



Study on the Risk Mitigation Mechanism of China's Small and Medium-Sized Zombie Enterprises Withdrawing from the Market

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Abstract: In recent years, the global economic environment is facing great challenges, especially the rapid development of digital economy, which makes a large number of small and medium-sized enterprises actively or passively adapt to the rapid changes of this society. Economic and social development and transformation and upgrading make a large number of enterprises constantly updated and eliminated. However, due to the imperfect relevant mechanism for withdrawing from the market, a large number of enterprises in the Chinese market are in the situation of bankruptcy but cannot withdraw from the market in time, and the creditor's rights and debt relations cannot be clarified in time. Combined with the reality of China, this paper analyzes the mechanism and risk of China's small and medium-sized zombie enterprises to withdraw from the market, and then puts forward the corresponding risk release mechanism. Such as the corporate governance system is relatively perfect enterprise in accordance with the relevant provisions of the bankruptcy law strict exit mechanism, the corporate governance structure of simple small micro enterprise is consider appropriate government intervention, but to avoid excessive positive government intervention, according to the market rules formulate corresponding local laws and regulations to solve the risk of small micro enterprise exit, avoid regional economic systemic risk.

Key words: small and micro enterprise, exit mechanism, risk mitigation mechanism

Introduction

With the influence of various factors such as digitalization, big data and AI intelligent technology, the global economy is facing huge shocks and challenges, and a large number of Chinese small and medium-sized enterprises have fallen into bankruptcy, but China's current bankruptcy system is difficult to provide enterprises with a comprehensive and effective escape or exit mechanism for enterprises. In this regard, China has also made beneficial explorations from the government, the rule of law and other aspects to help small and medium-sized enterprises quickly liquidation, but it is difficult to achieve the goal of effective liquidation because of the constraints of the real system. In 2022, the World Bank will take "whether to establish special bankruptcy rules for small and medium-sized enterprises" as an important indicator of the latest "suitable business environment". In line with the international community, detailed and feasible rules should be established for the liquidation and exit of small and medium-sized enterprises. For small and medium-sized enterprises that do not have restructuring value, their rapid exit from the market can optimize resources for reconfiguration.

Since May 2017, China has begun to further promote the disposal of "zombie enterprises" to promote the transformation and upgrading of its economic structure. However, like the reform in other areas, with the pace of zombie enterprises, it is more and more difficult to liquidation, and some problems and risks in the liquidation process have begun to be exposed. Such as the zombie enterprise judgment is not accurate, one size fits all shutdown cancellation, even some local governments appeared to repel and repel, finish the task of processing, the zombie companies improper disposal will also cause adverse effects on the local economy and society, such as industry, a large number of labor unemployment and local financial risk, etc. Therefore, in view of the complex economic and social situation, attention should be paid to the disposal and subsequent guarantee of zombie enterprises in different industries and different sizes, so as to maintain the smooth economic order and cut off all kinds of economic and social risks that may cause.

Literature Review

With the development of economy and society, there are more and more zombie enterprises in China, which have caused adverse effects on the survival of market entities and the liquidation of debts and debts. Therefore, scholars have done a lot of research on zombie enterprises from different perspectives. It is believed that the core of the definition of zombie enterprises is that it is difficult for enterprises to make profits but can continue to obtain credit. The main characteristics of zombie enterprises are loss, blood absorption and kidnapping ^[1]. In general, the proportion of state-owned zombie enterprises has a trend of recovery, while the problem of small and medium-sized private zombie enterprises is becoming more and more serious ^[2]. Through empirical research, it is found that the development level of enterprises is a necessary condition to affect the formation of zombie enterprises, and the paths to affect the formation of zombie enterprises are debt restriction, equity balance, and interest trend ^[3]. It is believed that the influencing factors of the exit path choice of zombie enterprises include four important factors: the national industrial policy, the basic situation of enterprises, the loss situation and the debt problem ^[4]. The governance of zombie enterprises is mainly through the improvement of laws and regulations and governance system, the establishment of professional third-party governance institutions, optimize the

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market exit mechanism and other measures to [5]. In addition, there are scholars from the perspective of corporate governance to explore how to make zombie enterprises off stiff [6].

The identification and disposal of small and medium-sized zombie enterprises in China

"Zombie companies" currently refer to those that rely on government or bank subsidies or borrowing funds to keep their businesses running, but continue to lose money. This is the original meaning of zombie enterprises. With the deepening and development of research, the definition of zombie enterprises has been constantly improved. For example, some scholars in China believe that many small and medium-sized private enterprises do not rely on the "blood transfusion" of the government and banks, but rely on private lending or mutually guaranteed lending to maintain inefficient or even ineffective operation.

The identification standards of zombie enterprises

At present, the identification standards for zombie enterprises at home and abroad mainly include CHK standard, FN-CHK standard, continuous loss standard, actual profit standard and comprehensive evaluation standard [7]. Each standard has its own advantages and disadvantages, but it is obvious that the judgment of zombie enterprises can not be rigid to adopt a single standard, because different countries, different regions, and even different industries and different sizes of enterprises are different, it is impossible to judge the solution in a one-size-fits-all way.

Around China in the practice of zombie enterprise recognition is mainly using the official standards of the State Council, does not conform to the national energy consumption, environmental protection, quality, safety standards and long-term loss of excess capacity enterprises shut down and spin or restructuring, for sustained losses three years and does not conform to the direction of structural adjustment of the assets reorganization, property rights transfer, closure and bankruptcy to "clearing", clear the disposal of "zombie" enterprises. Although the standard of continuous loss judgment, combined with the supply-side structural reform, is relatively simple and easy to judge and applicable to a wide range of applications, so it has been widely applied in various places. The identification and disposal of small and medium-sized zombie enterprises also mainly adopts this standard, while also considering the impact of local government subsidies and bank lending.

The disposal of small and medium-sized zombie enterprises

Zombie enterprises will occupy a certain amount of social and economic resources. In addition to their own inefficient or ineffective use of these resources to reduce the industry productivity, they will also hinder the effective allocation of social resources, hinder the transformation and upgrading of the industry, and even cause regional financial risks and systemic social risks in serious cases. Small and medium-sized enterprises in the local relatively high, for this, in the disposal of small and medium-sized zombie enterprises is also very cautious.

Take Linyi City of Shandong Province as an example, among the three major industrial economies of Linyi City, the industrial economy still occupies an important position. According to the information of Linyi Municipal Bureau of Statistics, in 2022, the eight traditional industries of food, wood, machinery, metallurgy, chemical, building materials, medicine and textile and clothing achieved a total output value of 549.7 billion yuan, an increase of 10%. According to the four batches of lists in Shandong Province, Linyi City has formulated a policy plan for the liquidation of zombie enterprises for traditional industrial enterprises. For the industrial enterprises with backward production capacity that should be eliminated, such as small steel enterprises, small chemical enterprises and small ceramic enterprises and other enterprises that meet the standards of zombie enterprises of The State Council. Linyi trade logistics city has a large number of small private enterprises, the market main body in 2022, these industry enterprises tend to be smaller, shut down more flexible, and they can get from the government and Banks "blood transfusion" is less, therefore, for these industries of small enterprises clearing basically is the standard of the company law, by the market regulators directly in the way of revoked business license, effect is more obvious.

However, the current liquidation rules for the disposal of small and medium-sized enterprises, such as high cost, too cumbersome procedures, unable to effectively deal with the personal debts of business owners.

The problems and risks of zombie companies' exit from the market

With the progress of the supply-side reform, some problems have been found in the process of eliminating zombie enterprises, mainly due to improper government intervention, the lack of market-oriented disposal institutions, and the lack of social supporting policies. Therefore, China should currently shift the focus of the disposal of zombie enterprises from identification, judgment and reduction to resolve and disposal of various problems and risks that may cause.

Government administrative leadership is too strong

With the deepening of China's supply-side structural reform, many local governments regard dealing with zombie enterprises as a government plan and task, often setting very specific goals and sharing them down layer by layer, which will ignore the actual situation of different enterprises. In addition, the "one size fits all" zombie enterprises, simple and rough, to "close, stop" and other ways to directly withdraw, these ways often treat the symptoms rather than the root cause, easy to hit the enthusiasm of local enterprises. In the past two years, we found that most of the information is the industrial and commercial departments at all levels through administrative means to revoke or require enterprises to cancel their business licenses, so as to remove zombie enterprises, this way can only remove the enterprises that have been closed for a period of time. For the still keep "sucking" zombie enterprises disposal is ineffective, the exit of zombie enterprises mainly rely on the government to promote. The liquidation of zombie enterprises is more due to the government's vigorous promotion. The government has the final say on which enterprises can survive and which

enterprises should be shut down. Local enterprises, especially small, medium and micro private enterprises, are more passively adapting to the government's various policies.

The exit mechanism is not perfect

With a large number of small and medium-sized private enterprises in China, a sound market exit mechanism should be established, including enterprise exit conditions and procedures, related assets, debt, capital recovery and employee resettlement, etc. A complete exit mechanism should be established to inform the enterprises when they are set up, which is more conducive to the market-oriented exit of enterprises. In addition, for market-oriented bankruptcy reorganization and liquidation, many enterprises do not know the applicable conditions and procedures, which also leads to many enterprises can not find financial support and do not know to realize the rebirth of enterprises through bankruptcy protection when operating losses. At present, whether the zombie companies "close, stop, and turn" or bankruptcy reorganization and liquidation, more rely on government decisions, marketization of evolution mechanism application is very few, this also resulted in zombie companies repel and process, many companies can actually through merger, acquisition and reorganization or halt production management survival, but because the small private enterprises don't understand the situation and be repel. And this kind of withdrawal will cause a great blow to the enthusiasm of entrepreneurs.

Removal can easily cause chain risk

Many local industry cluster distribution development characteristics, like Linyi Luo Zhuang building pottery industry, fertilizer industry, its wood industry, etc., in addition to the small commodity wholesale and logistics city, the disposal of zombie enterprises to give full consideration to the cluster distribution, many characteristics of small and medium-sized enterprises, pay special attention to isolation risk, prevent the zombie enterprise disposal, cause capital chain chain reaction, avoid regional death, to avoid causing regional economic systemic risk.

Lack of professional disposal institutions and supporting measures

Although the current liquidation mechanism of zombie enterprises is led by the government, it is difficult for government agencies to provide professional, market-oriented and standardized services. The disposal of zombie enterprises involves many subjects and professional affairs, which need independent professional institutions to provide. But so far, no corresponding institutions have been established to provide professional and market-oriented services. Many small and medium-sized zombie enterprises want to change the situation but have no way to help. They do not know the corresponding policies, regulations and procedures of the country, and do not know how to exit. Therefore, it is an urgent need for professional institutions to provide small and medium-sized zombie enterprises with enterprise regeneration or exit services.

The practice and reference of resolving the exit risk of zombie enterprises at home and abroad

The United States defuses the risk of zombie companies withdrawing

During the 2008 financial crisis in the United States, the disposal of zombie enterprises was relatively successful, mainly due to the perfect bankruptcy legal system and the independent bankruptcy court system in the United States. For the financial crisis in the zombie companies, according to the law of market evolution, for the main business is still healthy, reforming value is significantly higher than the liquidation value of the enterprise, the government first for the financing, solve the enterprise temporary funds dried up, help these enterprise bankruptcy reorganization make its regeneration. Its bailout for GM is done in this way. For those zombie enterprises whose liquidation value is significantly higher than the restructuring value, a fully market-oriented approach is adopted to make them exit the market quickly and efficiently through bankruptcy liquidation procedures, such as Lehman Brothers Investment Bank. Through this separate treatment, various industries in the United States have realized a big market reshuffle, and all enterprises survive according to the market rules of the fittest, and all industries have renewed vitality, which is worth our reference.

Japan's successful disposal of zombie enterprises

In the 1980s and 1990s, Japan had a large-scale zombie enterprise crisis, so Japan has accumulated rich experience in the governance of zombie enterprises.

The government should intervene appropriately

The Japanese government began to hope to clear the zombie enterprises through the market regulation mechanism, but to no end. Later, the Japanese government strengthened its intervention, formulated and enacted a series of laws and regulations, and formulated and implemented a series of supporting measures, including industrial regeneration, employment security and staff training. Finally, based on the market mechanism, perfect laws and regulations, effective supporting measures and clear policy direction, this model has achieved good results. It should be noted that the Japanese government does not have too much direct administrative intervention, but more guides zombie enterprises to regenerate or withdraw through various means of laws and regulations. The disposal method of the United States is very similar to that of such moderate government intervention, which has achieved good results, which is worth our reference.

Establish a professional third-party organization

In the process of disposing of zombie enterprises, Japan has set up third-party independent organizations such as the IRC and the Recycling Support Association for Small and Medium-sized Enterprises. These institutions have the dual identity of "semi-public and semi-private", which can not only deal with the problems between the government, banks and enterprises, but also help enterprises to find their own business advantages, formulate enterprise restructuring and reform plans, realize the regeneration of enterprises, and solve many problems that are difficult to solve through market

behavior. After the global financial crisis in 2008, Japan set up a "corporate regeneration support agency" similar to the IRC. In addition, the "Industrial Innovation Agency" was established in 2009 to focus on support and investment in cutting-edge technologies. In Japan, the disposal of zombie enterprises in the way to rebuild zombie enterprises, encourage enterprise merger and reorganization, try not to let enterprises go bankrupt. All these are worth our learning and reference.

Perfect social security supporting measures

In dealing with zombie enterprises, Japan has focused on preventing unemployment and promoting reemployment, providing employment protection from improving relevant laws and regulations to strengthening employee training. The Financial Regeneration Law, the Corporate Regeneration Law and the Industrial Regeneration Agency Law have been formulated to point out clear policy directions for zombie enterprises from different industries and perspectives. Japan also provides production equipment for recycling and withdrawal subsidies for zombie enterprises with excess capacity, providing a better guarantee for the liquidation of zombie enterprises. This is an effective measure to prevent and deal with the social risks of zombie enterprises, which is especially worth our reference.

Small and medium-sized exit risk-mitigation countermeasures for zombie enterprises

Clearing up zombie enterprises in different regions should take corresponding measures according to the actual situation of the region, only in this way can we achieve a target, the cleaning effect can achieve the optimal, so as to effectively clear zombie enterprises, reduce the risk of clearing.

The government intervenes mainly with guidance

The government should timely and decisively guide the reorganization and regeneration of zombie enterprises, and provide policy guidance and institutional guarantee for the clean-up of zombie enterprises, which is a more successful practice in the disposal of Japanese zombie enterprises. We should learn from this point, the government should not be passive in the disposal of zombie enterprises, but should actively provide them with policy guidance and services for them. Specifically, local governments should formulate applicable government policies and guarantee systems for the disposal of zombie enterprises within their respective areas, and ensure the disposal of assets, claims and debts of small and medium-sized zombie enterprises and the arrangement of employees through the form of legislation, so as to standardize the disposal of zombie enterprises. At the same time, the rights and obligations of all stakeholders in the disposal process of zombie enterprises should be clarified in the legislation to effectively reduce disputes and prevent the occurrence of various risks. Finally, the supporting safeguard measures for the disposal of small and medium-sized zombie enterprises should be improved in the form of laws and regulations, such as legislation to guarantee the reemployment training subsidy and reemployment insurance for the bankrupt unemployed, and the subsidy system for the asset disposal of small zombie enterprises.

The government must make clear its positioning, to provide guidance and support for the disposal of small and medium-sized zombie enterprises, rather than direct administrative intervention. The guidance and support of the government must be well grasped, and this degree is the best way to grasp through the form of legislation. Therefore, it is suggested that the local legislative power should be used well, and the way and institutional guarantee of the disposal of small and medium-sized zombie enterprises in the region should be clarified in the form of local legislation.

Establish and improve the legal withdrawal mechanism

Both the government and the market have failure, so the government can not excessively intervene in the disposal of small and medium-sized zombie enterprises, and at the same time, it can not completely rely on the market mechanism to clear naturally. It is necessary to cooperate with each other to deal with zombie enterprises. At present, the successful practice of the combination of the two is that the government intervenes in the market through laws and regulations, and the zombie enterprises are cleared according to the market rules. Those like the United States and Japan both prove their effectiveness. For small and medium-sized zombie enterprises whose restructuring value is higher than the liquidation value, the reorganization system of the bankruptcy law should be applied to help enterprises get rid of the burden through judicial procedures. For the liquidation value is higher than the restructuring value of small and medium-sized zombie enterprises to decisively bankruptcy liquidation, to achieve the survival of the fittest social resources. Take bankruptcy as a way of enterprise management, so that the majority of business operators can learn to use the bankruptcy law to solve their own business difficulties. In addition, the court can use a variety of ways to help enterprises to achieve regeneration when handling bankruptcy cases, and can constantly improve the bankruptcy summary procedure and other measures, to provide an efficient judicial way for small and medium-sized zombie enterprises to withdraw from the market according to law.

It is suggested that all regions should formulate the judgment standards, cleaning ways and measures for zombie enterprises of different sizes in different industries in their own regions. Local legislation can formulate corresponding laws and regulations from traditional industry, modern service industry, commodity wholesale, modern logistics, high-tech industry and other industries.

Establish specialized service agencies

The number of small and medium-sized enterprises in China, the cause of the zombie and performance is also particularly complex, by limited government departments and their staff is difficult to provide effective help for zombie companies, therefore, advice around the practice of Japan to set up enterprise crisis aid association, gives the official and private institutions dual nature, official nature help zombie enterprise communication government, Banks and enterprises, folk

help zombie enterprises find their own restructuring or the direction of the exit. The enterprise Crisis Assistance Association can timely and professionally provide relevant laws, regulations and policy services for enterprises, and provide zombie early warning services for enterprises.

Improve various supporting social security support measures

The process of disposing of zombie enterprises is bound to be accompanied by a series of problems, such as enterprise debt clearing, non-performing assets disposal, production equipment recovery, and employee placement. To avoid risks, a perfect exit guarantee mechanism should be established. No matter using the merger and reorganization or bankruptcy liquidation, the disposal of small and medium-sized zombie enterprises will cause the laid-off workers and unemployment of employees, and the poor placement of unemployed people will cause the instability of the local social order. Therefore, the local government should pay great attention to the solution of this problem. It is a common practice to solve their short-term living problems through unemployment insurance, and to solve their long-term living problems by providing training and employment opportunities for the unemployed. In addition, the unemployed who have lost the ability to work should be prepared for pension, medical care and other aspects of assistance. It is suggested that the government finance should take out a part of the funds for special management and application to solve these problems.

Conclusion

Small and medium-sized enterprises account for a large proportion in China's economy and society. The study of their market withdrawal mechanism will help to clarify the mechanism of survival of the fittest in the enterprise market and promote the orderly development of the economy and society. Through the above analysis, it can be seen that the mechanism of small and medium-sized enterprises to exit the market is still not perfect, and there are many problems, which need to be improved and solved from the following aspects:

1. For small and medium-sized zombie enterprises should be combined with the actual situation, according to different regions, different industries, different levels to develop specific liquidation measures, not one size fits all.
2. We should adhere to the withdrawal of zombie enterprises and regulate the withdrawal of zombie enterprises according to law, and the market subjects of the creditor's rights and debts and the liquidation procedures of enterprises can be expected.

In view of the large number of small and medium-sized enterprises, local governments may formulate corresponding policies in their respective regions and give flexible and appropriate liquidation. Local governments can also allow the establishment of third-party service agencies according to the actual conditions, to provide professional services for the liquidation of small and medium-sized zombie enterprises.

In a few words, the current clearing rules of small and medium-sized zombie enterprises in China have problems such as high cost, complex procedures and inability to solve the debt and debts quickly and effectively. Combined with practice, in order to solve the various risks faced by China's small and medium-sized zombie enterprises to withdraw from the market, we should further base on the reality of small and medium-sized enterprises in various regions, constantly improve the bankruptcy system and simple liquidation procedures, and the government should appropriately guide and supervise the improvement of the liquidation mechanism of zombie enterprises in the region.

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