

# Research on Domestic and Foreign Small and Medium-sized Enterprises' Listing Demand and Entitlement Based on Financial Perspective

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**Abstract.** Small and medium-sized enterprises (SMEs) generally have the problems of single financing channel and shortage of funds. It has become a new economic hot spot for SMEs to raise funds by listing on growth enterprises market (GEM). However, due to the characteristics of small-scale and high growth of SMEs, which attach importance to development and have low requirements for the quality of financial information, many SMEs have many financial problems in listing and reporting. Corporate governance structure can be understood from the narrow and broad perspectives. From the narrow perspective, corporate governance structure is a system of managing and controlling companies. Corporate governance in a broad sense includes not only some aspects of corporate governance in a narrow sense, but also human resource management, income distribution incentive system, financial system, corporate culture and other systems related to the top management control of enterprises. From the financial perspective, this paper studies the listing demand and due rights of SMEs at home and abroad.

**Key words:** Small and medium-sized enterprises, Listing demand, Equity, Corporate governance

## 1. Introduction

SMEs are economic units with relatively small personnel scale, asset scale and business scale compared with large enterprises in their industries. Different countries, different stages of economic development and different industries have different standards for their definitions, and they change with the development and changes of the economy [1]. SMEs are playing an increasingly important role in the development of national economy, and have become an important foundation for economic development, market prosperity and employment expansion. In the modern enterprise system dominated by the company system, the ownership and management rights of enterprises have been completely separated, and the assumption of accounting subject has been deeply rooted in the hearts of the people. For business operators, debt capital and equity capital are both foreign capital, and the difference lies only in the different financing channels, financing costs and forms [2]. SMEs are an important foundation for the healthy and coordinated development of China's national economy. The healthy development of SMEs plays a key role in resisting economic fluctuations, promoting economic growth, alleviating employment pressure, stabilizing the social environment, activating the market, meeting the needs of social diversification, promoting technological innovation and promoting scientific and technological progress [3-4].

In real life, due to the lack of knowledge and research on the strategy of sustainable financial growth, on the one hand, many enterprises blindly pursue high-speed development, resulting in financial crisis and even bankruptcy; on the other hand, many enterprises fail to seize the opportunity and lose the opportunity of sustained, rapid and healthy development [5]. Unlike the main board market, which only accepts mature and large-scale enterprises, the GEM serves small and medium-sized growing enterprises, and focuses on supporting the listing of SMEs with high technology content and independent innovation ability, so as to solve the common problems of single financing channels and shortage of funds [6]. Due to the small scale of SMEs, high growth, lack of financial resources during the start-up, and emphasis on development, many SMEs have some financial problems in listing declaration, and if these financial problems are not handled properly, they will become a serious obstacle to their entry into the GEM [7]. Whether the sustainable growth of finance can be maintained not only affects the current survival of SMEs, but also relates to the sustainable and stable development of SMEs in the future. Therefore, this paper studies the listing demand and due rights of SMEs at home and abroad from the financial perspective.

## **2. Financing status and main obstacles of SMEs**

### **2.1 Current situation of financing of SMEs**

In some cases, the company went public before the reorganization was completely completed. It is often the case that the government departments that previously managed those state-owned enterprises become the controlling shareholders of listed companies and continue to exert incorrect influence on listed companies. At present, the financing difficulties of SMEs still exist objectively. On-the-spot investigation found that the situation of SMEs' shortage of funds is very structural. At present, the phenomenon of insider control in listed companies is serious. Most directors and managers are not produced under competitive conditions. Basically, there is no restraint mechanism, so naturally there is no incentive mechanism [8]. Even if qualified managers are chosen by chance, their personal interest orientation can't be consistent with the company's long-term development goals without reasonable, legal and sufficient incentives and strict, standardized and effective constraints. Large-scale enterprises and enterprises in emerging industries, especially those with high technology content and promising market prospects for new products and projects, have a high degree of loan satisfaction. However, enterprises with small scale or in the initial stage of growth and family-run enterprises are relatively short of funds, and banks are strict in their examination of loans. At present, the bank loan structure and review procedures are not matched with this, and it is difficult to meet the needs of enterprises. In addition, SMEs have great opinions on the difficulty of mortgage and guarantee, complicated loan procedures and complicated procedures in credit services.

Due to the influence of the traditional economic system and the old cadre management system, after the restructuring of state-owned enterprises, enterprises are still accustomed to selecting and appointing the main leaders of the company by administrative means. If the manager of a company is chosen by government officials, who have the right to choose but don't have to take responsibility for it, this will make government officials have insufficient motivation and pressure to select and appoint competent people as managers, and good performance can't guarantee that the incumbent managers can keep working, thus there can be no long-term incentive for managers. For the financing of SMEs, the core problem is to resolve the financing dilemma [9]. Therefore, the financing problem of SMEs is usually habitually limited to how to solve the financing dilemma of SMEs. Many enterprise managers' interests can't be guaranteed through a transparent mechanism because of the irrational stock structure, so they aim at maximizing their own value, instead of operating enterprises according to the profit maximization goal. When managers have conflicts of interest, they often don't avoid making decisions, and choose favorable conditions to make decisions for themselves, which obviously harms the interests of shareholders, especially small and medium shareholders. The mechanism of restricting information

disclosure of SMEs is analyzed, and the differences of information asymmetry between large enterprises and SMEs in the process of external financing are deeply analyzed. A good combination of enterprise financial growth cycle theory and enterprise organizational structure information view can better achieve this research goal.

### **2.2 Main obstacles in financing of SMEs**

SMEs have low credit degree, prominent false problems in financial statements, generally high asset-liability ratio, relatively backward enterprise management, and it is difficult to pass the review procedure of bank loans, and it is also very difficult to monitor after the loans are issued. Because the resources of SMEs are limited, the development of enterprises is often treated as the first priority in the implementation of enterprise development and norms. Under the guidance of this development concept, enterprises will invest most resources in marketing and technology research and development, thus neglecting financial management. At the same time, before going public, a family or individual often owns the ownership of the enterprise. These shareholders don't pay much attention to the quality of accounting information due to their own conditions, which easily leads to the loss of some financial accounting information, accounting reports and other documents. Cost includes equity capital cost and debt capital cost [10]. In the modern enterprise system dominated by the company system, the ownership and management rights of enterprises are separated. For enterprise managers, the cost of debt capital and the cost of equity capital are foreign capital.

Once an enterprise is listed, it is need to sort out all financial reports, including the adjustment of historical data and financial reports. This kind of adjustment is the adjustment of accounting policy caused by the change of accounting system. The second is the adjustment of wrong accounting information. Among them, the former only designs policy adjustment, which is not too complicated, but the latter adjustment requires the enterprise to have a certain foundation. If the original accounting basic materials do not meet the requirements for the preparation of the declared financial statements, if some financial accounting materials are lost, it will hinder the error adjustment. Financial institutions still have some problems in preventing risks and supporting economic development, so they are more cautious in lending to SMEs. The social financing support system for SMEs has not yet been established. The capital market and short-term financing market for SMEs have not yet developed, etc. These problems restrict the deepening of financing activities of SMEs. Only high-quality accountants can create enough high-quality accounting information, and a set of internal control system with reasonable design framework, proper implementation and relevant financial reports should be established. However, enterprises must pay high cost to realize these two points.

### 3. Demand for listing of SMEs and their rights and interests

#### 3.1 Treatment of financial irregularities

The financial irregularities of SMEs will have a great impact on the company's entry into the GEM. First of all, it may have a substantial impact on the company's listing. Due to financial irregularities, it may directly lead to the company's failure to go public. Secondly, although it does not have a substantial impact on the listing, it may affect the listing process. The ultimate goal of financial management is to maximize the wealth of shareholders, and reducing the cost of capital is of great practical significance to maximize the value of enterprises. In the investment decision analysis of projects, the weighted average capital cost is usually used as the lowest return rate of investment projects. Since the debt capital cost is usually determined, how to reduce the cost of equity capital becomes the key to the problem. The enterprise strategic management mode is shown in Figure 1.

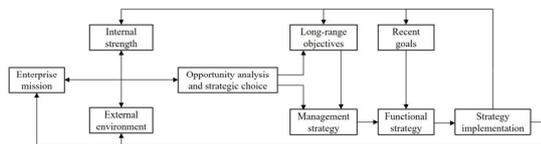


Figure 1 The basic model of enterprise strategic management

When reporting, SMEs must thoroughly analyze the negative impact of non-standard matters on the accounting statements. If some matters are adjustable, after fully analyzing the amount and nature of the transactions, they will clearly declare the accounting period included in the accounting statements. Investors need to get the necessary information for their decision-making, really understand the company's operation, and know whether the capital they provide for the company exists in good condition, and whether it has been well utilized and produced benefits. In the company organization, every investor's status is equal, and there is no right that some shareholders should enjoy by using their own holding or other status to obtain more than their capital share. SMEs may make a substantial adjustment of costs and tax standards on the basis of the original accounting statements, or have some problems in tax reduction and exemption during the preparation of accounting statements, so enterprises must evaluate the degree of damage to normal operations caused by tax adjustment. If the damage is deep, tax matters should be thoroughly rectified before they can calculate the reporting period.

#### 3.2 Strengthen the protection of investors' interests

In the mature capital market, it is generally believed that large-scale companies are easier to be known by the public than small companies, so that the information asymmetry between enterprises and external investors is low, and investors' profit forecast risk is relatively small,

and the required risk premium is low. Theoretically, it can be considered that the company size is negatively related to the cost of equity capital. In order to make profits, SMEs generally pay more attention to reducing costs. Some of them do not fully turn on environmental protection equipment, some work hard on employee insurance, and some do not dispose of wastes according to requirements, etc., because under normal operating conditions, operating costs will increase, and such problems often exist in companies with tax-free periods or low tax rates. The enterprise financial data quality evaluation framework is shown in Figure 2.

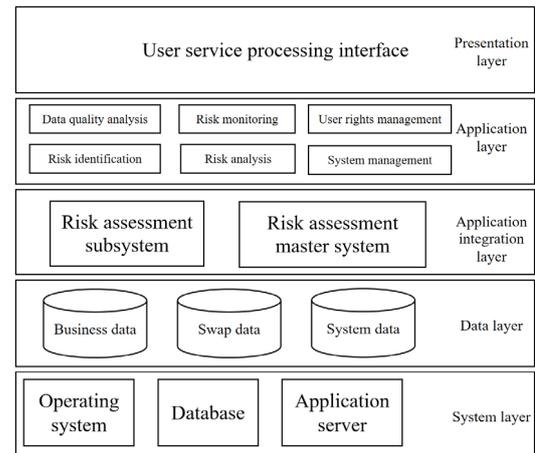


Figure 2 Enterprise financial data quality assessment architecture

Under the perfect market conditions, the optimization of capital structure can improve the efficiency of corporate governance. To improve the corporate governance structure, we must first optimize the capital structure of enterprises. To achieve the goal of optimizing the capital structure of state-owned enterprises in China, we must start with a clear understanding of the formation basis of the capital structure. The changes of business activities of enterprises are often frequent, and the changes of the previous financial report and the current business environment are generally reflected in the later business results and financial situation. Therefore, in order to prevent the accounting policies from damaging the comparability of the income statement due to large differences, it is need to ensure the consistency of accounting policies, such as the classification of income and its recognition method, the classification of expenses and its summary method. In the capital structure of an enterprise, the share of managers' equity and stock options should also be appropriately added. Its proportion to the total equity of the owner of the enterprise should not have a fixed limit, but should be linked with the enterprise scale and the long-term development plan of the enterprise. As long as the operators can achieve the business objectives, they should dare to promise and honor their higher equity returns.

## 4. Conclusions

It is the core element of the financing market, and information plays a vital role in the transmission of credit. Reducing the cost of information collection, transmission and verification under the condition of "asymmetric information" is an effective way to improve the efficiency of market capital allocation and ease the financing dilemma of SMEs. In the efficient capital market, the risk pricing of assets is reasonable, the cost level of equity capital is appropriate, and enterprises can obtain the equity capital needed for scale expansion and optimal capital structure. It is of great significance for listed companies to establish an internal control system with clear rights and responsibilities, scientific management, and the combination of incentives and constraints. SMEs should improve their credit awareness, correct their credit behavior, strengthen their internal management and solve the problem of false financial information. Secondly, efforts should be made to improve some basic work of social credit, such as establishing enterprise managers' credit files, establishing enterprise credit evaluation system and standards, and establishing personal credit consultation system, so as to create basic conditions for innovative financing and business development of financial institutions.

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