State ownership and corporate credit sales

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Abstract: An enterprise's sales return ability is an important indicator of its future development, and enterprises often want to transact with cash to ensure sufficient cash flow and thus sustain their normal development operations. This paper will use public data of Chinese listed companies from 2008 to 2021 to explore the relationship between the percentage of state ownership in a company and the company's credit sales policy, and concludes the following: the higher the percentage of state ownership in a company, the lower the percentage of credit sales in a company. This reflects that state ownership helps firms to occupy a favorable position in transaction negotiations and is conducive to improving firms' ability to pay back. In addition, this paper makes policy recommendations for reference in response to the research findings.

Keywords: state ownership; corporate credit sales; accounts receivable; corporate negotiation.

1. The introduction

In the traditional logical view of efficiency, it is often assumed that state ownership shows an inverse variation relationship for the operation of firms. This is because SOEs often suffer from unclear ownership, many layers of principal-agent, and inadequate monitoring and incentive mechanisms for management, which constrain the improvement of corporate performance. However, at the same time, SOEs are not a stagnant eagle. According to publicly available information, the majority of Chinese enterprises among the top 500 companies in the world are those with state ownership, which have good business performance, stable business operations and high innovation performance output. This seems to contradict the traditional view we have been holding.

This is because there is another layer of logic that plays an important role in the operation of firms, namely, resource dependence theory. Firms that include state ownership have easier access than other types of firms to the resources needed to facilitate their development, such as capital, information, and human resources, which provide important support for key aspects of the firm's product development and sales channel construction. Therefore, when enterprises choose the transaction object, in order to ensure the security and stability of their own transactions, and the quality of the products purchased by enterprises is more secure, they often tend to trade with the state-owned property rights nature of the enterprise. Especially under the background of complex and changing international situation and major challenges faced by non-state owned SMEs, state-owned enterprises have become the object of willing cooperation of other enterprises, thus providing important guarantee for the improvement of business performance of state-owned enterprises.

Because of this, enterprises with non-state property nature have to relax the conditions again and again and propose more attractive policies, such as credit sales, in order to get more customers. However, a large amount of accounts receivable is always an unstable factor for business operation and may face the risk of difficult collection. Once the receivables are too concentrated or the market environment is too volatile, the large size of receivables may well be the last straw that crushes a company. For example, in 2021, a large private enterprise in China, Huitong Group, experienced a large-scale event of uncollectable accounts receivable, which led to a dive in both the company's share price and annual operating results, affecting the future development prospects of the enterprise, and the black swan event of uncollectable accounts receivable is increasingly becoming a worrying event for enterprises with non-state ownership. So, can companies with non-state ownership control the scale of accounts receivable by introducing state ownership, thus curbing the risk of accounts receivable explosion? And does the weight of state ownership in the equity of the company affect the size of the firm's accounts receivable? This paper hopes to answer these questions through an empirical study using relevant data from publicly listed Chinese state companies.

2. Theoretical analysis and hypothesis formulation

Jeffrey and Pfeffer's research points out that organizational development is inseparable from the acquisition of external resources. The access to external resources and the ability to obtain them influence the complex business activities of a company. In the new economy - the Chinese market - state ownership plays an important role in the access to corporate resources, thus better maintaining the security and stability of corporate operations. This can be seen in the credit ratings of China's major financial institutions, where major Chinese banks view SOEs as their premium clients, granting them lower financing costs and easier financing terms, precisely because of the stability and low risk nature of SOEs' operations. Similarly, state-owned enterprises often rely on the government's resource support and have certain advantages in product development and product quality assurance compared to private enterprises. Based on the above two points, when choosing a transaction partner, companies tend to give preference to companies with state-owned shares. Enterprises with state-owned shares will not or less reduce their credit policy due to sufficient trading and cooperation partners, which will help control the size of the enterprise's accounts receivable.

In addition, when state-owned shares are relatively small, state-owned enterprises' investments in private enterprises tend to be short-term speculative in nature, and shareholders of non-state-owned nature are the actual controllers of the enterprises, so the effectiveness of the control of accounts receivable size is still relatively limited as they are still more biased towards state-owned enterprises in terms of resource acquisition and the formulation of corporate credit sales policies. In contrast, China's large SOEs, i.e., those with relatively large state ownership, hold an absolute active position in China's trading market and may be able to control the size of credit sales more effectively. From this viewpoint, state ownership may help reduce the size of credit sales of firms, according to which the main hypotheses of this paper are.

H1: The larger the share of state ownership is, the more conducive to the control of the size of credit sales of the firm.

3. Data collection and data analysis

This paper selects all listed companies in Shanghai and Shenzhen A-shares from 2008-2021 as the research sample, and analyzes the relationship between state ownership ratio and public enterprise credit sales size using stata14.0 software. The data of state ownership ratio and corporate credit sales size are obtained from the corporate governance database in the CSMAR database in China. In order to exclude the influence of outliers and ensure the validity of the samples, the samples were screened as follows: (1) samples with missing data were excluded; (2) samples of listed companies in finance and insurance industries were excluded. In addition, the continuous variables are also treated with 1% and 99% tail reduction in this paper. After the above processing, a total of 40,035 samples from 4327 companies were obtained in this paper.

To test the hypothesis proposed above, the following model is constructed in this paper:

$$accounts = \beta 0 + \beta 1 state + \beta i controls + \Sigma year + \Sigma \text{industry} + \varepsilon$$

The variables selected for this paper are shown below: the main explanatory variable is the size of credit sales of the firm (accounts), measured by the accounts receivable disclosed in the firm's annual report divided by the operating revenue. The main explanatory variable is state ownership (state), which is measured by dividing the number of state-owned shares of the firm at the end of the year by the total number of shares of the firm at the end of the year. The main control variables are basic earnings per share (EPS), measured by the basic earnings per share disclosed in the firm's annual report for the current year; firm size (lnsize), measured by the logarithm of the firm's total assets at the end of the current year; firm cash holding size (lncash), measured by the logarithm of the firm's total monetary funds at the end of the current year; and firm equity size (lnquanyi), measured by the logarithm of the firm's total equity at the end of the current year. is measured by the logarithm of the total owner's equity of the firm at the end of the year.

Descriptive statistics and correlation coefficient analysis for the main variables are reported in Table 1 and Table 1, respectively. It can be found that the selection of variables meets the statistical requirements and can be further tested

Table 1 Descriptive statistics of the main variables

variable	N	Mean	S.D.	Min	Median	Max
accounts	400035	0.258	1.052	0	0.177	184.292
state	400035	0.05	0.142	0	0	0.971
EPS	400035	0.408	0.944	-14.54	0.28	41.76
lnsize	400035	22.051	1.352	15.577	21.871	28.636

Table 2 Correlation coefficient analysis of the main variables

variable	accounts	state	EPS	lnsize	lncash	lnquanyi
accounts	1.0000					
state	-0.0245***	1.0000				
EPS	-0.0414***	-0.0043	1.0000			
lnsize	-0.5050***	0.1188***	0.1098***	1.0000		
lncash	-0.8380***	0.1001***	0.2085***	0.8297***	1.0000	
lnquanyi	-0.0554***	0.0924***	0.1934***	0.9268***	0.8252***	1.0000

Note: ***, **, and * indicate significant at the 1%, 5%, and 10% levels, respectively.

To further test the relationship between state ownership and corporate credit sales, this paper conducted a multiple linear regression analysis of the model, and the regression results are shown in Table 3. As can be seen, the regression coefficient between state ownership and the size of corporate credit sales is -0.021 and is significant at the 1% level, supporting hypothesis H1. Similarly, the F-value of the regression is 239.44, indicating that the regression model is well set up and the regression results have a high degree of confidence.

Table 3 Multiple linear regression results

	accounts
state	-0.021***
	(-2.59)
EPS	-0.045***
	(-23.26)
controls	control
cons	0.719***
	-18.45
year	control
industry	control
N	40035
R2	0.173
F	239.44

Note: ***, **, and * indicate significant at the 1%, 5%, and 10% levels, respectively; t-values are in parentheses.

4. Research Conclusions

This paper concludes that country ownership can effectively reduce the size of a firm's credit sales. This suggests that firms can improve their negotiation position and corporate image by introducing state ownership, so as to obtain the negotiation initiative and enhance their own payback ability. Of course, there are certain shortcomings in this paper, such as not exploring the possible effects of the differences in the level of economic development in different regions, which could be a direction for future research.

References

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