade credit, and it is more common to solve financing needs through trade credit.

In the process of financial industry development, the capital restriction and credit difference suffered by small and medium-sized enterprises will also be reduced. There will be more opportunities for small and medium-sized enterprises to obtain bank credit, thus improving the trade credit level of the company. Besdes, small and medium-sized enterprises provide more trade credit than large enterprises, which shows that the differences in enterprises characteristic have great differences in the redistribution of their trade credit.

3. The External Factors Affecting Trade Credit Financing

To some extent, the level of enterprise's financing constraints is influenced by external factors such as external environment. At the same time, while obtaining funds through trade credit, enterprise's decision makers will make new decisions on the use of trade credit due to the change of external environment. These external factors that affect the use of trade credit include monetary policy, external auditing, Financial intermediaries including Analyst analyst tracking and institutional investors, Financial Marketization Process and Credit level given by external agency, etc.

1. Monetary policy

Zhang and Deng [12] found that with the tightening of monetary policy, the credit limit of banks will be compressed, resulting in many small and medium-sized enterprises gradually shifting from conventional financing means to trade credit financing. Zhang et al. [1] found that the increase of economic policy uncertainty will significantly improve the trade credit financing that enterprises obtain.

Usually, the influence of monetary policy on trade credit financing is realized by controlling the supply and demand of money. With the tightening of monetary policy, the credit limit of banks will be compressed, reducing the source of capital supply. Under such circumstances, small and medium-sized enterprises are more likely to face the shortage of funds than large enterprises. Therefore, compared with the relatively relaxed monetary policy, companies are more inclined to use trade credit financing to solve their own funding needs when the monetory policy is tightening.

2. External auditing

According to the research of Zhang [3], after the non-standard audit opinions were issued to enterprises, the level of trade credit financing in the next year dropped significantly. Itmainly because the non-standard audit opinions would cause the upstream suppliers to worry about the honesty and solvency of enterprisesand then make distrust decisions such as refusing to provide trade creditandreducing the credit sales quota and collecting accounts in advance. Therefore, it would reduce the level of trade credit financing of enterprises.

3. Financial intermediaries including analyst-and institutional investors

4. Huang et al. [13] found that analyst coverage promoted the trade credit financing of enterprises, and it played an important role in alleviating the information asymmetry of enterprises, which in turn affected suppliers' trade credit supply decisions. In addition, the improvement of institutional investors' shareholding ratio and legal environment is conducive to promoting the influence of analyst tracking on trade credit financing. Therefore, there is a complementary relationship between analyst tracking and institutional investors' shareholding and legal environment. Financial Marketization Process.

Financial crisis is an important aspect of macroeconomic development, which directly affects the trade credit of enterprises. If there is an economic crisis, the company will reduce the credit supply, especially when the company is increasingly dependent on bank loans. Besides, in provinces and cities with a high degree of financial marketization, business reputation is generally used to promote the company's marketing. The better the financial market, the larger the scale of enterprise development, and the more credit funds it can obtain. With the continuous development of the financial market, the role of financial products and credit lines of financial institutions in promoting the redistribution of corporate credit will be further strengthened.

5. Credit level given by external agency

Long-standing companies, which have a considerable reputation level in the capital market, often have an advantage in trade and are easier to obtain trade credit (Zheng Chaoyu et al. [1]). The credit rating of the company is closely related to the business credit of the enterprise. When trading with suppliers, if payment or advance payment can be made according to the agreement, the company will be rated as a company with high reputation by external reputation rating agencies, which can win the trust of suppliers, thus the supplier's trade credit policy towards the company will be more relaxed. Therefore, compared with companies with low credit rating, companies with good credit rating are more likely to obtain trade credit financing.

4. The Internal Factors Affecting Trade Credit Financing

There are not only external factors but also internal factors that affect the trade credit financing of enterprises. The main internal related factors that affect the level of commercialtrade credit financing of enterprises include the nature and scalemarket position of enterprises, enterprise scale, enterprise financial status, reputation level, audit opinions, corporate governance and internal control, etc. The nature and scale of enterprise.

The dependence of large enterprises and small enterprises on trade credit is different, and its characteristic is that small enterprises are increasingly dependent on trade credit financing. In addition, in China's small and medium-sized enterprises, business credit and bank credit are obviously complementary. Among the enterprises in China, there are some differences in the distribution of business credit. Among them, compared with large enterprises, small and medium-sized enterprises have significant differences in capital management and operation experience. Managers of large enterprises have more management experience, while managers of small and medium-sized enterprises are relatively lacking. Strengthening the management level and capital operation ability of SMEs in China is an important way to strengthen the trade credit business of SMEs in China (Wei Gang [4]).

Wei Gang [4] found that compared with small companies, because of their stronger bargaining power, large companies are usually in a favorable position when conducting cooperative transactions, so they can get more trade credit financing. On the whole, the higher the market share of the company, the more outstanding its performance in trade credit financing is due to its own scale and many other advantages.

1. Enterprise financial situation

There is an obvious inverse ratio between the financial position and liabilities of an enterprise and the company's total liabilities. When the company's operation is in good condition, adopting trade credit has obvious advantages (Candida Bussoli et al. [14]). When the company's operation is in poor condition, using trade credit to raise funds does not have any superiority. Reasons

2. Corporate governance and internal control

First, share pledge may influence trade credit financing. Compared with companies without controlling shareholders' equity pledge, companies with controlling shareholders' equity pledge get lower trade credit financing, since suppliers can perceive the pledge risk. Furthermore, the above relationship only exists in companies with low audit quality and internal control quality; However, it does not significantly exist in companies with high audit quality and high internal control quality (Pan Lin et al., [13]). Second, corporate internal control quality also matters. Compared with enterprises with low internal control quality, enterprises with high internal control quality can obtain more trade credit financing. In the period of tight monetary policy, although the trade credit financing obtained by enterprises has dropped significantly, companies with higher internal control quality can obtain more trade credit financing (Zheng Junlin et al. [3]).

5. Conclusion and Evaluation

This review is mainly carried out from two angles, namely, the theoretical research of trade credit financing and the factors affecting trade credit financing. The theoretical research of trade credit mainly includes business motivation theory, credit rationing theory, financing comparative advantage theory and redistribution theory. From the research of factors affecting trade credit financing, it can be divided into external factors and internal factors. The external factors that affect the use of trade credit financing include monetary policy, external auditing, Financial intermediaries including Analyst analyst tracking and institutional investors, Financial Marketization Process and Credit level given by external agency The main internal related factors that affect the level of trade credit financing of enterprises include the nature and scale of enterprises, enterprise financial status, corporate governance and internal control, etc.

Nowadays, due to the impact of the COVID-19 epidemic in 2020, the economic development of the entire country has been seriously impacted, which poses a more serious threat to enterprises that have difficulty operating on their own. As trade credit financing is becoming increasingly important, this article may provide some implications to corporate managers, capital market investors, policy makers, and other firm stakeholders.

References:

1. Yuanyuan Zhang, Zhuquan Wang, Yan Shao. How economic policy uncertainty affects the trade credit financing of enterprises? – Based on the discussion of supply and demand sides. (05) Finance and trade Research, 2021.– P. 82–97.
2. Yong Zhang. Audit Opinions and Trade Credit Financing. (05) Audit Research, 2013.– P. 72–79.
3. Gang Wei. Measurement of the impact of market position on corporate trade credit financing. (03) Journal of Shaoxing University of Arts and Sciences, 2019.– P. 80–89.
4. Shuangjian Li, Junqing Li. Social trust, commercial credit financing and enterprise innovation. (03) Nankai Economic Research, 2019.– P. 81–102.
5. Lu Fang. Marketization process, business credit and enterprise performance. (12) Jiangxi University of Finance and Economics, 2019.– 57 p.
6. Jie Zhu. Do monetary policy and financial strategy affect a company's ability to financing trade credit? (06) Auditing and Economic Research, 2018.– P. 71–82.
7. Jun Zheng, Zhonggao Lin. Can high-quality internal controls increase trade credit financing? (03) Accounting Research, 2019.– P. 62–68.
8. Zhiliang Hu, Minggui Zheng. Does the difference in corporate strategy affect trade credit financing? –– an analysis of the regulatory effect based on scale discrimination and industry characteristics, (06) Manage Comments, 2021.– P. 86–96.
9. 9.Minquan Liu, Zhong Xu. A Review of trade Credit Research, (01) The world economy, 2004.– P. 66–77.
10. Xiaoqi Sun. Analysis of influencing factors of corporate commercial credit financing. (08) Accounting Learning, 2018.– P. 145–146.
11. Zhengyong Zhang, Bofu Deng. Corporate Social Responsibility, Monetary Policy and Business Credit Financing, (05) Research Management, 2018.– P. 94–102.
12. Bo Huang, Man Wang. Does Analyst Tracking Affect Commercial Credit Financing: Based on Empirical Analysis of Listed Companies in China. (08) Journal of Shanxi University of Finance and Economics, 2018.– P. 42–55.
13. Candida Bussoli, Danilo Conte. Trade credit and firm profitability: moderation analysis of intercompany financing in Italy, Journal of Small Business and Enterprise. 2020.
14. Yan Yanga, Shujie Yaob. On corporate philanthropy of private firms and trade credit financing in China, Sustainability, 2019.
15. Jaleel Ahmed, Hui Xiaofeng, Jaweria Khalid. Determinants of Trade Credit: The Case of a Developing Economy, Economic sciences. 2014.
16. Go Yano1 & Maho Shiraishi. Two Forms of Trade Credit Finance in China. Comparative Economic Studies. 2016.
17. Sirui Wu, Guangming Gong, Xin Huang, Haowen Tian. The Interaction Between Suppliers and Fraudulent Customer Firms: Evidence from Trade Credit Financing of Chinese Listed Firms, Journal of Business Ethics. 2021.
18. Haowen Tian. Corporate sustainability and trade credit financing: Evidence from environmental, social and governance ratings. 2022.