

Research on the Symbiotic Relationship between Small & Medium-sized Enterprises and Banks in Jilin Province¹

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Abstract: As the market economy deepens continually, the small & medium-sized enterprises (SMEs) in Jilin Province play more and more important role for the economic development of Jilin. Although the SMEs in Jilin have developed greatly in recent years, their difficulties in financing seriously hamper their development. The paper analyzes the status of the relation between the SMEs and banks in Jilin and suggests that it is necessary for the SMEs to establish symbiotic relationship with banks, we also put forward the paths for them to establish continuous reciprocal symbiotic relation with banks in order to help SMEs solve their financing problems and guide the banks to get more profit to realize win-win for both of them.

Key words: Small & Medium-sized enterprises in Jilin Province; banks; Symbiotic relationship

1. INTRODUCTION

China put the Law of the Peoples Republic of China on Promotion of SMEs into effect on January 1, 2003 in order to strengthen the support and protection efforts to SMEs; the State Council of PRC put forward “vigorously developing non-public sectors of the economy and SMEs” in the suggestion on further implementing the strategy for revitalizing the old industrial base on Sep. 9, 2009; “the China Tumen River Regional Cooperation Development Planning Program - Chang-Ji-Tu as the Pilot Zone of Opening up and Development” was approved by the State Council on Aug. 30, 2009. The implementation of a series of regulations and policies provide great development opportunities for the SMEs in Jilin province, but as one of the northeast old industrial base, the financing system in Jilin province is still bank-led due to the influence of system, mechanism, culture and psychology that are formed under long-term planned economy system, which pays more importance to state-owned enterprises, look down on private enterprises, pays attention to administration and makes light of market rules, etc, and therefore it is more difficult for the SMEs in Jilin Province to finance.

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2. SYMBIOTIC THEORY

2.1 The concept of symbiosis

“Symbiosis” originated from a concept of biology and put forward in 1879 by a famous German mycologist Anton de Bary that means a relationship formed between symbiotic units in certain symbiotic environment according to some symbiotic pattern. Symbiosis refers to different living beings live together closely. In 1970, American biologist Grace proposed “cell symbiosis theory” and symbiosis theory was spread from then on. Later on, biologists Feminism, Caullery and Scott continued to study symbiosis concept to establish systematic symbiosis theory. In 1998, Dr. Yuan Chunqing directly expanded the symbiosis theory of biology into social sciences. In 2002, he introduced it into finance, and adopted the concept and analytical methods of financing symbiosis theory in his research on the reform of city commercial banks.

2.2 Three elements of symbiosis

Symbiotic system includes three basic elements: symbiotic unit, symbiotic pattern and symbiotic environment.

2.2.1 Symbiotic unit

Symbiotic unit is the basic energy production and exchange unit for symbiosis relationship and the basic material conditions for forming symbiosis. The properties and characteristics of symbiotic units in different symbiosis system are different. The symbiotic units in the paper are SMEs and commercial banks in Jilin province.

2.2.2 Symbiotic pattern

Symbiotic pattern refers to the form that symbiotic units interact with each other, which reflects the relation between symbiotic units in material, information and energy. Symbiotic pattern includes behavior pattern and organization pattern. The behavior pattern of symbiosis reflects the behavioral ways during the interaction between symbiotic units that can be divided into four types: parasitic, commensalism, asymmetric and symmetric symbiosis. The organizational pattern of symbiosis reflects the organizational ways during the interaction between symbiotic units that can be divided into four types: point, intermittent, continuous and integrated symbiosis.

2.2.3 Symbiotic environment

Symbiotic environment is the sum of the ways and mechanism of the interaction and the medium for the exchange of material, information and energy between symbiotic units, which provides the most basic conditions for the forming of symbiotic relationship. Symbiotic environment includes external market environment and the policy environment.

The three elements are absolutely necessary for the forming of symbiotic relationship, in which symbiotic unit and symbiotic pattern are endogenous and symbiotic environment is exogenous. Symbiotic pattern is the key, symbiotic unit is main body and symbiotic environment is the condition to promote symbiotic relationship.

3. THE CURRENT STATUS OF THE RELATIONSHIP BETWEEN THE SMES AND BANKS IN JILIN PROVINCE

In recent years, the SMEs have played more and more important role in the economic and social development of Jilin province due to their rapid development. At present, the number of SMEs is 99.5% of total enterprises, which contributes to 47% of production value, one third of local financial revenue and provide more than 70% of jobs.

From 2009, the influence of financial crisis in Jilin province was diminishing gradually, the economy in Jilin Province began to rise, but 70% of the SMEs are puzzled by financing difficulties, which restricts their development seriously.

3.1 It is difficult for SMEs in Jilin Province to get bank loans

In 2009, the project team conducted a full investigation over one thousand growing SMEs in Jilin Province on their financing demand. According to the investigation, 10% of the enterprises thought they can get loans from banks easily, 21% of the enterprises thought it is relatively easier to get loans from banks, while 61% percent of them thought they had difficulties in getting bank loans and 8% of the enterprise thought that is extremely difficult. We summarize the main reasons for their difficulties in getting bank loans as follow:

(1) It is difficult for the SMEs to apply for loans from banks because their bad loans ratio and asset-liability ratio are higher, they lack of properties can be used as collaterals or most of their properties are mortgaged for old loans.

(2) The management level, the quality of SMEs' managers and their credit awareness are relatively low. The management level of most SMEs is low, which results in their internal control system in disorder and weakness in innovation ability. Many SMEs compete with others by small profits & quick turnover and low-price sales, which immensely hinders innovation and industrial upgrade. When they meet difficulties in operation, some of their managers manage to default the principal and interest of bank loans, which not only threatens the capital safety of financial organizations but also greatly reduces their own credit, which will increase their difficulties in getting bank loans in turn.

(3) The financial statements of SMEs are not prepared according to financial rules and some of them are not true at all. According to our survey, more than 50% of the SMEs have no sound financial statements, many of them have no complete financial statements and continuous operation records. Some SMEs have not complete accounting books, and more seriously, some of them prepare their financial statements artificially that makes them unreal and the account is inconsistent with actual situation, which will increase banks' cost due to the adverse selection risk and moral risk result from information asymmetry between banks and SMEs, and the banks are of course unwilling to extend credit to them.

(4) The features of SMEs' financing needs are small amount at one time and higher frequencies that increase the cost and difficulty of financing. The above-mentioned financing features of SMEs make their financing pressure heavier under the situation that they already lack of capital.

3.2 The amount of loans SMEs got from banks is low

According to our survey, most of loans SMEs got from banks during 2007-2009 are within RMB 100 million, which indicates that the amount of loans SMEs got from banks is relatively low.

3.3 The approval cycle for SMEs' loan is long

Credit is a determinant factor in the process of establishing cooperation relationship between banks and enterprises. Market economy is in some sense a credit economy. At present, we haven't systematically managed the credit of SMEs and there is almost no credit record. So banks are unable to know the credit status of SMEs and their entrepreneurs through credit management organization, they only can judge the credit of an SME by means of talking with its entrepreneur, evaluate a project is feasible or not by looking at the project planning it hands in and visiting the factory to look at production environment including workshops, equipments and employees. Because of the lack of credit system, the interaction between banks and SMEs need to start from zero with distrust.

4. THE BEHAVIORAL AND ORGANIZATIONAL PATTERN OF THE SYMBIOTIC RELATIONSHIP BETWEEN THE SMES AND BANKS IN JILIN PROVINCE

4.1 The behavioral pattern

According to the analysis on four behavior patterns we conclude that the relationship between the SMEs and banks in Jilin province is asymmetrically mutual beneficial.

(1) As the symbiotic units, the SMEs and banks are mutually beneficial in the process of cooperation. On one side, along with the development of SMEs in scale and number, their financing requirements increase correspondingly, as the main way for enterprises' financing, banks can provide various finance supports for them to ensure their development and get interest on loans and other

related financial service revenue, the new energy comes from the symbiotic relationship flows to the banks; on the other hand, the SMEs get bank loans used for expansion, scientific and technological innovation to improve product quality and quantity, and therefore gain more income, and these increased income comes from the symbiotic relationship flows to the SMEs.

(2) The energy distribution between the symbiotic units is non-uniform, namely the profit distribution is imbalance. SMEs get financing support from banks with high cost due to their own weakness in strength and risk resistance ability. So the distribution of new energy between these two symbiotic units comes from the symbiotic relationship is uneven, in other words, the mutual beneficial symbiotic relationship is asymmetrical.

4.2 The organizational pattern

Organization pattern can be divided into four types: point symbiosis, intermittent symbiosis, continuous symbiosis and integrated symbiosis (see table 1).

Table 1: Comparison of the symbiotic organization patterns between enterprises and banks

Pattern	Definition	Characteristics	Symbiosis state	The performance of enterprises and banks in symbiotic relationship
Point symbiosis	There is only one interaction between symbiotic units at a moment.	There is only one symbiosis medium and the resistance on the interface of symbiosis is extremely obvious.	Extremely unstable	There is only one cooperation mostly occurs between SMEs and banks.
Intermittent symbiotic	There are intermittent interactions in certain time interval between symbiotic units by one or several aspect(s).	There are few symbiosis mediums and the resistance on the interface of symbiosis is relatively obvious.	Unstable	There are several but not continuous cooperation between enterprises and banks.
Continuous symbiosis	The symbiotic units interact with each other continuously in a fixed period of time by multiple aspects.	There are diverse and complementary symbiosis mediums and the resistance on the interface of symbiosis is low.	Relatively stable	The banks and enterprises cooperate with each other in different sides, which is the most efficient.
Integrated symbiosis	The symbiotic units interact with each other continuously in a fixed period of time by each aspect.	There are diverse and complementary symbiosis mediums and the resistance on the interface of symbiosis is the lowest.	The most stable	There is no such organization pattern in real economy.

According to the analysis on four kinds of organization pattern, we can conclude that the symbiotic relationship between the SMEs and banks in Jilin province is between point symbiosis and intermittent symbiosis. So the symbiotic relationship between the SMEs and banks in Jilin province is asymmetrical, mutual beneficial and intermittent. As a result, the optimization of their symbiotic relationship will have direct effect on the development of SMEs in Jilin province.

5. THE NECESSITY OF THE SMES IN JILIN PROVINCE TO ESTABLISH CONTINUOUS, SYMMETRIC AND MUTUAL BENEFICIAL SYMBIOTIC RELATIONSHIP WITH BANKS

The main factors that decide the relation pattern between enterprises and banks include the organizational system of banks, the development of capital market and enterprises' dependence on external finance, etc.

5.1 The organizational system of banks

There are two kinds of bank organizational system, one is unit banking system and the other is branch banking system. In a country implements unit banking system such as USA, enterprises have more choices of banks to get loans since there are numerous commercial banks and the enterprise-bank relation is relatively loose. But since 1980s, the unit banking system was broken; banks began to operate centrally, which makes the enterprise-bank relation closer. In a country that implements branch banking system, the status of big banks is extremely outstanding because the concentration degree of banking is high, so enterprises' dependence degree on big banks is high and enterprise-bank relation is closer.

5.2 The development of the securities market

There are two ways for enterprise to obtain money, one is internal accumulation and the other is external financing. The external financing mainly comes from direct financing from securities market and indirect financing from credit market. The more developed the securities market is, the easier enterprises get financing directly, the lower degree they depend on banks' loans and the looser their relation with banks is.

5.3 Enterprise's capital structure

Generally speaking, the lower an enterprise's asset-liability ratio is, the lower degree they depend on bank loans and the looser their relation with banks is. At present, the securities market is relatively underdeveloped and the asset-liability ratio is high, so SMEs depend much on banks to obtain capital. According to our investigation, the financing of SMEs from commercial banks is the main way for them and takes 51%, which is over that from internal accumulation. We also found that there are 74% of enterprises willing to get loans from banks for expansion.

The main factors that determine the enterprise-bank relationship in Jilin province are the separation of operation between insurance business, banking and securities businesses, the branch banking system and the SMEs with higher asset-liability ratio mainly rely on banks to finance. There are still many problems in the legal and social credit environment in Jilin province, and the uncertain factors that influence the transaction between enterprises and banks will not be better in short term. So it is necessary for the SMEs in Jilin province to establish continuous, symmetric and mutual beneficial symbiotic relationship with banks.

6. THE PATHS FOR SMES IN JILIN PROVINCE TO ESTABLISH CONTINUOUS, SYMMETRIC AND MUTUAL BENEFICIAL SYMBIOTIC RELATIONSHIP WITH BANKS

6.1 Create conditions to encourage banks to participate in enterprise management

Banks actively participation in SMEs' management will be helpful for them to discover the problems of enterprises early and take effective measures to prevent them from occurrence on time. SMEs should establish external non-equity participating governance structure with banks including contingent governance mechanism. So-called contingent governance mechanism means if an enterprise operates normally with healthy financial situation and the ability to pay its liabilities, as the biggest creditor, the bank will not intervene its operation; But if the enterprise gets into a financial crisis and can't pay its debts, the creditors can takeover it through legal procedures. The essence of contingent governance mechanism is the transfer of the actual control right of a company, although the laws of China prohibit banks from holding the shares of a company, when an enterprise is under bankruptcy, banks can take over it and transfer creditor's rights into equity to put it into good order. When its business takes a turn for the better, the bank will exit in time and go to bankruptcy procedure if its business can't take a favorable turn.

6.2 Enterprises should norm their management

It is necessary for SMEs to norm their management especially their financial affairs in order to establish symbiotic relation with Banks. We found in the survey that the application for loans of a well-operated SME was disapproved by China Construction Bank because of the information in its loan application was conflict, for example, its income was seven million, but its profit was less than 20 thousands. Although the project had great development opportunity, the bank refused to lend money. This is a family business in non-norming stage, the assets of its owner and that of the enterprise haven't separated strictly, which led to confused financial statement that couldn't reflect its operation profit at all. So it is essential for SMEs to norm management to solve their financing difficulties.

6.3 Established long-term cooperation relationship with banks to create relatively balanced information environment

Overall and long-term cooperation means that a SME deals with all its banking business with one bank such as deposits, loans, settlement and information consulting in order to demonstrate its private information to the bank comprehensively. Some shortsighted behaviors such as "deposit in a bank without any loan and borrow money from another bank without any deposit" to escape from the payment of bank loans should be avoided absolutely. Only after an enterprise establish overall and long-term cooperation with a bank, the later can observe and supervise the enterprise closely in a longer time to understand it deeply and the former is willing to disclose its true financial status in order to get loans from the bank, which can effectively solve the problems resulted from information asymmetry. Relatively balanced information environment is not only beneficial to solve financial difficulties of SMEs, but also can reduce borrowing costs based on the following three considerations:

(1) Establishing long-term cooperation relation with a bank will reduce the evaluation expenses for a loan because the bank has known the enterprise deeply, which will decrease the workload of the bank staffs. Because the capital of the bank is relatively surplus plus intense competition, the bank will reduce the enterprise's lending rates based on the cost and expense saved. (2) Establishing long-term cooperation relation with a bank will reduce the bank's supervision frequency after lending money to a SME. A bank will divide borrowing enterprises into different types according to their risks and requires them to provide different information. Generally, the supervision cost of a loan is the function of a debtor's credit risk, the higher the credit risk is, the higher the supervision frequency is and the more the supervision cost is. When an enterprise has established its credit history, the bank will gradually reduce its supervision frequency, thus reduce its supervision costs and the interest rate will reduce correspondingly. (3) Comprehensive cooperation with a bank will make the bank provide loan in lower interest rate in consideration of other profitable business with the same enterprise such as notes, settlement, and electronic payment since banks compete with each other sharply.

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