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Influencing Factors and Prevention of Enterprise Debt Default Risk

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Abstract: In recent years, our country enterprise debt default phenomenon is frequent. In view of the debt default phenomenon, the academic circle has made rich research on the factors influencing the risk of enterprise debt default. However, the existing research results are still lacking in the aspects of review articles and risk prevention. Based on this, this paper makes a comprehensive review of the factors affecting corporate debt default from both internal and external perspectives, and puts forward corresponding preventive measures.

Keywords: Debt default risk; Influencing factors; Risk prevention; Research review

1. Introduction

With the deepening development of global economy and the increasing complexity of financial market, the phenomenon of corporate debt default has gradually become the focus of market attention. With the slowdown of macroeconomic growth and the contraction of credit, the probability of debt default risk of expansion enterprises with high leverage is rising rapidly, and the difficulty of seeking financing from the market for enterprises that have defaulted on debt is greatly increased. Insolvent companies will eventually go bankrupt if they can't break the bank. The loss of confidence caused by negative news will affect the choices of other institutions in the financial market, so that other normally operating companies may also be pulled into the debt default because of the shortage of cash flow, with knock-on effects. Debt default not only directly threatens the survival and development of enterprises, but also may have a chain reaction on the entire economic system and affect the stability of the financial market. Therefore, the research on the influencing factors of corporate debt default risk has important theoretical value and practical significance. Through the study of corporate debt default risk, we can better understand the causes of debt default, and then put forward effective preventive measures to reduce the risk of debt default and maintain the stability of financial market.

2. Influencing factors of corporate debt default risk

2.1 External factors of enterprises

2.1.1 Macroeconomic environment

Fluctuations in the economic cycle, adjustment of industrial policies, and tightening of monetary policy will all affect the financing costs and financing environment of enterprises. For example, when the macro economy is in a downward cycle, companies' profitability and cash flow may be squeezed, leading to an increased risk of debt default. In addition, the adjustment of the country's macro policies, such as deleveraging and risk prevention, will also have an impact on the debt financing of enterprises. Chen Changsheng et al. believe that this impact may evolve into a lasting shock, which will cause irreversible changes in many industries[1]. Tan Zhijia et al. found that in the period of economic downturn, the catalytic effect of risk contagion on economic shocks will challenge China's financial system. Liquidity risks can be transmitted from financial institutions to real enterprises through trading relationships, and such risk contagion will have special effects of expansion, intensification and acceleration, which will increase the liquidity risks of enterprises[2].

2.1.2 External economic policies

Monetary policy, fiscal policy and industrial policy will all affect the financing environment and financing cost of enterprises. For example, when monetary policy is tightened, it will be more difficult for enterprises to borrow money and their financing costs will rise, thus increasing the risk of debt default. Liu found that in the short term, the risk of corporate debt default will decrease due to the economic expansion brought about by fiscal stimulus, but the risk of government default will increase with the expansion of government spending, and the risk of government default will spill over to enterprises[3]. Therefore, in the medium and long term, fiscal stimulus will increase the risk of cor-

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porate default. Wang Bo et al. tested the effect of monetary policy uncertainty on default risk by constructing a nonlinear DSGE model[4]. The conclusion shows that the more uncertain monetary policy is, the more likely corporate debt defaults will occur, and the corresponding decline in corporate output will also occur. Specifically, when monetary policy is loose, banks are more willing to provide long-term loans, and the more long-term loans enterprises can use, the lower the probability of debt default.

2.2 Internal factors of the company

2.2.1 Corporate governance structure and management level

If the company's governance structure is unreasonable, the management makes mistakes, or the management level is low, it may cause the enterprise to fall into operational difficulties, thereby increasing the risk of debt default. For example, if the company's internal control system is not perfect, problems such as financial fraud and misappropriation of funds may occur, which will directly affect the company's ability to pay its debts. Ding Zhiguo et al found that the aggravation of the principal-agent problem, the listing excitement effect of the management and the pecking order selection of financing would lead to the excessive investment behavior of enterprises after listing, and the risk of financial distress of enterprises would increase significantly[5]. Politically connected enterprises such as Zhang Min are more likely to obtain long-term loans, but they are more likely to overinvest later, which has a negative impact on the value of enterprises and increases the possibility of corporate debt default[6].

2.2.2 Profitability

The profitability of an enterprise has a direct and significant impact on its debt default risk. Profitability refers to the ability of an enterprise to earn income and turn it into profit, which reflects the economic efficiency and operation efficiency of an enterprise. On the one hand, enterprises with strong profitability can generate more cash flow, which makes it easier to cover the principal and interest payments of their debts. This means companies have more resources to repay their debts, reducing the risk of debt defaults. On the other hand, strong profitability can provide enterprises with more internal funds to cope with short-term liquidity needs or sudden economic shocks. In this way, the company is more likely to avoid default, because it has more capital reserves.

2.2.3 Earnings management

Earnings management is the behavior of an enterprise to adjust its earnings information through legal or illegal means for specific purposes, such as achieving specific profit targets, avoiding taxes or obtaining external financing. The impact of earnings management on debt default risk depends on the degree and nature of earnings management. Moderate earnings management may help enterprises meet the requirements of debt contract and reduce the risk of debt default; However, excessive or non-compliant earnings management may lead to distortion of financial information, misleading decision-making, and increase the risk of debt default. Lu Zhengfei et al. showed that banks could not identify the earnings management behavior of enterprises, which damaged the usefulness of accounting information debt contract[7]. In order to avoid debt default, enterprises often use earnings adjustment to adjust the statement data, while the actual debt default risk of such enterprises is relatively high.

3. The prevention of enterprise debt default risk

3.1 Recommendations for external entities

In order to prevent disorderly competition in the industry and the emergence of chaos in the industry, the first is to further implement the main responsibilities of the city: clearly demarcating the rights and responsibilities of various departments, and resolutely holding departments accountable for ineffective regulation and inadequate policy implementation. Second, be wary of aggressive expansion of enterprises. In the process of external expansion, enterprises are prone to excessive investment and blind expansion due to various factors. Radical expansion strategies are likely to lead to enterprises' high debt and continuous expansion of debt scale. Finally, enterprises may borrow old and repay new and eventually be unable to repay all debts, so external investors need to be highly vigilant. The third is to increase the degree of information disclosure of enterprises and banks. First of all, it is fully recognized that small and medium-sized enterprises are the main force and indispensable part of national economic development, and supporting the development of small and medium-sized enterprises is to support the development of the entire national economy. Secondly, in the direction of development, through a variety of channels to promote promotion, to help SMEs quickly understand the policy, the bank products to promote.

3.2 Recommendations for the industry

First, strengthen industry self-discipline. For the low price competition, low innovation ability caused by the industry is easy to produce vicious competition, product homogenization and other phenomena that are not conducive to the healthy and stable development of the entire industry, first of all, should give full play to the leading role of the industry, establish responsibility and service awareness, for the development of the entire industry to point out the direction and provide reference. Secondly, formulate unified industry standards and performance appraisal mechanisms, appropriately improve industry access standards, further refine the industry and formulate detailed industry guidelines for each branch industry. Finally, establish the industry credit rating system and strict punishment mechanism. The second is to give play to the technical guidance role of industry associations. Regularly integrate domestic and foreign industry policies, technological development, opportunities and technical challenges to the maximum extent, to provide risk warning and data support for the entire industry; Actively encourage enterprise innovation, organize technology competition in the industry, promote technical exchanges between enterprises, and achieve complementary advantages.

4. Conclusion

This paper discusses the factors affecting the risk of corporate debt default from the perspectives of macroeconomic environment, external economic policy, financial supervision and internal factors such as corporate governance structure and management level, profitability, earnings management. It can be seen that the default of corporate debt will be affected by many factors. In order to reduce the default risk, it is necessary to have the support of a healthy market environment, good policy support, correct leadership decision-making, perfect internal governance mechanism and other relevant factors.

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