

Strategic Development Paths for Foreign-Funded Financial Leasing Companies Amidst Global Market Shifts

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Abstract:

The COVID-19 pandemic has led to a continuous decline in the capital costs within the financing market. Concurrently, the asset scale and profit margins of certain financial leasing firms are diminishing. This paper seeks to investigate the strategic development trajectory for foreign financial leasing companies by examining various factors such as the competitive environment, industry positioning, differentiation strategies, and financing channels.

Keywords:

Foreign finance lease, Strategic development path, Entropy method, EFE and IFE Matrix.

1. Introduction

The year 2020 is the end of China's 13th Five-Year Plan and preparing for China's 14th Five-Year Plan, also it's the deepening of supply-side structural reform. How should foreign financial leasing companies develop under the background of continuous improvement of financial market system, further deepening of financial system reform and increasingly perfect financial regulatory framework. This paper explores the strategic path of foreign financial leasing companies and puts forward relevant suggestions.

2. Status of development

2.1. Slower pace and scale of development

According to the statistics of China Leasing Alliance, Joint R & D Center and Tianjin Binhai Financial Leasing Research Institute. By the end of March, the total number of Chinese financial leasing companies is about 12145 (excluding single-project companies, subsidiaries, SPV companies and companies acquiring overseas). The industry's registered capital is converted into renminbi at an average exchange rate of 1:6.9, about 3294.4 billion yuan, only 18.2 billion yuan more than 32.76 billion yuan at the end of last year. The balance of the national finance lease contract is approximately 64 per cent 68 billion yuan, down about 184 billion yuan from 6654 billion yuan at the end of 2019, down 2.8 percentage points, the first negative growth since China's leasing industry revived in 2006. [1]

2.2. Regulatory policy tightening

The centrally-administered financial work conference held in July 2017 stressed that it is necessary to follow the law of financial development, closely revolve around the three tasks of serving the real economy, preventing and controlling financial risks, and deepening financial reform, improve the financial market system, promote the construction of a modern financial regulatory framework, speed up the transformation of financial development patterns, and promote a virtuous and healthy development of economy and finance. In 2020, CBRC formally brought financial leasing companies into the scope of supervision and adjusted regulatory supervision to three levels of supervision and industry self-discipline organizations, with a policy transition period of three years. As a financial leasing industry serving the development of real economy, it is closely related to the

financial market system and the financial supervision environment. In the current period of active financial innovation, foreign financial leasing companies should develop and upgrade through transformation and innovation.

2.3. Financing difficulties

At present, the common domestic leasing factions are manufacturer, bank leasing, banking, foreign capital and so on. The capital of foreign financial leasing companies is smaller than that of financial leasing companies with manufacturer or bank leasing system. At the same time, the credit rating of financial leasing companies and company size, asset quality and other factors are linked. Therefore, for some foreign financial leasing companies, it is difficult to obtain bank credit directly, so it is necessary to open up a variety of financing channels.

3. Analysis on the Internal and External Environment of the Strategic Development of Foreign Finance Leasing Companies Based on EFE and IFE Matrix

This paper combines the IEF and EFE matrix to analyze and evaluate the internal and external competitive environment of foreign financial leasing companies. The following four steps are analyzed, The first step, list the internal and external key factors. In the second step, according to the degree of response of the internal and external key factors of foreign financial leasing companies, experts are invited to evaluate them with 1-5 points: 1 represents almost no influence, 2 represents little influence, 3 represents general influence, 4 represents more significant influence, and 5 represents especially significant influence. In the third step, the weight of each index is determined according to the evaluation of experts, and the weight is optimized by entropy weight method. The fourth step is to calculate the weighted total score.

3.1. Selection and Evaluation of Key Internal and External Elements

Through the literature analysis and Delphi method, the index selection and evaluation were carried out. First, the general manager, financial director, risk director, project manager and legal manager of foreign financial leasing were interviewed and investigated. After screening, 11 internal and external key factors (4 advantages and 7 disadvantages) were selected, and 11 internal and external factors were graded by Delphi method.

Table 1: 11 Information Entropy for Internal and External Key Factors

	X_1	X_2	X_3	X_4	X_5	X_6	X_7	X_8	X_9	X_{10}	X_{11}
Information entropy	0.55	0.29	0.55	0.55	0.55	0.44	0.52	0.55	0.46	0.56	0.56

3.2. IFE and EFE Matrix Analysis

The strategic development IEF and EFE analysis table of foreign financial leasing companies are made based on the weight and score of internal and external key factors, see [Table 3](#).

Table3: IEF and EFE Matrix Analysis of Strategic Development of Foreign Finance Leasing Companies

Internal and External Key Factors	Total	Weight	Weighted total
Challenges			
1. Talent: Talent still faces a gap, shortage of financial leasing professional. (X_1)(internal factors))	18	0.08	1.44
2. Risk Control: Risk control capacity still needs to be strengthened, improve reserve adequacy, control leverage coefficient, reduce non-performing asset ratio. (X_2)(internal factors)	22	0.13	2.86
3. Financing: Weak financing capacity, more traditional single. (X_3)(internal factors)	21	0.08	1.68
4. Industry: The degree of professional development is insufficient, customer industry selection still needs to be optimized. (X_4)(internal factors)	16	0.08	1.28

5. Management: The management structure still needs to be enriched and improved, especially to strengthen the daily asset management. (X_5)(internal factors)	21	0.08	1.68
6. Channels: Customer channels need to be further enriched, pay attention to the industry cycle, according to their own advantages to establish customer channel. (X_6)(internal factors)	20	0.10	2
7. Economy: Affected by the epidemic, macroeconomic instability, the current financial interest rates are depressed, profit margins shrink. (X_7)(external factors)	16	0.09	1.44
Subtotal			12.38
Opportunities			
1. Market: China's industrial structure is further adjusted, domestic demand is very strong, with broad market space. (X_8)(external factors)	16	0.08	1.28
2. Policy: The state gives financial leasing companies on talent introduction, export tax rebates, financial subsidies and other aspects of preferential policy. (X_9)(external factors)	18	0.10	1.8
3. Law: Into the management of CBRC, strict industry regulatory. (X_{10})(external factors)	20	0.08	1.6
4. Products: At present, the financial leasing business is rich in variety, more innovative products, can be constantly innovative to meet customer needs. (X_{11})(internal factors)	15	0.08	1.2
Subtotal		1	5.88
Total			18.26

4. Exploration of Strategic Development Path

Through the above empirical analysis, we can see that the strategic development path of foreign financial leasing companies should pay attention to the influence of risk control, policy, financing, management and law.

4.1. Clear industry positioning, industrial chain services around core enterprises

Because of the different background, there are great differences between foreign financial leasing and manufacturer financial leasing companies and bank leasing companies in industry division, industry category, peer lending and so on. Foreign financial leasing companies are generally weaker than other types in terms of capital size and financing ability. Therefore, foreign financial leasing companies must find new business growth points in a limited range of customers.

In terms of industry positioning, it is suggested that foreign financial leasing companies should combination with their own background and actual situation, it also should select several types of sunrise industries that are in line with the current policy development of our country, with a small amount of financing for single equipment and a high enough ceiling. Focusing on intelligent manufacturing, infrastructure, health care, energy conservation and environmental protection.

Taking intelligent manufacturing as an example, foreign leasing companies can provide industrial chain services of core enterprises and their upstream and downstream comprehensive financing services, that is, equity cooperation with core enterprises in superior industries. Focusing on the core enterprises and their upstream and downstream enterprises to provide comprehensive financing services and value-added services. On the one hand, the industrial chain of leasing company service is relatively comprehensive and the single financing period can be set up flexibly, which has the advantages of activating stock assets, optimizing debt structure and promoting product sales for intelligent manufacturing enterprises. On the other hand, the customer types of financial leasing company service are more comprehensive. Whether it's state Enterprises, or small and medium-sized private enterprises, financial leasing company can provide differentiated services to meet different types of customer needs. In addition, the development cycle of intelligent manufacturing enterprises covered by financial leasing companies is comprehensive. Under the support of specialization, financial leasing can provide personalized services in its initial, import, growth and maturity stages.

4.2. Differentiated competition, focusing on market segments

At present, the homogenization business of foreign financial leasing companies is serious, and many financial leasing business is the mode of 'fake financial leasing, true credit service.' A large number of non-standard assets are recognized as lease items, which greatly increases the risk of

financial leasing industry. Therefore, changing the business development concept and reconstructing the real business scene is the first step for foreign financial leasing companies to realize the change of risk management, China's financial leasing industry can achieve a more healthy and rapid development on the basis of transformation. The formation of path dependence is not only caused by historical accidental time or small events, but also by the limited rationality of participants and the higher transaction cost of institutional transformation. [2] Foreign leasing companies should actively explore a new path for the development of financial leasing and become a platform to help these financial resources allocate assets through grafting with various financial instruments and channels. In this process, financial leasing companies should aim to build the ability of specialized integration of resources and reflect the value of serving the real economy and create the value in finance, industry, investment, trade, etc. Focusing on the subdivision market domain.

Taking the second-hand equipment market as an example. At present, with the support of state guidance and market effect, the enthusiasm of industrial capital to participate in financial leasing is getting higher and higher. It mentioned financial leasing five times in the *Made in China 2025 Plan*. At the national level, the role of financial leasing service real economy is paid more and more attention, and the development of financial leasing industry and high-end equipment industry has also formed the effect of mutual promotion and coordinated development. How to realize the transformation from 'manufacturing' to 'intellectual building' is also a problem that needs to be solved. Combining financial leasing services with the circulation market of second-hand equipment may bring new ideas to solve these problems. For high-end manufacturing enterprises, the equipment value is high and the capital is much occupied. If not updated in time, it will not meet the needs of production development. With foreign financial leasing companies as the starting point, we can create a platform for standardization of procedures, standardized management, efficient operation of leasing and second-hand equipment circulation market, and provide standardized equipment for high-end manufacturing to choose from, breaking the purchase of equipment to occupy liquidity, high replacement costs. To truly serve high-end manufacturing enterprises. To solve the high-end manufacturing enterprises equipment acquisition, upgrading problems, but also to solve their worries, that is, how to deal with these second-hand equipment, and scientific and reasonable disposal. It is necessary to avoid idle and wasteful resources. For example, by establishing and perfecting the quality evaluation system of second-hand equipment and the exit mechanism of financial leasing assets, this problem can be solved. Foreign financial leasing companies can consider the organic combination of second-hand equipment circulation market platform and financial leasing to realize the effective integration of industry and finance.

4.3. Embrace change and break the financing dilemma

The sources of funds of foreign financial leasing companies mainly depend on capital, general bank loans, asset securitization, overseas borrowing, trust and other channels, but at present, most foreign financial leasing companies registered capital scale is small and shareholders guarantee capacity is limited, it is difficult to borrow from banks and some foreign financial leasing companies can not achieve asset securitization for its poor rating. Therefore, in the actual operation of foreign financial leasing companies, the financing mode is still relatively traditional, single and the financing ability is weak. It is suggested that foreign financial leasing companies should grasp the following financing methods:

- (1) Focusing on their own, clear capital expansion plan, the implementation of equity financing. Equity financing is the most broad and smooth long-term stable and low-cost source of funds for foreign financial leasing companies, and it plays a great role in creating a good asset structure. First of all, we should continue to implement the existing shareholders' capital increase plan and the way of capital support. Secondly, we should make clear the positioning of equity introduction, optimize the shareholder structure of financial investment and strategic investment, and actively seek to invest and join enterprises with strategic advantages. Through the continuous increase of capital and the introduction of superior enterprises to buy shares, establish equity cooperation, form a close cooperative body, support foreign financial leasing companies to become bigger and stronger.
- (2) Strengthening risk control, building standardized business products, upgrading the main rating, indirect financing through asset securitization. Asset securitization has many benefits for financial

leasing companies, such as optimizing financial structure, solving term mismatch and improving the overall image of the company. However, as the basic asset in the process of asset securitization, the financial leasing creditor's rights need to meet the strict entry criteria, which force some business processes to be irregular, the overall level of risk control is weak, and the lease item is irregular. By strengthening risk control, exacting standards and standardizing the process, the benefits may be lost in the short term. But only by breaking the arm to survive, the development of the company can not fall into a vicious circle, and only in line with the requirements of strict supervision, the business of foreign financial leasing companies can become stronger and stronger, the financing dilemma can be solved.

(3) Embracing cooperation, issuing leasing industry funds and achieving indirect financing. A foreign financial leasing company can conjunction with a fund company to set up an industrial fund project for investing in a direct lease project which carried out by a foreign financial leasing company with its clients. The bank subscribes the priority share through the trust plan, specially uses specially used to purchase the rental income right of the lease asset rent income right, the foreign financial leasing company as the inferior level, amplifies the financial leverage, satisfies the high income request.

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