

Journal of Finance Research

Volume 3 Issue 2 · October 2019

ISSN 2591-7137 (print)

2591-7145 (online)

→ 02 ←
2019 · October



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ARTICLE

An Empirical Study on the Effects of Social Endowment Insurance Reform in China

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ARTICLE INFO

Article history

Received: 26 June 2019

Revised: 30 June 2019

Accepted: 24 October 2019

Published Online: 31 October 2019

Keywords:

DID model

China social endowment insurance

ABSTRACT

In recent years, China, the world's largest population country, has also become an aging society. Social endowment insurance is not only a major source of income after retirement but also plays a major role in social stability. In 2005, large-scale social endowment insurance reform was conducted in China. Through this reform, the social endowment insurance became unified and normalized, and the participation of the social endowment insurance was obligated for an employee. In addition, the government has issued various welfare policies so that the unemployed, free job and rural residents can join social endowment insurance. Then, this paper analyzes the effect of the reform of China social endowment insurance on the amount of Insurance premium of social endowment insurance and the distribution of family expenditure by using the DID model and the fixed effect model.

1. Introduction

Chinese social endowment insurance Faced with a huge problem. it was difficult to guarantee life after retirement.^[1]

In 2000, the Chinese government prepares to reform social endowment insurance, and the insurance system of China was changed from the enterprise based endowment insurance to the social compulsory endowment insurance. In December 2000, the State Council of China announced the "Notice on improving the social insurance system". According to this notice, social endowment insurance premiums for each individual were transferred to an individual exclusive account and social insurance fund. Abuse of the social insurance fund was prohibited. And the insurance premiums in the personal account can be used only as for the retirement allowance after retirement. If an in-

sured person dies, the amount remaining in an individual account can be inherited as a legacy.

Liaoning province of China was the first to carry out the social insurance reform as the practice place.

1.1 Main Policy

The main policies of the reform were

(1) All the employees of all enterprises (including foreign and private companies) were obligated to participate in the social endowment insurance. The insurance premiums are 28% of the basic wages. Employees pay 8% of the basic wages, and the companies will pay 20% of their basic wages.

(2) The local government and the central government will afford allowances to urge the unemployed, free job to join the social endowment insurance.

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(3) The local government, the central government, and the welfare institution will afford allowances to urge rural residents to join social endowment insurance.

The main purpose of these policies is to create a social endowment insurance system that could cover all Chinese people.^[2]

1.2 Type of Social Endowment Insurance

There are mainly three kinds of social endowment insurance after the reform of social endowment insurance.^[3]

(1) Staff Basic Endowment Insurance: It is compulsory for all corporate staff members to have a staff basic endowment insurance. The insurance premiums are composed of 8% of the basic wage paid by individual employees and 20% of the basic wage paid by companies. Together it is 28% of the basic staff wage. The individual's burden goes to individual exclusive accounts, and the company's burden goes to the social insurance fund. After the staff retired, they will receive a pension every month.

$$\text{Pension} = \text{basic pension} + \text{individual account pension}$$

The basic pension is paid from the social insurance fund and determined by the social average wage in retirement year and the weighted average wage of the individual and the number of years of payment.

$$\text{Basic pension} = 0.5(\text{social average wage} + \text{the weighted average wage of the individual}) \times \text{years of payment} \times 1\%$$

The individual account pension is paid from the individual exclusive account. If the individual exclusive account runs out, and the insured person is alive, the social insurance fund will pay instead. If an insured person dies before the individual exclusive account runs out, the amount left in an individual exclusive account can be inherited as a legacy.

$$\text{Individual account pension} = \frac{\text{the amount in individual exclusive account}}{\text{calculation month}}$$

The calculation month varies according to the age of retirement. (for example, if the retirement age is 60 years old, the calculation month is 139; if the retirement age is 65 years, calculation month is 101; and if the retirement age is 70 years old, calculation month is 56).

(2) Urban residents social endowment insurance: the unemployed, self-employed person and free job who live in a town can join urban residents social endowment insurance. The insurance premiums are divided into 12 levels from 100 yuan to 2000 yuan every year. Urban residents choose their level and pay insurance premiums. The amount of payment is deposited in the individual exclu-

sive account totally. The central government will grant the same amount of subsidies to insured persons who live in the central and western areas of China and grant the subsidies as 50% of the premiums to those who live in the eastern region. Local governments will grant subsidies more than 30 yuan annually according to their personal finances to insured persons. All subsidiaries shall be transferred to the individual exclusive account along with personal premiums. When the insured person exceeds 60 years old, they begin to receive a pension.

$$\text{Pension} = \text{basic pension} + \text{individual account pension}$$

(3) New rural area residents endowment insurance: rural area residents can join the new rural area residents endowment insurance. The insurance premiums are divided into five levels: 100 yuan, 200 yuan, 300 yuan, 400 yuan, 500 yuan each year. Individuals choose from them and pay the insurance premium. All the amount of payment is deposited in the individual exclusive account. The central government will grant the same amount of subsidies to insured persons who live in the central and western areas of China and grant the subsidies as 50% of the premiums to those who live in the eastern region. Local governments will grant subsidies more than 30 yuan annually according to their personal finances to insured persons. The Rural Committee also actively grant subsidies according to the situation. When the insured person exceeds 60 years old, they begin to receive a pension. The method of calculating the pension and payment is the same as the urban resident's social endowment insurance.

1.3 The Result of the Reform

Five years after the practice of Liaoning Province, 2005 year the central government began the reform of social endowment insurance among the whole country.^[4] The local government strictly supervises the social endowment insurance fund and grants subsidies actively according to the situation.

The central government and the local government have issued a various policy to complete the social endowment insurance system. The management and operation of the social endowment insurance fund also became more strictly.

There are two main changes in the reform of social endowment insurance in 2005. One is that social endowment insurance has become compulsory and normalized, and another is that the central government and local governments have started assistance subsidies in social endowment insurance.^[5]

In China, the world's largest population, it is needless

to say that the importance of social endowment insurance.^[2] However, how much does the reform of social endowment insurance affect the welfare of the people? And, how does social endowment insurance affect the distribution, consumption, and savings of family? The purpose of this study is to confirm the effect and influence of the reform of China social endowment insurance in 2005.

2. Literature

Modigliani and Brumberg (1954) build the life cycle theory, people live in two periods. It is a young saving period and an old consumption period. Everyone acts to maximize the utility in the two periods. There is an alternative relationship between social endowment insurance and savings, and it is shown that compulsory social endowment insurance affects household savings.

Y Zhigang and S Zheng (2000) made the OLG model and proved that the social endowment insurance system affects consumption. It also insisted that the decrease in the labor force in the future would surely affect consumption and savings.^[6]

Y Zhigang (2001) analyzed the Chinese macroeconomy and said it was difficult to guarantee life after retirement because of the low interest rate of the current social insurance account. This also lowered the willingness to join social endowment insurance.^[1]

Liu Jun (2004) analyzed the proportion of China social insurance (including medical insurance) to income through an econometric model. Liu thinks the optimum ratio is 15%.^[7]

Qiu Changrong, Zhang Li guang and Guo yan (2004) rated China social endowment insurance system. through the metric model, it has been found that there is a serious problem in the management of the social endowment insurance fund and the distribution between generations before the reform. To solve this problem is one of the important causes of the reform.^[8]

Peng Haoran and Shen Shuguang (2007) analyzed the relationship between income and social endowment insurance. The theoretical model shows that there is a strong positive correlation between social endowment insurance and the income when a person has a low income, and the correlation becomes low when the income becomes high.^[2]

Ning YU , Qinghua SHI and Hongtao JIN (2010) through OLG models, has proven that there is an alternative relationship between social endowment insurance and the ownership of the house and land. It was proven that the willingness of them having a house or land to join the social endowment insurance was lower than the

person without the ownership.^[4]

Liu Ao (2011) explained the cause and history of the China social endowment insurance reform, and explain the scale and the present state of insurance in detail. He also pointed out the problem and the direction of reform in each stage.

Previous research has not analyzed by the DID model when confirming the effect of China social insurance reform. Therefore, this paper examines the effect of the reform of social endowment insurance. Especially paying attention to the change of the insurance premiums before and after the reform. In addition, based on the data of the stable period of social insurance, the fixed effect model is used to verify the relationship between home income and social endowment insurance premiums.

3. Data

The data used in this study are the Chinese household survey (UHS). UHS was conducted by the China National Statistics Bureau. The survey covers 49 provinces in China. The sample of the survey is the family living in Chinese urban. The survey includes household income (wages, investment income), consumption, savings, taxes, and insurance premiums. It also included family members' occupations and household property.

UHS is held every year. One family is surveyed for three consecutive years and the one-third sample is changed every year. Since two-thirds of the sample in two consecutive years will be panel data, this study will focus on two-thirds of these samples and avoid the bias inherent in a home.

3.1 Selection of Sample

There are three types of social endowment insurance in China, but the types of social endowment insurance which people can join is depended on the family register and occupation. The sample is divided by the occupation to measure the effect of the staff basic endowment insurance and the urban residents' social endowment insurance. However, there is no sample of rural residents in UHS.

The insurance premiums of the staff basic endowment insurance are depended on the wage. Using staff family samples can show whether the reform made the social endowment insurance system normalization and compulsion.

And the insurance premiums of the urban residents' social endowment insurance is decided by the individual, using the unemployed, self-employed person and free job family data the effect of the assistance and subsidies

can be understood.

The data in 2004, 2005, 2008 and 2009 were used. In 2000, the Liaoning province took the first, and since 2005, China all provinces started the reform of the social endowment insurance. Using the 2004 and 2005 data, we can see the effect of the reform of social endowment insurance. In addition, the scope of social endowment insurance basically covered all adult people after three years in 2008. Social endowment insurance has stabilized. Using the data in 2008 and 2009, we can see the relationship between household income and social endowment insurance premiums.

The number of samples in 2004 and 2005 is 32811. Among its 8394 are unemployed, self-employed or free job families. In this home, there are people who join the urban residents' social endowment. There are 24308 staff families. There are people who join the staff basic endowment insurance in these homes.

The number of samples in 2008 and 2009 is 18166. among them, 9419 families were continuously surveyed in 2008 and 2009. The number of staff family is 5739, and the number of unemployed, self-employed or free job families is 3218.

3.2 Common Trends

DID model can be used when the experimental group and conditional group have a common trend.^[9] We take the average insurance premium from 2002 to 2009 to check the common trends between the experimental group and the conditional group.

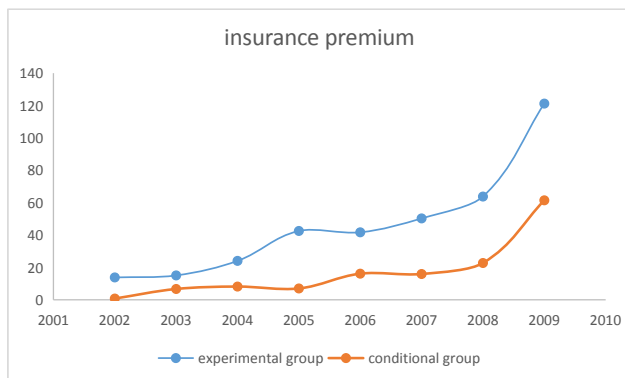


Figure 1

Figure 1 shows the average insurance premiums in the experimental group and conditional group. It can be easy to see the common trends and the difference in the year of reform.

Except for the insurance premium, we also check whether there are common trends in the family's incoming, consumption, saving and investment.

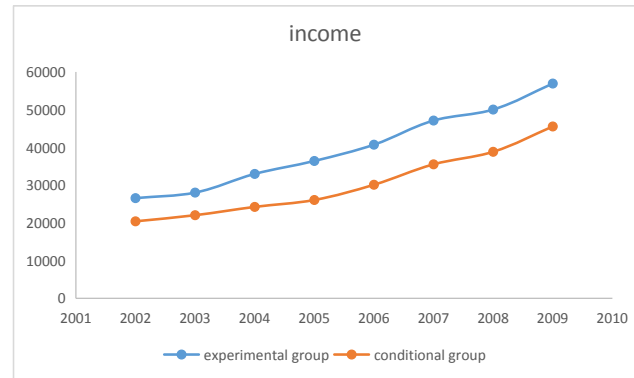


Figure 2

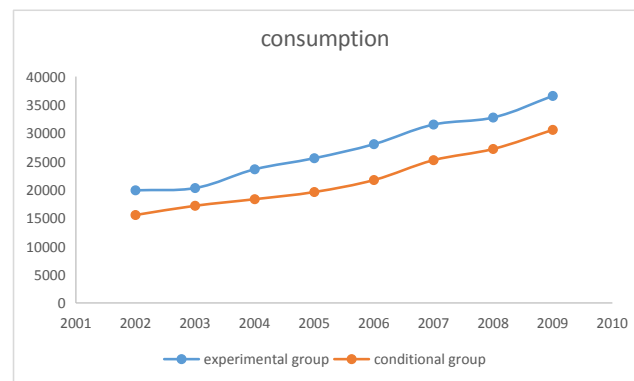


Figure 3

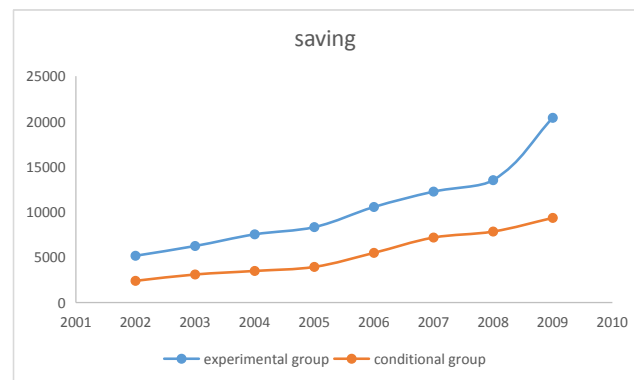


Figure 4

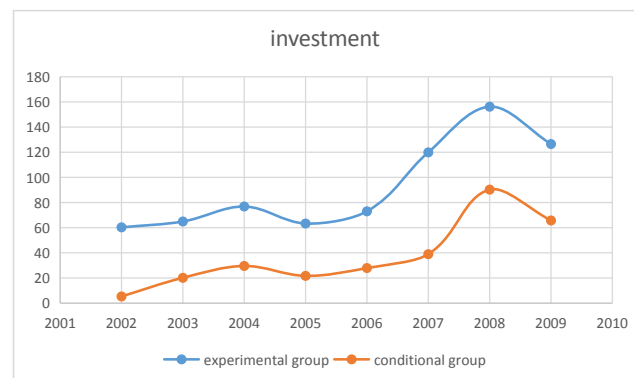


Figure 5

From Figure 2 to Figure 5, there is an obvious common trend during experimental group and conditional group.

4. Empirical Equation

We used the 2004 and 2005 data to make the DID model for testing the effect of the reform of social endowment insurance and use 2008 and 2009 data to check the relationship between household income and social endowment insurance premiums.

4.1 The effect of the reform

Here we analyze the effects of policy using the 2004 and 2005 data. The DID model is made by using the difference of time and the difference of the execution region. The empirical equation is:

$$\text{insurance}_i = \alpha_1 T + \alpha_2 D + \beta(T \cdot D) + \delta X_i + \varepsilon_i$$

Insurance is the amount of social endowment insurance premiums paid by the family *i* at the year *t*. *T* is a year dummy variable.

$$T = \begin{cases} 1 & 2004 \text{ (before the reform)} \\ 0 & 2005 \text{ (after the reform)} \end{cases}$$

D is a local dummy variable. Since the Liaoning province had taken the reform in 2000, the reform in 2005 Liaoning province became a control group.

$$D = \begin{cases} 1 & \text{others province (experimental group)} \\ 0 & \text{Liaoning province (conditional group)} \end{cases}$$

X_{it} is a control variable (family size, income, etc.) when the family *i* in time *t*. β is the effect of the reform of social endowment insurance.

Outcome var.	insur~e	S. Err.	t	P> t
Before				
Control	792.897			
Treated	896.432			
Diff (T-C)	103.535	32.219	3.21	0.001***
After				
Control	774.907			
Treated	1006.963			
Diff (T-C)	232.056	31.466	7.37	0.000***
Diff-in-Diff	128.521	45.035	2.85	0.004***

Figure 6

From Figure 6, the amount of social endowment insurance premiums increases about 128 yuan after the reform. In general, the reform promoted social endowment insur-

ance, and the insurance premiums increased.

The type of social endowment insurance which individuals join is different depending on the occupation of the individual. Limit the sample, we can test the normalization and compulsion after the reform, and check the effect of subsidies.

Outcome var.	insur~e	S. Err.	t	P> t
Before				
Control	1058.950			
Treated	1083.744			
Diff (T-C)	24.794	40.245	0.62	0.538
After				
Control	1061.302			
Treated	1243.284			
Diff (T-C)	181.982	40.874	4.45	0.000***
Diff-in-Diff	157.188	57.362	2.74	0.006***

Figure 7

Outcome var.	insur~e	S. Err.	t	P> t
Before				
Control	714.378			
Treated	758.338			
Diff (T-C)	43.960	53.938	0.82	0.415
After				
Control	677.386			
Treated	900.820			
Diff (T-C)	223.434	50.809	4.40	0.000***
Diff-in-Diff	179.474	74.100	2.42	0.015**

Figure 8

The samples used in Figure 6 are the staff families. There are families that join the staff basic endowment insurance. The effect showed in Figure 7 represents the normalization and compulsion of the social endowment insurance.

The samples used in Figure 8 are the unemployed, self-employed and free job families. In other words, there are families that join the urban residents' social endowment insurance. The effect showed in Figure 8 shows the effect of government policy and subsidies.

Social endowment insurance reform not only affects the social endowment insurance premiums, household expenditure but also changes.

$$Y_i = \lambda + \lambda_1 T + \lambda_2 D + \gamma(T \cdot D) + \varphi X_i$$

Y_{it} is families expenditure content consumption, savings, savings insurance, bonds and investment in the family at the time *t*.

VARIABLES	(1) consumption	(2) saving	(3) saving_insurance	(4) bond	(5) investment
T	252.2 (430.0)	-296.9 (372.8)	-10.99 (56.30)	-40.85 (109.7)	172.0** (81.97)
D	355.6 (333.7)	574.3** (289.3)	111.3** (43.69)	-10.34 (85.11)	4.425 (63.61)
DID	-156.5 (464.6)	-329.5 (402.8)	-72.31 (60.83)	-41.82 (118.5)	-203.2** (88.57)
income	0.553*** (0.00335)	0.406*** (0.00291)	0.0159*** (0.000439)	0.0160*** (0.000855)	0.00503*** (0.000639)
family_member	1.131*** (102.7)	-954.7*** (89.06)	-25.45* (13.45)	-55.91** (26.20)	-12.96 (19.58)
Constant	1.681*** (427.6)	-3.603*** (370.7)	-136.6** (55.98)	-174.4 (109.1)	-54.99 (81.51)
Observations	32,810	32,810	32,810	32,810	32,810
R-squared	0.468	0.379	0.040	0.011	0.002

Figure 9

From Figure 9, it is the only investment that gets a significant influence by the reform of social endowment insurance. After this reform of the social endowment insurance, people are desirable for the safety property and the reform had a negative effect on the investment. And, since it does not have a significant influence on consumption, the reform of the social endowment insurance is not able to lower the home utility level. The main reason is that the percentage of the social endowment insurance premiums to the total income of the family is low.

4.2 Relationship between Household Income and Social Endowment Insurance Premiums

More than 95% of adult people join the social endowment insurance. social endowment insurance has reached a stable period. The estimation equation of the social allowance for the aged and the retirement rate of the household income is as follows.

$$insurance_{it} = \alpha + \beta income_{it} + \delta X_{it} + \lambda P_i$$

Here insurance is the amount of social endowment insurance premiums that family I pay at the time t. Income_{it} is the income of the family I at the time t. X_{it} are the control variables when the family I at the time t. P is the family fixed effect. The fixed effect model is used to estimate the β which represents the relationship between household income and social endowment insurance premiums.

$$\Delta insurance_{it} = \alpha + \beta \Delta income_{it} + \delta \Delta X_{it}$$

Δinsurance_{it} is the difference in social endowment insurance premiums between 2008 and 2009. Δincome_{it} is the difference in income between 2008 and 2009. ΔX_{it} is the difference in control variables between 2008 and 2009.

insurance	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
income	.0128512	.0021035	6.11	0.000	.0087267 .0169757	
investment	-.0000796	.0051838	-0.02	0.988	-.0102437 .0100846	
saving	-.004181	.0022227	-1.88	0.060	-.0085392 .0001772	
_cons	1030.553	82.2452	12.53	0.000	869.2898 1191.816	
sigma_u	2018.8669					
sigma_e	1478.6626					
rho	.65085437	(fraction of variance due to u_i)				

Figure 10

	Coefficients		(b-B) Difference	sqrt(diag(V_b-V_B)) S.E.
	(b) fixed	(B) .		
investment	-.0000796	-.0006903	.0006107	.0030268
saving	-.004181	.0072865	-.0114674	.0017809

b = consistent under Ho and Ha; obtained from xtreg
B = inconsistent under Ha, efficient under Ho; obtained from xtreg

Test: Ho: difference in coefficients not systematic

$$chi2(2) = (b-B)'[(V_b-V_B)^{-1}](b-B) = 41.53$$

Prob>chi2 = 0.0000

Figure 11

Figure 10 is made up of data from the unemployed, self-employed, and free job families because premiums of the staff basic endowment insurance are determined by wages, and the unemployed, self-employed and free job families can select the premiums' level freely. In this part, we only use data from the unemployed, self-employed, and free job families. As shown in Figure 5, when the income increases by one yuan, the social endowment insurance premiums increase by about 0.013 yuan.

Figure 11 shows the result of the Hausman test. The fixed effect model is better than the random effect model.

Because the upper limit of the insurance premiums of the urban residents' social endowment is 2000 yuan, there is an upper limit for the amount of pension after retirement. The security of the life that the wealthy layer gets from the social endowment insurance system is limited. The relationship between social endowment insurance premiums and income depends on income. According to income, the sample is divided into four, and the metric analysis function is that:

$$\Delta insurance_{it} = \alpha + \sum_{j=1}^4 \beta_j \Delta (income_{it} \times D_j) + \lambda \Delta X_{it}$$

D_j is a quadrature dummy variable. Using quadrilateral dummy variables, income is divided into four levels. In other words, the family belonging to the first rank is the poorest, and the family belonging to the fourth rank is the wealthiest.

$$D_j = \begin{cases} 1 & \text{family belong to } j \text{ quadrature } (j = 1,2,3,4) \\ 0 & \text{others} \end{cases}$$

Income_j × DJ is a quadrature dummy variable multiple incomes. Here, four parameters from β₁ to β₄ are the effects of household income of each wealthy class on social endowment insurance premiums.

insurance	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
income_D1	.0061516	.0075507	0.81	0.415	-.0086535	.0209567
income_D2	.0110506	.0049423	2.24	0.025	.0013599	.0207413
income_D3	.0168458	.0035063	4.80	0.000	.0099708	.0237209
income_D4	.0121141	.0021816	5.55	0.000	.0078366	.0163917
investment	-.0001494	.005184	-0.03	0.977	-.0103139	.010015
saving	-.0037338	.0022256	-1.68	0.094	-.0080976	.00063
_cons	1052.602	138.2246	7.62	0.000	781.5769	1323.628
sigma_u	2010.7398					
sigma_e	1476.9918					
rho	.64953376	(fraction of variance due to u _i)				

Figure 12

As seen from Figure 12, the effect of family income on social endowment insurance premium varies according to income. Even if the income of a poor family increases, it does not have a big change in the social endowment insurance premium. Because the consumption increases first when the income of poor households increases. In middle-income households, when income increases social endowment insurance premium increases obviously. However, the impact of this income tends to be lower in higher income families

5. Conclusion

By the analysis using the DID model, it was proven that the effect of the reform of the endowment insurance was remarkable. After the reform, an increase in social endowment insurance premiums occurred. Insurance premiums increase, but there is no decrease in consumption and savings. In addition, it was also clarified that the living security of the people after they retire has been guaranteed and there is no evidence that could prove that the social endowment insurance adds to the family's burden.

In addition, the effect of social insurance was found to differ according to individual income. It was also proven that there is a strong relationship between the social endowment insurance premium and family income in middle

and high-income families.

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ARTICLE

Determinants of Small Business Owner Loan

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ARTICLE INFO

Article history

Received: 7 August 2019

Revised: 12 August 2019

Accepted: 24 October 2019

Published Online: 31 October 2019

Keywords:

National Survey of Small Business Finance (NSSBF)

Shareholders

Debt holders

ABSTRACT

Shareholders and debtholders have diverging objectives. Shareholders are residual claimants whereas debtholders are fixed claimants to firm's assets. In leveraged firms, shareholders may increase the value of their claims at the expense of debtholders. The presence of shareholders being debtholders is a smart interest alignment, providing a solution to shareholder-debtholder conflicts. This paper focuses on small businesses, which play an important role in the United States economy but are generally neglected by academia. Utilizing National Survey of Small Business Finance (NSSBF) data, this paper shows that firms with higher agency cost of debt are more likely to issue owner loan. The incidence of small business owner loan is positively associated with external lending difficulty, low shareholder agency cost and firm valuation difficulty.

1. Introduction

Objectives of stockholders and debtholders diverge in terms of payoff maximization. The divergence stems from the difference in payoff structures where stockholders are residual claimants while debtholders are fixed claimants to firm's assets. The divergence can lead to conflict of interests between stockholders and debtholders when stockholders (or managers who act on behalf of stockholders) maximize stockholder wealth instead of firm value. Having expected that, debtholders may charge a higher price in offering debt financing. (Jensen and Meckling 1976, Myers 1977, Smith and Warner 1979^[1-3])

An intuitive way to reduce cost of debt is the interest

alignment between stockholder and debtholder. And the best alignment of interest is letting the two parties to be the same person. Existing inside debt literatures have already showed that when managers, on behalf of stockholders, hold company debt in the form of CEO pension and deferred compensation (compensations with debt properties), the company enjoys lower cost of debt (Jensen and Meckling 1976, Chen, Dou and Wang 2010, Wang, Xie, and Xin 2010, Edmans and Liu 2011, and Kabir, Li and Veld-Merkoulova 2013^[1,4,5,6,7]).

Most literatures apply an indirect inside debt proxy of management compensation given the assumption that managers are the agents of stockholders. This paper is different first in the inside debt measurement (contribution one). Direct proxy of owner loan is utilized to investigate

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the effects of stockholder-debtholder interest alignment in a more accurate way. Secondly, different from previous studies which lay emphasis only on large publicly traded firms, this study employs the setting of privately held small businesses which play an important role in the United States economy but are generally neglected by academia (contribution two).

The U.S. 1993 National Survey of Small Business Finance (NSSBF), one of the most extensive data sets available on small businesses, incorporates owner loan information—direct measurement of shareholder debt holding. This new direct proxy and the new small business setting are important as they offer more accurate testing ground of beneficiaries and benefits of shareholders being debtholders for those sprouting firms which are influential not only in terms of great GDP and employment contribution but also in terms of the possibility that small businesses today may be market giants tomorrow.

Using 1993 NSSBF data set, this paper follows the findings of prior literatures that inside debt helps reduce agency cost of debt, and based on this argument the paper hypothesizes that for small businesses firms with higher agency cost of debt are more likely to issue owner loan.

Vast literatures have documented that high cost of debt are positively correlated with great difficulty of lending externally, low shareholder agency cost, and great firm valuation difficulty (Jensen and Meckling 1976, Sengupta 1998, Sundaram and Yermack 2007, Wittenberg-Moerman 2008, and Edmans and Liu 2010^[1,6,7,8,9,10]). Linking the literatures, this study proposes the following three hypotheses. First, firms with difficulty lending externally will turn to internal owner loan. Having difficulty obtaining external funding implies high agency cost of debt. And owner loan is a good signal of owner confidence in the firm and reduce the agency cost of debt. Second, firms with low shareholder agency cost will issue owner loan because external debtholders ask too high a price to protect themselves when interests of managers and shareholders are so aligned. Agency cost of debt derives from the conflict of interests between shareholders and debtholders to begin with. In modern corporations where managers are the agents of shareholders, there also exists shareholder agency cost because managers may not act in the best interests of shareholders. Therefore, shareholder-debtholder conflict of interests is to some extent manager-debtholder conflict of interests, which is negatively associated with shareholder agency cost. In low shareholder agency cost case, interests of managers are pretty much aligned with those of shareholders who may harm debtholders' wealth, so manager decisions are also very likely to harm debtholders' wealth and thus cause high agency cost of debt. And

third, firms not able to be valued by external debtholders will refer to owner loan since external debtholders ask too high a price to protect themselves in case of low borrower transparency. The focus of the following empirical tests is to disentangle the above three hypotheses.

NSSBF small business data provides a detailed documentation of firm and owner characteristics, balance sheet and income statement information, and all sources of financial services used by the firm and recent capital injection. The survey is not an equal-probability sample design, so weights are included for the estimation of population statistics. SURVEYMEANS procedure is conducted to get the descriptive statistics which illustrate small businesses characteristics. On average small businesses are small in size, simple in business, high in leverage and low in shareholder agency cost.

The rest of the paper is organized as follows. Section 2 reviews related literature and develops hypotheses. Section 3 describes data and variables and discusses univariate results. Section 4 presents main regression results.

2. Literature Review and Hypothesis Development

2.1 Literature

Stockholders and debtholders have diverging objectives. As has been pointed out in the seminal work of Jensen and Meckling (1976)^[1], the divergence, which leads to stockholder-debtholder conflicts, arises from the fundamentally different payoff structures of stock and debt instruments. Debtholders are fixed claimants whereas stockholders are residual claimants to firm's assets. In leveraged firms, stockholders may increase the value of their claims at the expense of debtholders mainly in four ways: asset substitution or risk shifting, underinvestment, claim dilution and dividend payment (Jensen and Meckling 1976, Myers 1977, Smith and Warner 1979^[1-3]). Stockholders can extract wealth from debtholders through undertaking investments that are riskier than before the issue of the bond. By engaging in such projects, stockholders whose risk is limited to the equity invested win upside benefit of higher expected returns, while debtholders who have no extra gain on these bear downside cost of increased default risk (asset substitution or risk shifting problem). Mirror image of the above, underinvestment problem occurs when stockholders avoid investment proceeds accruing to debtholders by refusing to invest in low-risk projects whose returns may only be enough to cover debt interests. In addition, stockholders may do harm to current debtholders' wealth by further issuances of higher prioritized debt (claim dilution problem) and by increases of dividend payments not

matched by likewise increases in external financing (dividend payment problem).

Given that managers are the agents acting on behalf of stockholders the principles, stockholder-debtholder conflicts are to some extents manager-debtholder conflicts. To alleviate the conflicts, theorists have proposed the solution of having the manager hold debt and equity at the same time so that his aligned interests with debtholder weaken the incentive to transfer wealth from debtholders to stockholders (Jensen and Meckling 1976, Edmans and Liu 2011). The inclusion of debt in management compensation is named in literature inside debt, which takes the form of CEO pension and deferred compensation. Kabir, Li and Veld-Merkoulova (2013) offer empirical results that an increase in defined benefit pensions, debt compensation, is associated with lower bond yield spread, while higher share holdings, equity compensation, lead to higher spreads. Chen, Dou and Wang (2010) and Wang, Xie, and Xin (2010) have similar findings that inside debt holding is negatively associated with restrictiveness of debt covenants and cost of debt. Other empirical works also demonstrate that debt-based compensation makes manager think more like a debtholder by taking less risk (Cassell, Huang, Sanchez, and Stuart 2012, Dasgupta, Lin, Yamada and Zhang 2013^[11,12]), lowering dividend payout and retaining more money inside the firm (White 2012^[13]).

Instead of studying manager –debtholder conflicts, Jiang, Li and Shao (2010)^[14] utilize a unique data source and conduct a direct study of stockholder-debtholder conflicts by providing an analysis of the effects of simultaneous holding of equity and debt by institutional investors (dual-holders). They show that when stockholders are debtholders, better incentive alignment results in lower agency cost of debt.

2.2 Hypotheses

As discussed above, interest alignment of stockholders and debtholders reduces stockholder-debtholder conflicts, and thus agency cost of debt. The interest alignment, simultaneous holding of equity and loan by small businesses owners, therefore, offers a unique setting to test several hypotheses regarding that firms with higher agency cost of debt are more likely to have owner loan.

In the theoretical framework of Edmans and Liu (2010), manager compensation with debt-like payoffs helps reduce agency cost of debt. High-leveraged firms, therefore, use more inside debt, which is supported by the listed firm empirical evidence of Sundaram and Yermack (2007)—a positive association between CEO's debt-to-equity ratio and the firm's leverage. By the same token, small businesses with greater external funding difficulty, corre-

spondingly higher agency cost of debt, are more likely to issue owner loan.

(1) H1: *Ceteris paribus*, small businesses with greater external funding difficulty are more likely to issue owner loan.

Agency cost of debt is also related to firm's shareholder agency cost. According to Jensen and Meckling (1976), agency cost of debt derives from the conflict of interests between shareholders and debtholders to begin with. In modern corporations where managers are the agents of shareholders, there also exists shareholder agency cost because managers may not act in the best interests of shareholders. Therefore, shareholder-debtholder conflict of interests is to some extents manager-debtholder conflict of interests, which is negatively associated with shareholder agency cost. In low shareholder agency cost case, interests of managers are pretty much aligned with those of shareholders who may harm debtholders' wealth, so manager decisions are also very likely to harm debtholders' wealth and thus cause high agency cost of debt. In high shareholder agency cost case, however, the story is the opposite. Applying to the cases of small business, this paper expects that firms with lower shareholder agency cost have higher agency cost of debt and therefore are more likely to have owner loan.

(2) H2: *Ceteris paribus*, small businesses with lower shareholder agency cost are more likely to issue owner loan.

And intuitively, the more external investors know about the firm the lower the cost of debt. Using the bid-ask spread on the firm's loans traded on the secondary loan market as a measure of information asymmetry, Wittenberg-Moerman (2008) argues that a lower bid-ask spread on a borrower's traded loans leads to a lower interest rate on the borrower's subsequently issued loans. Similarly, Sengupta (1998) gives empirical evidence that high disclosure quality ratings from financial analysts reduce effective interest cost of issuing debt. For small businesses a similar measurement of firm transparency is the difficulty level of firm valuation. The paper expects that more valuation difficulty small businesses have the more likely the small businesses are to have owner loan.

(3) H3: *Ceteris paribus*, small businesses with higher valuation difficulty are more likely to issue owner loan.

3. Data, Variables and Descriptive Statistics

3.1 Data

The data sample is drawn from the U.S. 1993 National Survey of Small Business Finance (NSSBF), one of the most extensive data sets available on small businesses

(Allee, and Yohn, 2009, ^[15]). The survey was a stratified random design, conducted for the Board of Governors of the Federal Reserve System and the U.S. Small Business Administration. The target population is all for-profit, nonfinancial, nonfarm businesses that had fewer than 500 employees and were in operation as of year-end 1992. Before the survey, businesses were contacted to decide eligibility, verify addresses, and identify a contact person. About 60% sampled businesses were eligible. Each eligible business was invited to complete a computer-assisted telephone interview averaged 50 minutes in addition to an advance written sheet. About 50% responded. NS-SBF does not use an equal-probability sample design, so weights are included for the estimation of population statistics. In addition to firm and owner characteristics, balance sheet and income statement information about the firm, NSSBF provides a detailed documentation of all sources of financial services used by the firm and recent capital injection as well (Codebook for 1993 National Survey of Small Business Finance (NSSBF)).

1993 NSSBF contains firms with four organization types of proprietorship, partnership, S-corporation, and corporation. For this paper 2209 observations of S-corporation and corporation were included to begin with. After deletion of publicly traded firms, 2180 observations are left. After deletion of errors that liabilities over assets is

larger than one and that total loans amount is less than owner loan amount, 2120 observations are left. After deletion of firms with franchise, 2014 observations are left. After deletion of error that relation length of primary institution is larger than zero years but number of distinct lending sources is equal to zero, 1653 observations are left. After deletion of outliers, 1606 observations are left.

3.2 Variables

The main variable of interest is whether the firm has loans from owners. It is labeled “OWNERLOAN” representing the question “As of yearend of 1993 did the firm have any loans form stockholders?” OWNERLOAN is an indicator variable, which is equal to 1 if the firm has owner loan or 0 if not.

For hypothesis one, external funding difficulty is proxied by four detailed measurements—leverage excluding owner loan, credit market problem, whether a lending request has been turned down before and firm delinquency on business obligations. Leverage excluding owner loan (LEVERAGE) is calculated as sum of reported liabilities deducting principle amount of loans from owners over sum of reported assets. Assets, liabilities and principle amount of owner loans are all in millions. The measurement of credit market problem is from the survey question

Table 1. Descriptive Statistics

This table reports descriptive statistics of main variables. Definitions of the variables are given in section 3 part B. NSSBF does not use an equal-probability sample design, so weights are applied in the mean estimation.

	Min	25th percentile	Median	75th percentile	Max	Mean	Std Error	Mean	Std Error	Mean	Std Error	p-value	
OWNERLOAN	0	0	0	1	1	0.318	0.017	OWNERLOAN=1	OWNERLOAN=0				
LEVERAGE	0.000	0.295	0.522	0.799	2.795	0.603	0.018	0.636	0.035	0.588	0.020	0.237	
SERIOUS MKT PROB	0	0	0	0	1	0.157	0.013	0.265	0.029	0.106	0.013	<0.0001	***
SOME MKT PROB	0	0	0	1	1	0.243	0.015	0.291	0.029	0.220	0.018	0.036	**
EVER DENIED	0	0	0	0	1	0.149	0.013	0.218	0.026	0.117	0.014	0.001	***
DELINQUENT ONE	0	0	0	0	1	0.023	0.005	0.027	0.011	0.021	0.006	0.620	
DELINQUENT TWO	0	0	0	0	1	0.220	0.015	0.347	0.031	0.161	0.016	<0.0001	***
MANAGER	0	0	1	1	1	0.791	0.014	0.828	0.022	0.774	0.018	0.061	*
FAMILY	0	0	1	1	1	0.764	0.015	0.798	0.025	0.748	0.019	0.108	
FOUNDER	0	0	1	1	1	0.725	0.016	0.728	0.027	0.724	0.019	0.889	
AREA OF SALES	1	1	2	2	4	1.656	0.027	1.781	0.051	1.598	0.031	0.002	***
SITES	1	1	1	2	20	1.591	0.041	1.574	0.059	1.599	0.053	0.749	
EXPORT	0	0	0	0	1	0.150	0.012	0.242	0.026	0.107	0.013	<0.0001	***
R&D PERCENTAGE	0.000	0.000	0.000	0.029	1.000	0.106	0.010	0.095	0.016	0.111	0.013	0.452	
FINANCIAL STATEMENT	0	0	0	1	1	0.186	0.013	0.195	0.023	0.182	0.016	0.622	
ASSETS	0.002	0.190	0.782	2.800	79.589	0.909	0.042	0.933	0.068	0.897	0.053	0.674	
AGE	0	0	0	0	1	0.179	0.014	0.171	0.024	0.182	0.017	0.709	
ROA	-3.514	0.000	0.093	0.351	8.167	0.348	0.051	0.123	0.058	0.453	0.068	0.000	***
CCORP	0	0	1	1	1	0.622	0.018	0.631	0.030	0.617	0.022	0.706	

“How much of a problem were credit market conditions to the firm during the past 12 months?” Responding firms may choose from “serious problem”, “somewhat of a problem” and “not a problem at all”. Two indicator variables are created for the three levels of credit market problems. SERIOUS MKT PROB is equal to 1 if the firm answers with choice “serious problem” or 0 if not. SOME MKT PROB is equal to 1 if the firm answers with choice “somewhat of a problem” or 0 if not. The proxy whether a lending request has been turned down before originates from the survey question “During the last three years, has any particular lender or creditor turned down a request for credit from your firm?” EVER DENIED is an indicator variable which is equal to 1 if the firm responds yes to the question or 0 if not. Finally, firm delinquency on business obligations measurement is derived from the survey question “Within the past three years, on how many different obligations has the firm been 60 or more days delinquent?” Responding firms may choose from the four choices of “none”, “1”, “2”, and “3 or more”. Two indicator variables are created for this measurement. DELINQUENT ONE is equal to 1 if the firm responds with delinquency on one business obligation or 0 if not. DELINQUENT TWO is equal to 1 if the firm responds with delinquency on two or more business obligations or 0 if not.

For hypothesis two, shareholder agency cost is measured by three proxies—whether the firm is managed by the owner, whether the firm is managed by a single family, and whether the firm is managed by the founder. MANAGER is an indicator variable following the survey question “Who is responsible for day-to-day management of the firm?” MANAGER is equal to 1 if the firm answers “owner” or 0 otherwise. FAMILY is an indicator variable originating from the survey question “Is more than 50% of the firm owned by a single family?” FAMILY is equal to 1 if the firm answers “yes” or 0 otherwise. FOUNDER is an indicator variable coming from the survey question “Was this business founded by the current owner or was an existing business purchased, inherited, or acquired as a gift?” FOUNDER is equal to 1 if the firm answers “founded by current owners” or 0 otherwise.

For hypothesis three, firm valuation difficulty is measured from 5 perspectives—area of sales, sites, whether the firm has export, percentage of R&D employees and whether the firm has financial statements. AREA OF SALES follows the survey question “Where does the firm primarily sell or deliver its products?” It is equal to 1 if the firm sells or delivers its products in the same area of the firm’s main office, equal to 2 if the sale or delivery is within the geographic region, equal to 3 if throughout

the nation and equal to 4 if outside the United States. The SITES is a continuous variable measuring “at how many different sites the firm has offices, plants, or stores, including the main office”. EXPORT is an indicator variable from the survey question “Does the firm export outside the United States?” EXPORT is equal to 1 if the answer is “yes” or 0 otherwise. Percentage of R&D employees (R&D PERCENTAGE) is calculated as 1993 average number of paid employees engaged in research and development activities over 1993 total number of employee hired. Both employee numbers include full-time and part-time employee numbers. The proxy whether the firm has financial statements is an indicator variable FINANCIAL STATEMENT equal to 1 if the firm has accounting records including financial statements, accounting or audit records and accounting software or 0 otherwise.

For control variables, assets, firm age, ROA, whether the firm is a corporation and industry fixed effects are included. The ASSETS is the sum of reported assets in millions. AGE is an indicator variable equal to 1 if the firm is less than or equal to five years old or 0 otherwise. ROA is a continuous variable calculated as total net profit over sum of reported assets. CCORP is an indicator variable equal to 1 if the firm is a corporation or 0 if the firm is an S-corporation (Ang, Cole, Lin, 2000; James, and Wier, 1990; Petersen, and Rajan, 1994, 1995, 2002^[16-20]). Eight industry indicator variables are created for nine different industries— construction & mining, primary manufacturing, other manufacturing, transportation, wholesale trade, retail trade, insurance & real estate, business services and professional services.

For goodness of the data, ROA is winsorized at both 1 percent and 99 percent, and LEVERAGE, SITES, and R&D PERCENTAGE at 99 percent.

4. Regression Results

Results in Panel A of Table 2 offer evidence supporting H1. OWNERLOAN is significantly related to EXTERNAL FUNDING, principle component of detailed external financing difficulty variables LEVERAGE, SERIOUS MKT PROB, SOME MKT PROB, EVER DENIED, DELINQUENT ONE, and DELINQUENT TWO. On average, one point increase in external funding difficulty will lead to 22% increase in probability of having owner loan. Detailed analysis shows if a firm regards credit market conditions as some problems it is 11% more likely to have owner loan than firms that do not consider credit market conditions as problems at all and if a firm regards credit market conditions as serious problems it is 26% more likely to have owner loan than firms that do not consider credit market conditions as problems at all. Additionally,

Table 2. Determinants of Small Business Owner Loan

EXTERNAL FUNDING is principle component of detailed external financing difficulty variables LEVERAGE, SERIOUS MKT PROB, SOME MKT PROB, EVER DENIED, DELINQUENT ONE, and DELINQUENT TWO. AGENCY COST is principle component of detailed low shareholder agency cost variables MANAGER, FAMILY, and FOUNDER. FIRM VALUATION is principle component of detailed firm valuation difficulty variables AREA OF SALES, SITES, EXPORT, R&D PERCENTAGE and FINANCIAL STATEMENT. All other variables are defined in section 3 part B. The dependent variable is OWNERLOAN. NSSBF does not use an equal-probability sample design, so survey logit regressions are applied in each panel. Industry fixed effects are included but not reported.

Panel A: External financing availability

	Est	dy/dx	t-stat	p- value		Est	dy/dx	t-stat	p- value	
EXTERNAL FUNDING	1.038	21.73%	6.25	<0.0001	***					
LEVERAGE						0.062	1.28%	0.35	0.727	
SERIOUS MKT PROB						1.140	26.34%	4.94	<0.0001	***
SOME MKT PROB						0.517	11.26%	2.58	0.010	***
EVER DENIED						0.194	4.15%	0.77	0.439	
DELINQUENT ONE						0.252	5.49%	0.50	0.616	
DELINQUENT TWO						0.659	14.59%	3.26	0.001	***
ASSETS	-0.013	-0.28%	-0.80	0.425		-0.016	-0.33%	-0.93	0.354	
AGE	-0.274	-5.52%	-1.24	0.217		-0.222	-4.48%	-1.00	0.318	
ROA	-0.165	-3.45%	-2.73	0.006	***	-0.178	-3.69%	-2.82	0.005	***
CCORP	-0.013	-0.28%	-0.08	0.937		-0.019	-0.39%	-0.11	0.913	
n	1606					1606				

Panel B: Low shareholder agency cost

	Est	dy/dx	t-stat	p- value		Est	dy/dx	t-stat	p- value	
AGENCY COST	0.431	9.12%	2.39	0.017	**					
MANAGER						0.401	8.05%	2.08	0.038	**
FAMILY						0.335	6.81%	1.78	0.075	*
FOUNDER						0.125	2.60%	0.71	0.480	
ASSETS	-0.024	-0.50%	-1.29	0.196		-0.017	-0.36%	-0.96	0.337	
AGE	-0.098	-2.04%	-0.47	0.636		-0.086	-1.79%	-0.41	0.679	
ROA	-0.204	-4.32%	-3.28	0.001	***	-0.206	-4.36%	-3.33	0.001	***
CCORP	-0.033	-0.69%	-0.20	0.843		-0.027	-0.58%	-0.16	0.869	
n	1606					1606				

Panel C: Firm valuation difficulty

	Est	dy/dx	t-stat	p- value		Est	dy/dx	t-stat	p- value	
FIRM VALUATION	0.338	7.15%	2.88	0.004	***					
AREA OF SALES						0.113	2.39%	0.91	0.361	
SITES						-0.006	-0.12%	-0.18	0.858	
EXPORT						0.691	15.74%	2.83	0.005	***
R&D PERCENTAGE						-0.254	-5.37%	-0.67	0.505	
FINANCIAL STATEMENT						-0.037	-0.77%	-0.19	0.852	
ASSETS	-0.044	-0.92%	-2.11	0.035	**	-0.041	-0.86%	-1.87	0.062	*
AGE	-0.149	-3.09%	-0.72	0.474		-0.110	-2.30%	-0.51	0.609	
ROA	-0.197	-4.17%	-3.11	0.002	***	-0.203	-4.28%	-3.09	0.002	***
CCORP	-0.022	-0.46%	-0.13	0.895		-0.036	-0.77%	-0.22	0.827	
n	1599					1599				

Panel D: Multi-determinants

	Est	dy/dx	t-stat	p- value	
EXTERNAL FUNDING	1.045	21.71%	6.37	<0.0001	***
AGENCY COST	0.563	11.69%	2.95	0.003	***
FIRM VALUATION	0.371	7.71%	3.08	0.002	***
ASSETS	-0.029	-0.60%	-1.46	0.144	
AGE	-0.311	-6.18%	-1.43	0.152	
ROA	-0.173	-3.59%	-2.78	0.005	***
CCORP	0.010	0.20%	0.06	0.955	
n	1599				

if a firm has been delinquent on only one business obligation, it does not have significant difference with firms that have never been delinquent on any obligation in terms of owner loan likelihood. However, if a firm has been delinquent on two or more than two business obligations, it is 15% more likely to have owner loan than firms that have never been delinquent on any obligation.

Panel B of Table 2 proves that H2 holds. OWNER-LOAN is positively associated with AGENCY COST, principle component of detailed shareholder agency cost variables MANAGER, FAMILY, and FOUNDER. One point less shareholder agency cost will result in 9% increase in probability of issuance of owner loan. Further investigation suggests that owner managed firms are 8% more likely to have owner loan than non-owner managed firms and family owned firms are 7% more likely to have owner loan than non-family owned firms, whereas whether the firm is owned by founder does not have significant effect on OWNERLOAN.

Panel C of Table 2 confirms H3 holds. There is significantly positive association between OWNERLOAN and FIRM VALUATION, principle component of detailed firm valuation difficulty variables AREA OF SALES, SITES, EXPORT, R&D PERCENTAGE and FINANCIAL STATEMENT. One point increase in firm valuation difficulty will cause 7% increase of owner loan probability. More specifically, information asymmetry from export activity will make firms 16% more likely to give owner loan than non-export firms in order to reduce cost of debt.

Panel D of Table 2 discusses the three hypotheses comprehensively. Survey logit regression argues high difficulty of lending externally (H1), low shareholder agency cost (H2) and high difficulty of firm valuation (H3) are significant determinants of owner loan issuance. Given the existence of other two factors, one point increase in external financing difficulty, decrease in shareholder agency cost, and increase in valuation difficulty will bring about 22%, 12%, and 8% increase respectively in probability of having owner loan to reduce cost of debt.

Finally, it is worth pointing out that in all the above four panels except panel C, the incidence of owner loan is not determined by the size of the firm measured by assets in book value nor by difference in tax treatment. The only control variable with significant coefficient is ROA, implying that firm profitability is also a determinant of giving owner loan or not. Given other factors all equal, high profitability firms may use retained earnings to finance investments while low profitability firms are 4% more likely to have owner loan due to retained earnings insufficiency.

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ARTICLE

Marketing Strategy Analysis of the Palace Museum

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ARTICLE INFO

Article history

Received: 8 August 2019

Revised: 13 August 2019

Accepted: 24 October 2019

Published Online: 31 October 2019

Keywords:

The Palace Museum

Cultural and creative industries

SWOT analysis

Non-profit organizations

ABSTRACT

The development of cultural innovation is beneficial for museums to give full play to their cultural advantages and improve their economic benefits, accordingly forming a virtuous circle. This paper analyzes the cultural and creative brand marketing environment and strategy of the Palace Museum, hoping to provide some references for other museums through the analysis and summary of cultural and creative brand marketing strategy of the Palace Museum.

1. Overview of the Palace Museum

With the continuous development of the economy, people's consumption types have changed greatly. As the material life has been basically satisfied, the proportion of material consumption has been increasing; people pay more and more attention to spiritual and cultural life. As the place with the most abundant cultural deposits, museums should rely on their own ad-

vantages, seize the opportunity of cultural and creative development, actively explore ways of cultural and creative innovation, and enhance the resonance between people and museums, so as to meet the growing spiritual and cultural needs of the people and better inherit the excellent traditional culture. The cultural innovation of museums faces great opportunities for development.

Beijing Palace Museum, as the imperial palace of Ming and Qing dynasties, has a long history and many collec-

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Fund Project:

One of the research results of Shandong University Humanities and Social Sciences Research Project "Research on Customer Segmentation and Marketing Innovation Based on Decision Rough Set" (Project No.: J12WF86).

tions, with extraordinary historical and cultural deposits. Among many museums' cultural and creative brands, the Palace Museum is the leading cultural and creative brand. It is loved by the people with its vivid and lively style and image, and its sales have been rising continuously. In 2017, the Palace Museum's cultural and creative revenue reached 1.5 billion yuan, 50% more than that of 2016.

Developing museum cultural and creative industries can help to link up cultural education and commercial market better. With the better spread of the outstanding traditional culture, and the popularity of cultural relics at the same time, the museum promotes itself economic development. The economic benefits can be used in the museum own construction and the social culture education, to realize win-win economic benefits and social benefits.

The Forbidden City in Beijing is the quintessence of ancient Chinese imperial architecture. It is one of the largest and most complete ancient wooden structures in the world.

Museum of Beijing imperial palace was established in 1925. It is the Ming dynasty and Qing dynasty two generations of the royal palace. Its collection was established on the basis of China's comprehensive museum, which is one of the biggest ancient cultures of China art museum. 1862690 pieces of relics have been collected in the museum. The museum is the largest collection of cultural relics and museum in the world, and is one of the most abundant cultural resources have profound international influence.

Beijing Palace Museum cultural products development Co., LTD was established in 1981. Since 2008, the Palace Museum has begun to change the design and marketing ideas of cultural and creative products, making full use of the rich cultural relics collection resources of the Palace Museum, and combining the traditional cultural characteristics of the Palace Museum and modern life to carry out product research and development. In 2013, the sales of cultural and creative products of the Palace Museum reached 600 million Yuan.

2. Marketing Environment Analysis of the Palace Museum

2.1 Macro Environmental Analysis

2.1.1 Analysis of Political Environment

Since 2014, the state has issued a series of relevant policies to promote the development of cultural innovation industry. Several opinions on promoting the integrated development of cultural creative and design services and related industries issued by the state council in 2014 marked

that the integrated development of cultural creative and design services and related industries has become a national strategy. Since 2016, a series of policies and regulations have been issued to encourage the development of cultural and creative industries. In 2017, the state administration of cultural heritage set the 2020 development target of building 50 brands of cultural and creative products for museums.

2.1.2 Economic Environment Analysis

China's economic development level continues to improve, among which the most obvious is the continuous improvement of residents' living and consumption level. After meeting the basic material needs, people's demand for cultural consumption continues to increase. In 2018, the per capita disposable income of urban residents increased by 8.7 percent, 7.8 percent, 8.4 percent, 6.7 percent, or 11.2 percent, over the previous years. The increase of residents' income and expenditure indicates the improvement of their purchasing power, and the increase of education, culture and entertainment consumption expenditure indicates the increase of consumers' demand for cultural consumption.

2.1.3 Analysis of Social and Cultural Environment

The country attaches more importance to the development of traditional culture and the continuous improvement of national cultural level, people attach more importance to cultural issues, and "culture" has become a hot word in the society. In China, with a long history and culture, how to inherit and carry forward the excellent traditional culture has become the focus of the whole society. With the rising voice of "let cultural relics live", people are more and more fond of entering museums, and the desire to buy cultural and creative products of museums is also increasing.

2.1.4 Technical Environment Analysis

In terms of technological environment, the first is the rapid improvement of Internet technology. First of all, the big data of the Internet provides a reference for the design of cultural and creative brands of museums. Designers can fully understand consumers' needs and preferences through the Internet, so as to better design cultural and creative products. Secondly, the development of the Internet greatly widens the sales channels of cultural and creative products of museums. As the network shopping more and more prosperous now, good network infrastructure construction and Tmall, Jingdong and other online

trading platforms provide opportunities for museum cultural and creative brand, the Internet for museum cultural and creative sales provides a new and amazing possibility. Finally, museums can make full use of AI technology and various network social media software to display cultural and creative products to consumers in a clearer and more convenient way, shorten the distance with consumers and make culture warm.

2.2 Micro Environmental Analysis

2.2.1 Internal Environment of the Palace Museum

The Palace Museum is a comprehensive museum of China based on the imperial palace of Ming and Qing dynasties. As the imperial palace of Ming and Qing dynasties, the collection of the Palace Museum has reached 1,862,690 pieces so far. The Palace Museum has a complete range of collections, including paintings, calligraphy, steles, sculptures, ceramics, various fabrics, bronze ware, jade ware, gold and silver ware, daily necessities, jewelry and jade.

Shan Jixiang was the director of the Palace Museum from 2012 to 2019. After taking office, the Palace Museum has been renovated and upgraded through Internet and digitization, so that people can understand the culture of the Palace Museum more conveniently through the Internet. Exploring the Palace Museum's rich collection resources is to create a unique cultural and creative brand. The combination of "meng" and the Palace Museum solemn and dignified image makes it more down-to-earth. Under the series of operations of dean Shan Jixiang, the popularity and reputation of the Palace Museum have been greatly improved, and the sales of cultural and creative products have also been increasing. The Palace Museum has become the leader of cultural and creative museums in China.

The Palace Museum has a special cultural and creative department. In the institutional setting of the Palace Museum, cultural and creative business division is listed prominently, which is mainly responsible for the management of cultural and creative business of the Palace Museum. His work includes formulating and implementing the development plan of cultural and creative undertakings of the Palace Museum, designing and developing cultural and creative products closely related to the culture of the Palace Museum according to the rich cultural deposits of the Palace Museum and numerous precious collections, and designing and organizing various forms of cultural promotion activities. The establishment of independent institutions enables the Palace Museum to have professional and clear leadership in the development of cultural and creative business, as well as professional design and

marketing talents, who are familiar with the marketing operation system, so as to carry out the design, development and sales of cultural and creative products more effectively.

The Palace Museum cultural and creative products come with the popular IP of "Palace Museum". The sales of cultural and creative products of the Palace Museum are closely related to the huge flow of the Palace Museum. With the continuous improvement of education level and the gradual change of people's consumption mode, people pay more attention to traditional culture. More and more people are willing to go to museums. In 2018, the number of visitors to the Palace Museum reached 17 million. Great social attention has laid a solid foundation for the cultural and creative development of the Palace Museum.

2.2.2 Competitive Environment Analysis

Among the competitors, in addition to other museums which are developing rapidly in China, there are also foreign museums cultural and creative brands like British museum which enter China to explore the Chinese market.

(1) Domestic Museum Cultural and Creative Competitors

Since the beginning of the new century, many museums in China have started to design and market cultural and creative products, along with the strong support of national policies for cultural and creative undertakings of museums and the high attention of the society to cultural and creative products of museums.

The Palace Museum in Beijing, the palace of the Ming and Qing dynasties, has a collection of Numbers, types and rare degree that most museums in China cannot match. As a large-scale comprehensive museum in China, the Taipei Palace Museum is one of the three major museums in China. Its cultural relics are mainly from the royal collections of the Palace Museum in Beijing, the Summer Palace and the Shenyang palace, which have the same roots as the Palace Museum in Beijing and similar cultural characteristics. At the same time, although Taipei Palace Museum has fewer collections than Beijing Palace Museum, its cultural and creative industry has developed early and formed a mature sales model, which is one of the Palace Museum's strong cultural and creative competitors.

In addition, cultural and creative products of domestic museums, such as the national museum of China, Nanjing museum and Suzhou museum, have also developed rapidly, and they fully explore the cultural characteristics of each museum for product design, use the Internet and other channels to expand sales, change the sales mode, and become strong competitors of domestic museums.

(2) Cultural and Creative Competitors of Foreign Mu-

seums

The British museum opened in China in 2018. On July 1, 2018, Tmall flagship store of the British museum was officially launched, and within a month of its launch, all the products in the flagship store were snapped up. By May 2019, the number of followers of the flagship store of the British museum reached 677,000.

Founded in 1753, the British museum is the oldest and grandest comprehensive museum in the world. It is one of the five largest museums in the world, just like the Palace Museum. It has a collection of more than 8 million pieces, including cultural relics from different cultures around the world. Rich cultural resources are the solid foundation for the development of the British museum's cultural and creative brand. As a result of collect numerous, British museum can choose the cultural relic with high degree of cultural identity, strong cultural amorous feelings as inspiration source, develop a series of cultural and creative products, for example the adhesive tape that designs with Rosetta stone for prototype, cup, charge treasure to wait.

The development and operation of the British museum cultural and creative brand is mainly undertaken by the British museum Co., LTD. In 1973, British museum Co., LTD. was founded. It mainly cooperated with manufacturers through authorization mode to develop products based on museum collections.

(3) SWOT Analysis

A. Strengths

① Rich Cultural Deposits

After the Ming and Qing dynasties, the Palace Museum has a large and complete collection of gold and silver jade, calligraphy, painting, porcelain, all kinds of fabrics, household articles, etc., which can provide sufficient inspiration for the research and development of cultural and creative products. The Palace Museum has a unique tradition of royal culture, so in product design can form a difference with other museums through royal characteristics, unique.

② High Brand Awareness

As one of the world's five major museums, the Palace Museum is a popular tourist destination in Beijing and a palace in the Ming and Qing dynasties. With a long history, it enjoys high popularity and reputation, which is more conducive to building a cultural and creative brand. Moreover, the high attention brought by popularity enables more effective product promotion, expansion of purchase and discussion in the sales process of cultural and creative products.

③ Professional Marketing Team

The Palace Museum has teams responsible for different categories of products, which are designed by the Palace

Museum, evaluated by the sales team, and finally marketed. Professional marketing team can strongly promote the development of cultural and creative brand of the Palace Museum.

④ Many Sales Channels

The sales channels of cultural and creative products of the Palace Museum include online and offline. Offline channels include the Palace Museum's cultural and creative museum, children's experience museum and pop-up shops. The online store includes the official online store of the Palace Museum, Tmall flagship store of the Palace Museum, taobao store of the Palace Museum, and the flagship store of jingdong palace mall.

B. Weaknesses

① Insufficient Understanding of the Market

As a non-profit organization, the Palace Museum is less familiar with the market than other cultural and creative companies. The grasp of the market is not enough to capture market hot spots and development trends sensitively. As the personnel of the Palace Museum belong to the government organization, the talent attraction is not enough, and the enthusiasm for cultural and creative business is not enough.

② Disordered Architecture

Cultural and creative products the Palace Museum cultural service center, management office, the Palace Museum press and the Palace Museum cultural communication company all have cultural and creative business. Multiple cooperation Windows and disordered architecture result in inevitable product overlapping, market competition and r&d mistakes.

On December 9, 2018, the cultural and creative museum of the Palace Museum launched a series of lipsticks of the Palace Museum, which was the first time that the Palace Museum made lipsticks across different lines and aroused great popularity. The lipstick products also sold out quickly. Later, the Palace Museum taobao issued a statement on its official weibo account saying that it was the original one, adding that the original lipstick and lipstick will be on sale on Tuesday. The owner of the cultural and creative center of the Palace Museum makes customized gifts and takes the high-end route. The Palace Museum store in taobao is mainly in low-end positioning with the cute adorable image. The two positioning is different, but due to the development of the Palace Museum make-up series at the same time led to the collision.

C. Opportunities

① National Policy Support

The state attaches more and more importance to cultural development and puts forward a series of policies for the development of cultural and creative industries in

museums. Relevant laws and regulations have been gradually improved. These points out the direction of cultural and creative products of museums and create a good “soft environment” for cultural consumption of cultural and creative products of museums.^[1]

② Expand Sales Channels Through Technological Development

With the continuous development of Internet technology, the development of e-commerce has become more mature, and the new media channels based on Internet technology have become more and more wide, all of which provide opportunities for the development of the cultural and creative industry of the Palace Museum. Cultural innovation of the Palace Museum continues to enrich and improve its marketing network on the basis of the Internet, and has built a complete and orderly online and offline sales system. On the basis of new media, new marketing methods are constantly put forward to attract consumers, expand the coverage of the population and provide more opportunities for sales.

③ The Level of Public Consumption Has Been Raised and the Pattern of Consumption Has Been Changed

People pay more and more attention to cultural consumption, and the demand for various cultural and creative products is increasing. And, with the development of Internet technology, people are more and more accustomed to booking Tours through mobile phones or buying goods online.

D. Threats

① There Are Many Cultural and Creative Museums with Increasingly Fierce Competition

With the support of the state and the public’s high enthusiasm for the cultural creation of museums, more and more museums begin to develop cultural and creative industries. Among them are the Taipei Palace Museum, which is similar to the Palace Museum in Beijing in cultural and creative style, as well as the national museum of China, Suzhou museum, Shanghai museum and other museums with different cultural styles.

In addition to domestic museums, there are foreign museums represented by the British museum. These foreign famous museums continue to expand the market and enter China, which has also caused a certain impact on the cultural and creative brands of domestic museums.

② Difficulties in Intellectual Property Rights Protection

With the continuous development of the cultural and creative industry, the deficiency of domestic intellectual property rights protection is gradually revealed. Due to the lack of awareness of intellectual property rights and the lack of national laws on the protection of intellectual

property rights, cultural and creative products are easily pirated and counterfeited, which greatly damages the image of museums while infringing the interests of cultural and creative enterprises. The museum is engaged in the pilot work of cultural and creative product development, which is an emerging thing and a typical representative of knowledge-intensive industry.^[2]

3. Cultural and Creative Brand Marketing Strategy Analysis of the Palace Museum

3.1 Product Strategy

3.1.1 Brand the Palace Museum

The establishment of the museum cultural and creative brand is inseparable from the long history and culture of the museum and the public’s recognition of the museum style. Through the excavation of collection of cultural relics and cultural deposits, the museum find suitable for their own cultural characteristics, and then based on this design products, brand building is the top priority.

The Palace Museum has rich cultural deposits and distinctive styles. On this basis, the brand cultural and creative products designed by the Palace Museum all have strong characteristics of the Palace Museum, which can greatly attract consumers.

3.1.2 New Product Development

To conform to the trend of The Times and design new products according to the needs of consumers is an important factor to ensure the sustainable development of enterprises in the future. Cultural innovation of the Palace Museum has always maintained a high level of r&d and design ability in new product research and development, and highly grasped the market demand. While meeting the needs of consumers, it has highly maintained the brand characteristics of the Palace Museum, integrated the spirit of creativity and craftsmanship, and constantly enriched the product categories to create a high-quality brand. In 2018, the number of cultural and creative products in the Palace Museum exceeded 10,000, including imitation cultural relics, books, daily necessities, jewelry, stationery and cosmetics, which fully meet people’s consumption needs.

In terms of product positioning, the Palace Museum’s early cultural and creative products were almost all high-end gifts. With the continuous exploration of consumer demands and preferences, the Palace Museum cultural innovation has designed a series of products that combine fashion and tradition for the consumption needs of young people. These products are relatively low in price and con-

form to the consumption level of mass groups. They are cute, fashionable, modern and traditional culture, which are deeply loved by consumers.

In terms of product packaging, the Palace Museum cultural and creative brand has always adhered to the characteristics of the Palace Museum. The cultural and creative products of the Palace Museum are exquisitely packaged and full of elements of the Palace Museum.

3.2 Price Strategy

3.2.1 Pricing Strategy

The Palace Museum has a variety of cultural and creative products. In the process of product pricing, prices vary according to different USES and materials of cultural and creative products. The Palace Museum has set up different product categories and price ranges for consumers with different purchasing power. Aiming at students and young people with low consumption level, stationery, daily necessities and other products with relatively low price and strong practicability are designed. For high-income groups and enthusiasts of cultural relics, jewelry, high-end, imitation of utensils and cultural relics and other high prices suitable for gifts or collection of goods.

Compared with other similar products in the market, the cultural and creative products of the Palace Museum are relatively expensive. However, due to their high brand reputation and value, stable quality and well-designed design, the slightly higher prices are also accepted by the public.

3.2.2 Discount Strategy

The cultural and creative products of the Palace Museum are relatively higher priced than similar products in the market. In order to attract more consumers, cultural and creative products of the Palace Museum often adopt discount strategies such as discount off shelves and membership discount.

In the Palace Museum taobao store product classification, out of print promotion section is prominently in the list. Due to the rapid upgrading of product research and development, some products have passed the popular period, and consumers' buying enthusiasm gradually declines. The failure to timely sell results in inventory overstocking. The Palace Museum will classify such products as out-of-print promotions, and the preferential price will stimulate consumers' purchasing desire and further expand the market to some extent.

In the taobao store of the Palace Museum, the number one sale is classified as random eggs in the out-of-print promotion area. Consumers can buy eggs after buying

other goods in the store. Eggs are divided into six categories, ranging from 5 yuan to 25 yuan. The products are random, but the menu price is far lower than the sale price of the goods on the shelves. Taking advantage of consumers' curiosity and cheapness, it can not only clear the inventory of outdated products, but also open up the market with low prices and interesting sales mode.

The Forbidden City taobao also operates a membership system. The Palace Museum taobao has set up a tiered membership system for loyal consumers who buy cultural and creative products on a regular basis. Ordinary members need to spend more than 180 yuan, no discount; Senior members need to spend more than 500 yuan, enjoying 9.9 discount; VIP members will enjoy a discount of 9.8 if they spend more than 1000 yuan. VVIP members who need to spend 5000 yuan enjoy 9.8 discount.

3.3 Channel Strategy

3.3.1 Physical Stores in the Palace Museum

The Palace Museum has a large number of visitors. In order to make full use of this advantage, there are three museums in the Palace Museum, namely, the forbidden academy, the Palace Museum cultural and creative museum, and the Palace Museum children's experience museum.

In 2015, the Palace Museum set up a cultural and creative museum in the Dongchangfang of the Palace Museum to celebrate its 90th anniversary. Eight unique exhibition rooms, including silk, clothing and life, are set up in the Palace Museum to exhibit and sell various cultural and creative products. As the "last exhibition hall" of the Palace Museum, the Palace Museum of cultural and creative experience can meet the desire of visitors to "bring the culture of the Palace Museum home" after visiting the Palace Museum.

In 2017, the Palace Museum opened a children's experience hall. The children's experience museum is used to carry out various cultural and educational themed activities targeted at children in the Palace Museum, so that children can better contact with excellent traditional culture and cultivate their interest in excellent traditional Chinese culture, so as to better inherit the excellent traditional Chinese culture. Second, it is used to display and sell all kinds of cultural and creative products specially designed for children, so as to expand the coverage of sales groups and increase sales.

Along with the exhibition, the museum will design a cultural and creative exhibition hall. Most of the cultural and creative products sold in the exhibition are designed according to the exhibition content. For example, in the Spring Festival of 2019, the Palace Museum held an ex-

hibition entitled “celebrating the New Year in the New Year in the Forbidden City” and set up a cultural and creative exhibition hall of the Palace Museum. Taking the Spring Festival as the theme and combining with the cultural characteristics of the Spring Festival in the Palace Museum, a series of cultural and creative products were designed, which were deeply loved by visitors.

3.3.2 Physical Stores outside the Palace Museum

In order to broaden its sales channels and attract more consumers, the Palace Museum has also set up special stores for cultural products, pop-up stores and some cultural and creative galleries for exhibitions outside the museum.

The exclusive stores of cultural products of the Palace Museum are set up in Beijing, Xiamen and other cities, authorized by the Palace Museum, so that consumers can have more convenient access to the culture of the Palace Museum.

In 2018, the Palace Museum began experimenting with pop-up shops. Pop-up shops combine the culture of the Palace Museum with modern life, selling cultural and creative products of the Palace Museum. In February 2018, I set up a pop-up shop named “my heart” in taiguli, sanlitun, Beijing; In August 2018, the Palace Museum and the world trade organization jointly held “Forbidden City visitors” pop-up stores, which toured Jinan, Xiamen, Shanghai and Shishi. The establishment of pop-up shops enables people from different cities to experience the charm of the Palace Museum while shopping and purchase cultural and creative products they like. Second, more people can participate in the activities in pop-up shops to better spread the excellent traditional culture.

3.3.3 Online Sales Channels

The online sales platform provides a brand new possibility for museum cultural and creative sales. Due to the continuous development of Internet technology, the continuous maturity of e-commerce, the lower cost of online sales and a wider range of audiences, the Palace Museum is actively building an online sales platform while opening offline physical stores. Today, the online sales channels of the Palace Museum include Tmall flagship store of cultural innovation of the Palace Museum, taobao store of the Palace Museum, official flagship store of Jingdong culture store of the Palace Museum, micro store of cultural innovation store of the Palace Museum, and Tmall flagship store of the Palace Museum publishing.

The Palace Museum cultural and creative Tmall flagship store, the Palace Museum taobao, the Palace Muse-

um culture jingdong official flagship store, and the Palace Museum cultural and creative store micro store with all kinds of cultural and creative products as sales content. Tmall flagship store published by the Palace Museum sells all kinds of books published by the Palace Museum. The success of the Palace Museum cultural and creative brand is inseparable from online sales. Nearly half of consumers buy cultural and creative products of the Palace Museum through online platforms.

3.4 Promotion Strategy

3.4.1 Advertising

Palace Museum cooperation variety “national treasure”, attracted a lot of the traditional culture has a strong interest in the audience, documentary I take cultural relics in the palace, “to make people more curious to the Forbidden City culture and yearning, in November 2018, the Palace Museum ‘TV show’ on the new palace ‘, the product design process combined with the spread of television media effect, both highlighted the programs to watch, also creates the brand of the Forbidden City to build momentum.^[3]

3.4.2 New Media Marketing

(1) Weibo Marketing

Weibo, as a leader in the field of new media, has a large user group and a growing number of active users. Weibo is the main platform for the promotion of the Palace Museum, which integrates the culture of the Palace Museum and the image of show MOE into the published content, creating a brand image completely different from the previous stuffy and boring. The Palace Museum cultural innovation has successfully expanded its brand awareness through a series of hot topics such as “palace cat” and “I want to be quiet” through its down-to-earth copywriting on weibo, so as to integrate the cultural innovation of the Palace Museum with young consumers. At the same time, the Palace Museum can communicate directly with consumers through its weibo platform, narrowing the distance with the public and drawing on excellent Suggestions for product design and promotion more effectively, thus forming a virtuous circle with consumers and the market.^[4]

(2) Wechat Marketing

The Palace Museum has attracted large Numbers of consumers with humorous articles since it opened a public account called WeChat. For example, in August 2014, WeChat released the article “yong zheng: I feel lovely”, which used digital means to animate “yong zheng’s pleasure map” and popularized historical knowledge with humorous and interesting language. The article was read by more than 860,000 people within 48 hours. In 2016, the

Forbidden City once again hit the friends circle with an H5 page “to see you through the Forbidden City”. Ming chengzu chu said “Rap” wearing sunglasses, which made the emperor in the history book appear on his mobile phone WeChat official account.^[5]

4. Inspiration to Other Museums’ Marketing

More and more museums begin to explore and develop cultural and creative industries. However, the cultural and creative industry of museums is seriously polarized. Most of the cultural and creative industries of museums do not develop well, with low profits and low popularity. As of December 2016, there are 2,256 museums in China recognized by relevant national institutions as having cultural and creative product development capability and industrial scale, but these museums’ cultural and creative brands do not shine. There are three main reasons.

(1) Lack of Professional Talent Team, Lack of Marketing Awareness

Museums belong to non-profit organizations, and as a result of their institutional nature, many museums do not set up special cultural and creative departments and do not have professional marketing teams. In addition, the cultural and creative department of some museums is staffed by other departments. Although these people are familiar with museum cultural relics in Beijing, they are not professional in marketing. Without a professional marketing team, these museums cannot timely grasp the market needs and design marketing plans suitable for themselves.

(2) Inaccurate Market Positioning and Lack of Brand Characteristics

Many museum products still stay at the level of shoddy reproduction of cultural relics, or follow the trend to develop some common products in the market. These products are lack of creativity. They have not studied their own cultural relics and advantages to find out the brand features with high public recognition and distinctive personality. Products that are poorly made and lack originality and features will not be loved by consumers, and may even damage the image of the museum.

(3) Lack of Awareness of Copyright Protection

Because our country copyright protection law is not perfect, there are some loopholes. At the same time, some museums have a poor awareness of copyright protection, which leads to the flood of reproduction and counterfeit products on the market, which is not conducive to the development of the cultural and creative industry of museums. Take “Forbidden City taobao” for example, many of its cultural and creative products can be found on the Internet in the exact same pirated versions.^[6]

The enlightenment to the marketing of other museums

in China is as follows:

(1) Build a Professional Team

The team composed of professionals is a strong guarantee for the promotion and sale of cultural and creative products in museums. The team should include product r&d and design personnel, network technology and new media operation personnel, marketing planning and sales personnel. Professional product design and development personnel can fully explore the cultural characteristics of the museum, design a strong brand characteristics, attract consumers to buy products. Professional marketing personnel are familiar with market rules and can better grasp consumer demand, build museum brand image on the basis of museum’s own characteristics, constantly expand the market, expand sales channels, formulate reasonable and complete marketing plans and implement them. New media operators should be equipped with Internet technology and professional knowledge of e-commerce, and be able to cooperate with sales personnel to expand brand awareness, better establish the cultural and creative brand image of museums, and promote the sales of cultural and creative products of museums.

(2) Cross-Industry Brand Alliance to Expand Popularity

Cross-border cooperation with excellent brands in other industries can expand the popularity of museums and attract more consumer groups. Museums should look for brands similar to their own styles or in line with their own consumer groups, carry out joint cooperation for mutual benefit, and expand publicity with the help of the popularity of both sides to attract more consumers’ attention.

The Palace Museum continues to expand its coverage and improve its brand awareness through cross-border cooperation, with the help of the popularity of both sides and different consumer groups. At the same time, in the development of cultural and creative products, cooperation teams will be trained on the culture of the Palace Museum. The idea was put forward by the Palace Museum, then designed and produced by its partners. It not only gives full play to the design and production expertise of the cooperative company, but also enables the Palace Museum to strictly check the products, reflecting the cultural connotation of the Palace Museum. Both of them can benefit from market segmentation.^[7]

On the Mid-Autumn festival in 2017, the Palace Museum taobao cooperated with Beijing daoxiang village to design a limited quantity moon cake gift box named “cuiyuemin hand”. The gift box package is exquisite, the pastry design is also very rich Palace Museum characteristics, plus the Palace Museum and daoxiang village’s high popularity and reputation, this gift box in the pre-sale stage was snapped up. In the Spring Festival of 2018, the

Palace Museum taobao cooperated with daoxiang village to produce the “welcome New Year • su su hu” cake gift box. In 2017, the Palace Museum launched a long-term image licensing cooperation with tencent game “miracle warm”. As the leading costume game in China, “miracle warm” has a huge user base both at home and abroad, and its users are mainly young women, which is in line with the cultural and creative consumer group positioning of the Palace Museum.

(3) Brand Building

In the design and development of cultural and creative products in museums, attention should be paid to ensuring the brand characteristics of products. As a place with a strong cultural atmosphere, museums should shoulder the responsibility of inheriting excellent traditional culture. In the process of cultural and creative product design, it is not possible to copy the same cultural relics. First, it is necessary to find out the characteristics of museum culture that are different from other museums, so that each museum has its own unique cultural character and temperament. Then, it combines historical and cultural characteristics with modernization, and adds elements that are popular with modern young people, so as to create excellent cultural and creative products that are both brand characteristics and popular with young people.^[8]

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REVIEW

Problems and Countermeasures of Internal Control Management in High-tech Enterprises

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ARTICLE INFO

Article history

Received: 12 April 2019

Revised: 22 April 2019

Accepted: 24 October 2019

Published Online: 31 October 2019

Keywords:

High-tech enterprises

Internal control management

Accounting policies

Economic benefits

Sustainable development

ABSTRACT

The wave of the socialist market economy has continually invaded, which has already caused a serious impact on the survival of many enterprises in China at this stage. In order to obtain development, traditional enterprises must follow the trend of the times to carry out their own reform and progress. For many high-tech enterprises, the most important issue is how to achieve internal control management, with rationalization means to gradually promote the corresponding work and economic benefits of enterprises, not only to save time, but also to improve the corresponding work efficiency, moreover, it is necessary to be able to promote the establishment of a relatively complete internal control management system in the actual work process of high-tech enterprises, in order to solve and prevent some problems that have emerged or need to be emerged.

1. Introduction

With the continuous improvement of the development level of information technology, China has made the information system more and more perfect in the process of social construction and urbanization development, which has promoted many high-tech enterprises. For high-tech enterprises, the competitiveness at this stage is so large, and the changes in the information age have gradually stimulated the progress of enterprises, which makes it necessary for an enterprise to maintain its own competitive position in the economic wave, it is necessary to establish a relatively complete internal management control system to ensure the stability and sustainability of its own development.

2. Connotation Analysis of Enterprise Internal Control Management

2.1 Internal Control

The earliest definition of internal control appeared in the Auditing Standards Notice issued by the Auditing Standards Board (ASB) in 1972 and was defined as follows: the so-called internal control means that under the influence of specific environment and development trends, in order to effectively improve their own experience and efficiency, it is necessary to integrate various resources that can be utilized through appropriate economic control measures, in order to achieve the management objectives originally established by the enterprise itself.^[1] Subsequently, in the Internal Control-Integrated Framework

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promulgated by The Committee of Sponsoring Organizations of the Treadway Commission (COSO) under the National Institute of Certified Public Accountants in 1992, it was clearly stated: It is not only the responsibility of the leader to effectively implement the internal control management of the enterprise, but a reasonable process of top-down or bottom-up, together with the board of directors, senior management and employees for achieving the economic efficiency of business operations.^[2] The above definitions are all determined by foreign scholars. Combined with China's national conditions, many Chinese scholars believe that internal control refers to a set of institutional arrangements and structural relationships that can maintain formal and informal relationships between various economically relevant and relevant stakeholders within the enterprise. As for the large number of high-tech enterprises existing at the current stage, the increasing competitiveness has also created important challenges for achieving good internal control management. In order to enable certain work management objectives to be effectively implemented, it is to maintain a stable and balanced state of mutual restraint through the rights and responsibilities between the various subjects and participants, which will ensure that the corresponding efficiency and fairness are achieved in the final work process.^[3]

2.2 The Theoretical Basis of Internal Control Management^[4]

The first and most basic theory is cybernetics. The so-called cybernetics, it believes that the implementation of the corresponding work is to be able to combine the development of information technology and the continuous impact of the modern wave, a way to control and regulate the organization and system within the enterprise, moreover, because in the work process of the enterprise, many departments are composed of a certain level and structure, which is equivalent to an organic whole with special functions. Moreover, after the establishment of this organic whole, it can continuously receive the information and energy from the outside world, and process and process the received information through the change of mechanism in its own internal environment, thereby bringing new information and theoretical foundation to the development of the enterprise. The second theoretical basis refers to the principal-agent theory, which is due to the characteristics of modern corporate enterprises—a normal agency relationship derived from the separation of management rights and ownership. But once such a normal agency relationship has a corresponding divergence in the actual operation process, once this disagreement is not solved well, serious economic damage will occur, and there is no

specific guarantee for the development of the enterprise itself and the interests of all classes, especially workers. At this time, the enterprise accounting internal control optimization system established can minimize the occurrence of information asymmetry and transform all the goals and approaches into a highly unified model, which will enable the enterprise to firmly establish itself in a solid development position in the fierce market competition. The third theory is relatively complicated, and it is a game theory derived from the rational assumptions of behavioral subjects.

The emergence of such a theory enables the subjects of each hypothetical behavior to be able to abide by the agreement under the relatively rational control conditions, so that the ultimate goal of the ultimate corporate economy can be achieved.^[5]

3. The Problems of Status Quo of Internal Control Management in High-Tech Enterprises

First of all, one of the most obvious features is that in the process of implementing the actual internal management of high-tech enterprises in China, few enterprises will have a sound organizational structure, often due to the upper-level leaders and the board of directors. Even if the corresponding internal management and supervisory personnel are set up, their functions will be restricted by the higher authorities, and they will be ineffective. Secondly, the economic managers inside high-tech enterprises have not given high priority to the corresponding control and management measures, which has caused the enterprises to implement certain incentive and restraint mechanisms, resulting in serious work inefficiencies.^[6]

4. Countermeasures for Solving the Problems of Status Quo of Internal Control Management in High-tech Enterprises

4.1 Strengthen Internal Integration and Form a Unified Goal

As far as the internal control management of high-tech enterprises in this stage of China is concerned, there are serious distortion problems, which will not only seriously affect the smooth progress of internal accounting work, but also bring about a negative development trend for the industry development. In order to effectively adjust the stability of the social economy and related development trends, the State Council clearly states in Article 27 of the "Accounting Law" that: It is essential to require all enterprises and institutions to establish internal control man-

agement measures in line with their own development and progress, and actively make clear regulations and plans from principles, methods, contents and practical means, which makes the internal control management measures of high-tech enterprises become an inevitable choice for the strict implementation of Chinese national laws and regulations. This is an important background for strengthening internal enterprise integration under legal conditions. In order to realize the internal control optimization of high-tech enterprises, it is necessary to first regard budget management as an important management means for carrying out the corresponding work level improvement within the enterprise group. The first thing to do is to improve the budget management mechanism within the high-tech enterprises, so that all departments within the enterprise can guarantee their own economy and efficiency; secondly, it is necessary to establish a corresponding budget management department as the most basic and important decision-making body, and make a summary assessment of the budget management indicators and dynamic adjustments within the high-tech enterprises.^[7]

4.2 Improve the Cognitive Level of Managers

As a senior manager of a high-tech enterprise, in order to effectively promote the improvement of the company's own economic benefits, it is necessary to first raise the level of awareness of managers' internal management information. Secondly, it is required to be able to formulate relevant policies and systems in the role of a corporate image leader and leader. However, in this process, we must always adhere to the application of the "people-oriented" concept; we must emphasize the equality of everyone before the system at an appropriate time, and effectively implement the economic policy. In addition, it is necessary to strengthen the level of relevant internal control managers, and require them to play a leading role in the actual work process, so as to implement the actual internal control work to specific places. The internal control management department of high-tech enterprises should regularly carry out the quality development activities of employees, and require them to have their own advantages and characteristics in the application of theoretical knowledge and practice level. Moreover, the cooperative participation of various activities also helps to improve the cohesiveness of the internal control management department, and the practitioners are freed from the boring work to relax.

4.3 Standardize Internal Control Management Behaviors

Since most of China's high-tech enterprises have many in-

ternal management problems in terms of internal management, the overall situation shows a mixed state, moreover, most accounting and management work orders are unstable and irregular, and the corresponding financial revenues and expenditures occasionally run out of control, which has caused many problems such as accounting fraud and tax evasion in the process of improving the economic efficiency of high-tech enterprises. Through the research of relevant literature and the sum of a large number of practical cases, it can be clearly understood that the root cause is due to the lack of internal control of high-tech enterprises, which will not only give some opportunities for mentally unstable accounting crimes, but also bring greater harm and impact to the economic benefits of enterprises. Therefore, the realization of the control and optimization of the internal management of high-tech enterprises has become an objective requirement to effectively regulate the internal accounting behavior of enterprises. Moreover, for the development of the economic level of high-tech enterprises, the realization of corresponding internal control is, to a certain extent, an implementation of national policies, regulations and systems. Comprehensive monitoring and control helps to reduce the risks and harms faced by enterprises in the course of business, and ultimately provides real and reliable accounting information for the development of enterprises. The data transmitted by these kinds of information can actively act on the economic development of the entire high-tech enterprise.^[8]

5. Conclusion

In summary, in terms of the long-standing old internal control system of enterprises, it is unable to meet the growing material needs at this stage. It is necessary to reform and innovate the financial management policies and related systems of high-tech enterprise units in the context of informationization, so that high-tech enterprise units can fully manage their operations in conjunction with the budget and promote the economic benefits of related enterprises. And as far as possible, all the internal control management work of the enterprise can be carried out in accordance with the principle of economical and economical, saving resources and strength.

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REVIEW

Thoughts on the Institutional Innovation from the Large Trading Nation to the Powerful Trading Nation

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ARTICLE INFO

Article history

Received: 4 June 2019

Revised: 12 June 2019

Accepted: 24 October 2019

Published Online: 31 October 2019

Keywords:

The large trading nation

The powerful trading nation

Institutional innovation

ABSTRACT

Since the reform and opening up, China's economy has experienced rapid development and progress, and has gradually emerged as a large global economy and trading nation, and the import and export trade has made brilliant achievements. At the same time, however, China's import and export trade activities still face enormous challenges and face the problem of turning the large trading nation into the powerful trading nation. Among them, institutional factors are the main obstacles restricting China's trade development. Therefore, it is necessary to strengthen institutional innovation and reform from a large trading nation to a powerful trading nation.

1. Introduction

With the continuous development of the social economy and the acceleration of the process of economic globalization, China's role in the international market is also growing. After the impact of the US financial crisis in 2008, China is gradually shifting from a large global economy and trading nation to a powerful trading nation. In order to speed up the transformation, we need to think about how to effectively avoid obstacles and problems in the transformation process and ensure the transformation effect.

2. China's Current Import and Export Trading Status

2.1 The Trading Scale Continues to Expand

At present, China has become an important global large

trading nation. Since the trade scale has grown and expanded, since the Chinese eleventh CPC Central Committee Third Plenary Session, the scale of China's foreign trade has expanded by nearly 170 times in 2016. Especially after joining the WTO (World Trade Organization), China's foreign trade has gradually surpassed that of developed countries such as Japan, the United States and Germany. The degree of foreign trade has expanded rapidly. In 2013, China has become the world's largest foreign trade country. The development of China's foreign trade scale has a very close relationship with reform and opening up. From the very beginning, China has been a small trading country with primary products and agricultural products, but now has gradually become a large trading nation that has received international attention and has an indispensable influence in the international economic field. Over the past 30 years, the domestic economic volume has expanded rapidly, and the scale of domestic

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and international trade has also increased rapidly. While China's domestic trade has developed rapidly, the pace of foreign trade has also grown faster and the product structure of exports has been continuously optimized. At present, high-tech products and high value-added products have gradually become a new growth point for trade development. At the same time, the proportion of non-state-owned economy exports in China's export trade activities is growing, and its role is also increasing. Currently, China's foreign trade activities have formed a structure in which multiple economic components coexist, which can cope with the changes in the complex market environment. When dealing with the financial crisis, it can expand domestic and foreign trade while walking out of the economic downturn, and play a key role in mitigating and preventing the collapse of the world economy.^[1]

2.2 The Trading Partners Continue to Increase

The backward history of a hundred years has made China have a personal experience of the dangers of shutting down the country. In today's economic globalization, China has actively promoted international global trade activities and has become the world's largest trader of goods. The number of trading partners has increased rapidly. At present, China has established diplomatic relations with most of the world's regional countries. It is an important trading partner of more than 100 countries. It has foreign trade activities in the European and American markets, African markets and emerging economies and the number of trading partners is also growing, overcoming problems in different levels of economic development, economic systems, and ideology, making all countries in the world be linked to China's economic development, so that the economic development of other regions and countries can achieve a win-win situation with China's economic development and achieve the goal of common development and common progress.^[2]

2.3 Changes in the Trading System

Since the reform and opening up, China's economic and trade has developed rapidly. This development model cannot be effectively explained by the Western Solow economic growth model and the traditional Kuznets economic growth model. According to the comprehensive analysis, China's economic and trade development is so fast because of the results of innovation and institutional changes. The endogenous driving force for China's economic and trade growth comes from institutional changes. Chinese eleventh CPC Central Committee Third Plenary Session has broken the shackles of modern superstition and laid a solid institutional foundation for the smooth start of China's economic

and trade. With the continuous deepening of reforms, the corresponding trade system has been gradually adjusted to meet the needs of current market development. This gradual institutional change has promoted the improvement of China's economic operation system and triggered the reform and development of the national economic system. From the perspective of trade entities, it began with individual business and developed into a large number of foreign-invested enterprises and foreign companies, which has changed the original form of foreign trade and the main body of foreign trade, and gradually formed a situation in which multiple trading systems coexisted. China constantly improves the scope of market regulation in the trade operation mechanism, relaxes the mandatory price and order purchase and sale system of commodities, adjusts the allocation of resources and the selling price by taking the market as the main value factor, continuously carries out trade system reforms according to market needs and fosters production factor markets. Since the reform and opening up, China's foreign trade activities have continued to deepen, the trade situation has become increasingly diverse, and the forms of import and export and import and export products have undergone earth-shaking changes. Since the beginning of the reform and opening up, a large number of foreign products and materials have been imported. Afterwards, the import quota of equipment and raw materials has been increasing. The combination of China's labor force and international capital has greatly enhanced the level of domestic manufacturing and expanded the export ratio of processed products. Since China's accession to the WTO in the new century, the degree of openness in the domestic market has further increased and economic cooperation and financial exchanges with foreign businessmen have also increased. Chinese enterprises are gradually aligning with the international market in an all-round way, and can penetrate into the markets and production and operation activities of various countries and regions to exert their unique value. China's ability to voice in the international economy has become stronger and stronger, and its status has also increased. Under the global economic tide, China has gradually formed a unique foreign trade system. While promoting national economic development, China also promotes the stability of the international economy and the health of financial activities, and has a vital impact on the development of world economic trade.^[3]

3. China's Current Institutional Barriers to Becoming a Powerful Trading Nation

3.1 Unbalanced Trading Structure

At present, there are many general-purpose products such

as OEM products and low-end processing products in China's export products, and the structure of import and export trade is seriously unbalanced. Although China has become the largest exporter, more than 90% of the exported products are low value-added and low-end products. There are very few products with global brands, high-tech and high-end products, most of them. The added value of commodity exports is low, and this cheap export has seriously restricted the healthy development of China's import and export trade. In addition, the proportion of trade in goods in China's import and export trade structure is large, and the proportion of trade in services is small. At present, China is still a single cargo large trading nation. The proportion of service trade exports lags far behind the developed countries in Europe and America and is lower than the world average. The domestic and international trade dynamic structure is inconsistent, the domestic consumption demand is seriously insufficient, and the pre-existence of the international market is too high, which affects the stability of the domestic economic environment. With the growing gap between the rich and the poor and the imbalance in the development of the market economy, the difference between consumption level and economic income between urban and rural areas in China is increasing. The problems of urban and rural secondary trade structure and dual market are serious, which leads to the instability of domestic regional trade structure and affects the healthy and healthy development of trade.^[4]

3.2 Imperfect Trading System and Mechanism

China's current unsound and imperfect trade system cannot provide good institutional support for becoming a powerful trading nation. Since the reform and opening up, China has been conducting in-depth research on the depth, breadth and openness of openness, constantly reforming and optimizing the foreign trade system and mechanism in light of the characteristics of the market environment and development requirements, and has achieved some results accordingly. For example, it has repeatedly revised and improved the export tax rebate policy and established relevant channels such as customs clearance and export credit, optimized the import and export structure, and simplified the import and export process. These systems and measures have greatly improved China's foreign trade environment, however, compared with the trade system mechanism of developed countries, China's foreign trade activities have paid too much attention to exports and neglected import policies.

Since foreign trade has been tasked with creating foreign exchange for a long time, the export volume of each region has been regarded as the main assessment indicator

of political achievements, while the income generation of imports has been neglected, resulting in a serious imbalance between imports and exports. Secondly, since foreign trade activities can effectively stimulate China's economic growth, many local governments in China have promoted the development of foreign trade and promoted the development of the local economy, but vigorously supported various foreign trade activities, but ignored the quality and level of trade activities. From the current point of view, the largest proportion of China's foreign trade activities is general trade activities, which have high investment, low returns, low production capacity, and are greatly affected by fluctuations in the international market. In addition, although China is already at the stage of large trading nation, it has not established a two-way trade incentive mechanism corresponding to it. From the actual situation, China's foreign investment activities have made considerable progress in recent years. It has not yet established a trade and investment system that is compatible with international standards and China's national conditions, and has affected the further development of trade activities.^[5]

3.3 The Entire Trading Environment Is Increasingly Severe

Compared with before the outbreak of the international financial crisis, the current international trade environment is more severe. Trade protectionism has gradually risen globally due to the impact of the international financial crisis, leading to more complicated trade barriers and more hidden trade restrictions. From the current point of view, the US economy, the EU economy and the Japanese economy are still difficult to get out of the weak period in a short period of time, and the various restrictions imposed on imports by developed countries to protect the domestic market, especially when the developed countries are in the middle of the new and old government, the domestic import environment will be further tightened, which will bring more pressure on China's export trade. As the international economic situation becomes more severe and the degree of shrinkage increases, global trade may return to a more conservative state, leading to a more distant journey of China becoming a powerful trading nation. In addition, from the perspective of China's own trade development, foreign trade transformation and upgrading still have great difficulties. In recent years, the free trade zones and economic cooperation organizations of all countries in the world have developed rapidly, however, international trade is still in a critical period when new rules are difficult to obtain approval and old rules have many loopholes, in this important historical period, how to achieve a good foreign trade upgrade and transformation, establish a new

competitive advantage, and consolidate the traditional trade advantage is the current national trade transformation focus.^[6]

4. Strengthen the Institutional Innovation Pathway from Large Trading Nation to Powerful Trading Nation

4.1 Improve the Political System Construction of Trading Entrepreneurship Innovation and Autonomy

China needs to pay more attention to the construction of institutional innovation mechanism from large trading nation to powerful trading nation. It is crucial to clarify the objectives that foreign trade activities need to achieve, promote the upgrading and reform of various industries, establish an independent political system of entrepreneurial innovation that is in line with the operational mechanism of powerful trading nation, and accelerate the innovation and improvement of the system, which creates a macroscopic scientific institutional environment for the transformation of the trading system and the construction of a powerful trading nation, and builds a system of checks and balances.^[7] It is necessary to further implement the rights enshrined by the Constitution, especially to realize the potential of citizens' self-employment and innovation, vigorously develop trade entities with multiple economic components, and abolish restrictions on the industrial sector, especially in the service sector, which enables citizens to give full play to their individual enthusiasm and creativity, maximize the initiative of entrepreneurial innovation, attract domestic and foreign talents to participate in entrepreneurial innovation, and provide a continuous source of power for the upgrading and transformation of international trade models.^[8]

4.2 Increase the Reform of the Distribution System

In order to further narrow the gap between the rich and the poor and increase the domestic consumption power, it is necessary to establish a dynamic growth mechanism and large country circulation mechanisms dominated by domestic consumption, and turn the exporting country of products into the demanding countries of products. Mastering the initiative of China's economic development through institutional arrangements, the majority of the poor and vulnerable groups enjoy the fairness and fairness of socialism within the scope of a reasonable gap between the rich and the poor. China can learn from the institutional arrangements for the gap between the rich and the

poor in the development process of Western developed countries and the labor-management contradiction mediation system. For example, a perfect fiscal revenue transfer payment system, personal property and income reporting system, a modern shareholding system, and a management system for workers' participation in enterprises, a sound social security system, income tax system, estate tax system, pension insurance and unemployment insurance system, social security system, and high-income transfer system for the rich, etc., to ensure the reasonable distribution of income, protect legitimate income, avoid gray income, achieve good income adjustment, effectively stimulate domestic demand, and invigorate the domestic economy and market economy.^[9]

4.3 Carry out Reform and Innovation of the Traditional Trade System

In order to promote the reform of the powerful trading nation system, in accordance with the requirements of the development of the international trade situation, we must continue to carry out reforms in accordance with the actual national conditions, recommend trade priorities and trade promotion policies, give preferential policies to export of high value-added enterprises, and encourage products with high technology and high capital investment to give priority to exports. At the same time, it is necessary to continuously strengthen the coordinated development of exports and imports, improve the structure of imports and exports, change the idea of attaching importance to exports and ignoring imports, and accelerate the abolition of the system of unreasonable restrictions on imports. According to the needs of China's industrial transformation and upgrading, a policy system should be built that is conducive to promoting imports, rationally grasp the trend of international trade development and adopts targeted measures to achieve effective trade development and establish a free trade zone, realize the negotiation of investment agreements and the coordination of laws and regulations, and combine deepening reforms in various fields to continuously stimulate the vitality of foreign trade entities.

5. Conclusion

In summary, China still has great difficulties and obstacles from large trading nation to powerful trading nation. Among them, institutional factors are one of the most important factors hindering the development of China to powerful trading nation. Effective institutional innovation can strengthen the transformation of trade development mode and promote the optimization of trade structure,

enabling China to effectively maintain the advantages of foreign trade and promote the export and development of high-tech industries and high value-added output industries. This paper mainly discusses the institutional innovation approach from large trading nation to powerful trading nation, combines institutional changes with the promotion of social and economic stability and sustainable development, and improves the construction of powerful trading nation, laying a solid foundation for the sustainable development of China's foreign trade economy.

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REVIEW

New Exploration of Logic Starting Point of Audit Theory Structure

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ARTICLE INFO

Article history

Received: 6 September 2019

Revised: 13 September 2019

Accepted: 24 October 2019

Published Online: 31 October 2019

Keywords:

Audit

Theoretical structure

Theoretical feature

Logical starting point

ABSTRACT

As a discipline that has developed for many years, audit has been relatively mature and complete in its theoretical structure. As we all know, the establishment of any discipline requires a set of mature theoretical framework that are logical, progressive from point to surface. This theoretical structural framework is called the theoretical structure, and the research process of the audit discipline also needs to build such a theoretical system to make the audit research planned and structured, then the logical starting point in the audit theory structure will largely influence the direction and development of the audit discipline. In this paper, by expounding the characteristics and conditions of the logical starting point and combining some domestic and international discussions on the logical starting point, the author considers and explores the selection of logical starting point of the audit theory structure, hoping to select an amenable element as the logical starting point of the theoretical system to promote the research and development of the audit discipline.

1. Introduction

The discipline of audit has existed since ancient times in China, but the development of modern audit has only been one hundred years. The theory of audit is very perfect. Although it has a relatively complete and huge theoretical system, the logical starting point selection element of its theoretical structure is still not reached consensus within the research scholars. There are many opinions on how to select the starting point of the audit theory structure in the research of audit theory at home and abroad. This paper analyzes and explores this issue, organizes various perspectives on it, and summarizes the author's own views, providing reference for relevant researchers.

2. The Characteristics Should Be Met by the Logical Starting Point of the Audit Theory Structure

The so-called logical starting point in the philosophi-

cal explanation is the starting point or rising point that something rises in the process from the abstract meaning to the concrete meaning, and what we usually research is its selection and scope. In the research process of any discipline, it is necessary to specifically select and determine the logical starting point of its theoretical structure to ensure the subsequent development of this discipline and the construction of the theoretical system. The logical starting point selection of the audit theory structure needs to be more cautious. The selection of the logical starting point will have a great impact on the practical application of the audit work. Therefore, more accurate and scientific theoretical guidance is needed, based on past researches, the logical starting point of the audit theory structure need to meet the following characteristics.

2.1 Easy to Understand

The logical starting point of the audit theory structure

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should be the most basic and fundamental part of the entire audit theory system structure, which is basic, highly general and easy to understand. As the research starting point of the audit discipline, if it is impossible for people to clearly read its meaning, subsequent audit research and study cannot be carried out. Therefore, first the logical starting point of the audit theoretical structure must be simple and basic, laying a good foundation for the subsequent audit theory structure.

2.2 Connectivity

Since it is the starting point of the theoretical structure, it must be able to connect and extend the theoretical structure, rather than independent existence, so the logical starting point of the audit theory structure needs to use this as a starting point to extend other structural elements. This is an important condition to be met to establish a complete theoretical structure. It not only needs to link the audit work practice with the theoretical structure, but also bears the role of linking the elements of other audit frameworks in the audit system. From this starting point, we can infer other structural elements, and each element can be logically and systematically developed, and the structure of the audit theory revealed in this way will be complete, organized and systematic.

2.3 Practicableness

No discipline can exist independently from practice, and audit is no exception. In the process of researching the logical structure of audit theory, it is inevitably to summarize and research combining with the experience in practice. As a logical starting point of the structure, it needs to be able to connect the audit theory and practice, so as to reveal the contradiction between its various elements and use audit examples to verify it, which makes the research of the audit discipline cannot be out of touch with the practice and the study of the theory is more meaningful.

2.4 Development

The discipline of audit has existed since ancient times. It is also a continuous developed discipline at present and in the future. Then the logical starting point of the audit theory structure needs some forward-lovingness and development, which can assist its future research and development. It can make corresponding adjustments in accordance with the changes of development trends and situations to provide proper theoretical basis for practical application and to continuously promote and guide the development of audit practice work.

3. The Viewpoint Established by the Logical Starting Point of the Audit Theory Structure

At present, there are mainly four viewpoints on the logical starting point of the audit theory structure at home and abroad. They take the audit hypothesis, the audit goal, the audit nature and the audit environment as the logical starting point of the audit theory structure. The following four perspectives will be analyzed separately.

3.1 Taking the Audit Hypothesis as the Logical Starting Point of the Audit Theory Structure

The audit hypothesis starting point theory was put forward by the United States auditor Shandell. In his own works, he discussed the viewpoint of audit hypothesis starting point theory. This viewpoint holds that the audit hypothesis is a basic proposition and it represents the in-depth definition of the audit theory structure, and also it is the basis of the audit practice process.

As an objective environment, it is binding on the research of the audit discipline. Therefore, the theoretical structure of the audit discipline should be based on the audit hypothesis, that is, through the audit hypothesis most people can identify, to determine the principles of the audit, so as to derive the entire audit theory structure and general process to determine the audit principle after the audit hypothesis, and then describe the audit concept on this basis, and then elaborate the guidelines and specifications of audit. Used as the structure of the audit theory, audit hypothesis has certain advantages.

Through the hypothesis, the theoretical study of the audit can be established in the work practice, and the deductive method can be used to infer the theoretical structure of the audit. However, this inference has some subjectivity. The combination of theory with practice is often prone to problems, and also the audit hypothesis is inferred by the researchers based on the some facts that are not entirely convincing. Therefore, this kind of assumption and inference can be determined in a certain objective and stable environment. Based on this trait, the starting point theory of audit hypothesis is often used for the theoretical foundation of the audit theory structure rather than the logical starting point, and it is not accurate to use it as the logical starting point of the audit theory structure.

3.2 Taking the Audit Goal as the Logical Starting Point of the Audit Theory Structure

The viewpoint of audit goal the starting point theory is the described by Canadian auditor Anderson in his book. This view has been widely recognized in western countries that

pursue pragmatic audit theory. The theoretical structural elements of the audit goal starting point theory are the audit goal, accredited audit standard, audit concept, public audit, audit technology and audit process. Western countries are more inclined to pay attention to the guiding significance of the audit theory system to the audit practice at that time. The audit goal starting point theory happens to be more valuable for practical application, and therefore it plays a key role in the audit work of Western countries. The audit goal can objectively show the requirements of the audit environment for the system.

As a system meeting the environmental standard, it can bridge the audit system and the environment to ensure that the audit system can achieve the audit goal. The communication bridge directs the operation of the auditing structural system to a large extent. The audit goal's sensitivity to the environment is relatively high, and it also has great significance to the practice. Therefore, it can also combine audit theory with practical application. However, this viewpoint also has certain flaws.

The audit goal starting point theory is usually more applicable to the guidance of audit practice, and can more clearly define the direction of audit work. But, in theory, as a logical starting point for the audit theory structure, it is difficult for the audit goal to achieve the required scientific rigor, and the theoretical level is low. It is difficult to unify the audit goals under different social circumstances, which will make the theoretical structure not comprehensive enough. Therefore, this theory can be applied to practical application and it is not applicable to be used as a logical starting point in theory.

3.3 Taking the Audit Nature as the Logical Starting Point of the Audit Theory Structure

The audit nature starting point theory has always been in an important position in the process of audit theory research in China. What this viewpoint needs to express is that the audit theory structure must start from its origin and can be used as a starting point to extend other conclusions. By fully understanding the nature and connotation of the audit discipline, we can logically infer the object, function, principle, and criterion of the audit, and use these as the theoretical structure of the audit discipline.

This view has been widely respected in China's audit research. The nature of things determines the fundamental attributes of things, which also means that the nature of things is abstract. As a logical starting point of a theory, it needs the ability to connect systems and environment, practice and theory. And it cannot define a thing singly, which will have minimal significance in its practical work. The logical starting point we need to look for is to provide

effective guidance for the practical work of audit, and we should use this as a starting point to infer the assumption and goal of audit. The abstract concept of nature makes it difficult for people to thoroughly understand auditing theory, which makes view out of touch with practice and cannot be better matched with environmental changes.

3.4 Taking the Audit Environment as the Logical Starting Point of the Audit Theory Structure

The audit environment starting point theory is to combine the internal and external environment of audit, so that the audit theory determines its goal and audit report from the external environment and influences the audit's working procedure and working method. From the point of internal environment, the audit's internal environment can decide the nature and function of the audit, so as to determine the audit's working procedure and method. The internal and external environments are common, and the audit goal, nature, and function can also be organically combined in the audit practice.

The audit environment has important influence on all aspects of the audit, but if we singly take the audit environment as the logical starting point, which is separated from other audit factors, it is easy to cause the audit environment to be disconnected from practice and out of touch with the nature. Then since the theory of audit should be derived from audit practice, and this theory needs to guide the development direction of audit and serve the society, so it is necessary to put the logical starting point of the audit theoretical structure into practice, and to integrate it with the external environment to carry out expansion and extension, so as to make the theoretical research of this discipline more meaningful. And the audit environment can influence the development direction of the audit to a great extent, but it also needs to be combined with more audit elements in many aspects.

4. The Author's Opinion on the Logical Starting Point of the Audit Theory Structure

In summary, we can easily find that any viewpoint has its advantages and disadvantages. As the logical starting point of the audit theory structure, every single element cannot make the theoretical structure of the audit to be extended and developed furthest. Then we can get the conclusion that the logical starting point of the audit theory structure cannot be unilateral, it can only circumvent the shortcomings by including multiple elements.

If we want the theoretical structure of the audit can be better expressed, the audit environment and goal need to be combined, in the situation of not departing from the

nature of the audit, comprehensive factors will be taken as the logical starting point for the audit theory structure. The environment and goal of audit are the main elements. This is largely due to the fact that the audit environment and audit goal are known, rather than the elements that need to be forecasted. The audit environment can greatly affect the audit goal, and the combination of the two can estimate the assumption of the audit within a stable period of time. Therefore, this can increase its scientific and accuracy, and it can make the various elements of the audit be presented after deduction, and it is not difficult to reach the goal of extending the structure of the audit theory.

5. Conclusion

This paper analyzes the conditions that need to be satisfied in the logical starting point of the audit theory structure, and sorts out four domestic and international perspectives on the selection of starting points. After research and discussion, we believe that any element that exists alone does not conform to the requirements of logical starting point of the audit theory structure. If you want to make the logical starting point meet the requirements of discipline research and development to the maximum extent, you need to combine the audit environment and goal to determine the logical starting point of the audit theory structure, so as to meet the requirements of practice and discipline development to the logical starting point of the audit theory structure.

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REVIEW

Two Reasons to Demonstrate Why American Beverage and Individualism Investments Should Be Welcomed

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ARTICLE INFO

Article history

Received: 23 September 2019

Revised: 27 September 2019

Accepted: 24 October 2019

Published Online: 31 October 2019

Keywords:

Carbonated industry

Coca-Cola

CSR

Individualism

Consumer culture theory

Pepsi

Starbucks

Advertising

Irreverence

ABSTRACT

In recent years, the Chinese beverage market has become more mature and customers have changed their priorities when buying drinks. Furthermore, Chinese people who are more likely to focus on group interests tend to have more collectivism. The purpose of this article is to analyze the reasons why the investments of American beverage corporates and the American individualism should be welcomed. The findings are (1) Coca-Cola Company have more strengths and opportunities than weaknesses when they advertise in China; (2) the carbonated industry is predicted to have a not very bright future; (3) the methods that American beverage industry advertise make Chinese people's lives colorful owing to their advocacies and CSR awareness; (4) American individualism can push Chinese employees to be more competent.

1. Introduction

Nowadays, the situation of drinks is not very optimistic. Weird drinks have become more and more popular these days because customers are becoming more and more individualistic and paying attention to personal needs and preferences.^[20] Moreover, although the beverage market is full of new products, the product life cycle is getting shorter. Because the Chinese beverage industry is mature, the survival rate for new beverages has dropped to 5%, which is less possible for new drinks to survive.^[20]

In addition, the Coca-Cola Company was once in a dilemma. As carbonated drinks contain a great deal of sugar, the Coca-Cola Company was the target of "an anti-obesity crusade".^[19] Therefore, healthier drinks like Zero coke were manufactured by Coca-Cola.^[17] Moreover, moral issues of Coca-Cola happened in India. The Coca-Cola Company extracted water from the groundwater resource which made water taste strange. Discharging waste water into the field and selling poisonous drinks to local people were also done by Coca-Cola.^[10] Hence, Coca-Cola performs their social responsibilities more often nowadays. For example, they had established 121 Hope Schools in

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29 provinces around China by 2014.^[11]

Furthermore, Chinese people often give priorities to collective interests when individual benefits also exist. In the report of China's 19th National Congress of the Communist Party, President Xi stressed the importance of the public's interest not the benefits of top managers.^[21] What's more, he also highlighted that governments should unite people to establish a harmonious society.^[21] It is clear that the President Xi emphasized more on the collective welfare. Influenced by Chinese policies, Chinese people are inclined to concentrate more on group benefits.

In the following part, the author performed a SWOT analysis on the Coca-Cola Company. As for the argument part, the author argued the reasons why American beverage and individualism investment should be encouraged.

2. Case Study

2.1 Research Topic

Whether American beverage and individualism investment in China should be welcomed.

2.2 Entity/Industry/Sector

In this case study, the author wants to analyze how the Coca-Cola Company advertised in China. The case study contains four parts: analysis on strengths, weaknesses, opportunities and threats. As the first argument is about the ways that American beverage industry advertises enrich Chinese people's lives, the case study about one specific and representative American beverage company—Coca-Cola will support the first argument. Some data, for example the wonderful sales of Coca-Cola could be used in the first counter-argument to support that American beverage companies pose a threat to Chinese beverage corporates. Moreover, one of the Pepsi's brand images—irreverence is an example to show American individualism and can also be used to support the second argument. Furthermore, some examples can be used in the introduction part to show the improvement of the Coca-Cola's CSR awareness.

2.3 Strengths

First of all, there are four major strengths when Coca-Cola Company promotes their products. Firstly, the Coca-Cola Company keeps in close contact with Chinese people. In the "Dream Forever" advertisement, Coca-Cola gave their best wishes to the Chinese national soccer team, which shortened the distance with Chinese consumers and stimulated the sales.^[12] Secondly, the Coca-Cola pays attention to Chinese major events and applies the event marketing

strategy. For example, in 2008, special golden package Coke for the Beijing Olympic game were launched successfully into the market and then the transaction sales were increased by 29%.^[22] Thirdly, Coca-Cola often have creative ideas which are based on the latest trend in China. Recently, "23 Coca-Cola limited-edition sleek cans that feature the people of China" has come into the market.^[2] These products demonstrate the concept of expressing people's personalities which fits young adults. One shopkeeper Ms. Gu recalled that more than 10% increase was seen in the Coca-Cola's sales when these new Cokes come into the market (see Appendix 1). Lastly, the Coca-Cola's advertisements which are full of positive energy pass this energy through media and make Chinese people feel more energetic. Aaron Smith demonstrated that the Coca-Cola has expressed its own unique brand images that are optimism, togetherness, diversity and inclusion.^[18]

2.4 Weaknesses

However, weakness in flavors still exists in the Coca-Cola Company. Buffet who is also a shareholder of Coca-Cola Company advertised Cherry Coke last year.^[20] Though Buffet is quite popular among Chinese people and Cherry Coke is an attracting type of product that people want to have a try, the mix of cherry and coke actually doesn't suit Chinese people's flavors.^[20] Through the observation by the journalist Wei, the Cherry Coke can hardly be found in shopping centers.^[20] The shopkeeper Ms. Gu thought the failure of Coca-Cola is mainly caused by the incomplete understanding of Chinese people's flavors (see Appendix 1).

2.5 Opportunities

Furthermore, two main opportunities can be found in Coca-Cola Company. Above all, the Coca-Cola Company has always upgraded its product lines based on the trend. According to Ms. Huang, the vice president in the Asian-Pacific Coca-Cola Company predicted the trends for soft drinks which are health-focused, innovation in flavors and digital-based. Therefore, the Zero Coke and Coffee Coke were manufactured to fit consumers' needs.^[17] Moreover, Coca-Cola Company has claimed that more than 500 products have been planned to reduce sugar around the world.^[15] As for the digitalization, the Coca-Cola's first self-assisted AI refrigerator was put into Changsha this month to support its "520 Plan".^[4] In addition, Coca-Cola has performed its consumer social responsibilities (CSR) at full blast which gains recognition from increasing number of customers. According to the data in 2015, Coca-Cola has carried out nearly 20 programs to protect the water resource. 17.1 billion liters of water have been re-

turned into the nature after their production.^[24] Taking the sustainable development into their consideration can show this company's awareness of social responsibility.

2.6 Threats

As for its threat part, fierce competition and a not bright future for carbonated beverages have been the main threats for the Coca-Cola Company. Firstly, competitions with Pepsi and Chinese local beverage companies have become fierce. In order to increase its market share, Pepsi established a strategic alliance with a popular company—Tingyi Holding Corp in 2012. The Tingyi's strong sales network helped PepsiCo to distribute its products around the country.^[9] Moreover, Pepsi videoed a story about an actor who acts as the Monkey King in 2016 and more than 20 million views can be found in two weeks on many social platforms. Using the Monkey King's personality can demonstrate the Pepsi's brand image—youth and irreverence successfully.^[8] Thus, Pepsi has challenged the Coca-Cola Company a lot by the agency of the viral marketing. Furthermore, since Coca-Cola had opened a pop-up store in 2017, the Chinese beverage brand Coco then also opened a pop-up store and made a huge success.^[16] Secondly, a not promising future is for the carbonated beverage industry. According to the data released by the China beverage industry association, the sales of carbonated beverages declined 2.35% in 2016.^[20] China quality association released the “general satisfaction index of beverage industry in 2016” which reported that the low level of satisfaction of carbonated drinks is because beverage corporates only rely on consumers' drinking habits to maintain their sales.^[20]

2.7 Analysis of Data

In this case study, the author mainly analyzes the ways that the Coca-Cola Company advertised in China. The case study contains four parts: analysis on strengths, weaknesses, opportunities and threats. Compared to its weakness, much more strengths can be found in Coca-Cola. In addition, Coca-Cola always follows the latest trend and keeps itself updated. Nevertheless, a not bright future may be seen in the whole carbonated beverage industry. Based on this case study, the author found that keeping updated to the latest trend, caring customers' needs and fulfilling their CSR are the Coca-Cola's main keys to success.

3. Argument

Although the future of new drinks is not bright and Chinese beverage market is getting more mature, Coca-Cola

and many other beverage companies have promoted their products at full blast. Moreover, Chinese people tend to care more about group benefits than their own interests. As such, American investment in China should be welcomed because the advertising strategies the American beverage industry uses enrich Chinese people's lives, and there are benefits from experiencing the American value of individualism when Chinese employees work.

In the first place, the ways that American beverage industry uses to advertise enrich Chinese people's lives because of their advocacies and awareness of social responsibilities. Firstly, what American beverage enterprises advocate has a positive impact on Chinese people's daily lives. For example, one of Coca-Cola's successful slogans: open happiness which passes the positive energy to the audience and makes them more energetic.^[5] Moreover, apart from the home and office, Starbucks aims to become the third place in people's lives. Providing the comfortable social sites, Starbucks hopes people can socialize with each other comfortably there.^[7] Secondly, some CSR commitments of these beverage companies may arouse people's awareness about social responsibilities. For example, since the Budweiser Company is aware of the bright future of renewable electricity, so it promised that “every Budweiser around the world will be brewed with 100% renewable electricity by 2025.”^[3] These behaviors can raise people's awareness of sustainable development.

However, some people argued that the success of American beverage companies may threaten Chinese local beverage enterprises. Consumer Culture Theory (CCT) demonstrates a successful method of selling products which is to give commodities a specific (social) meaning and encourage them to purchase by making them accept their brand image.^[1] Due to the successful slogans, massive people may have a deep impression on their brands. In 2008, the golden package Coke has prompted the transaction sales to increase by 29% because it celebrated this event with Chinese people just like their old friends which made Chinese consumers feel warm and thereby endorsing the Coca-Cola.^[22] Thus, they think that more and more people are likely to buy American beverages rather than Chinese beverages. In fact, these statements are true and Chinese people have to admit threats truly exist. Owing to the globalization, the local economy in the developing country—China will suffer some negative impacts inevitably. However, it is the competitions even the challenges that force the companies to release their potential. These challenges are called challenge stressors which can be acknowledged as chances for growth and achievement.^[6] For instance, because of the popularity of pop-up stores, Coca-Cola has opened a pop-up store using celebrity ef-

fect in Zhengzhou in 2017, which captured lots of media.^[23] Then in 2018, Coco Company made good use of hot topic and held a creative “My Ideal Boyfriend” pop-up store in Shanghai, which attracted more than 15000 people to participate in these activities. These innovations which are based on Coca-Cola’s pop-up store ideas have achieved a huge success.^[16]

Furthermore, American individualism value makes Chinese employees focus on improving their own abilities, thereby becoming more competent. To begin with, individualism refers to the thought that the important things are the interests of their own and people who are close to them. They also care more about task than relationship.^[13] In the International Management, the score of United States in individualism is 67, which proves that America has a high individualism. In Hofstede’s Cultural dimensions, people with high individualism tend to have “greater individual initiatives”. People can image that Chinese employees with high individualism would prefer to work alone and therefore need to be relatively capable to achieve the goals. In fact, many slogans of American companies also demonstrate the American individualism. For example, one perceived value of American company Pepsi—irreverence which showed a focus on their own freedom is one specific example of US’s individualism.^[8]

On the other hand, some critics claimed that although American individualism value can help make employees competent, it is incompatible with the organizational culture of most Chinese enterprises because most Chinese people emphasize more on the collectivism. If they still insist voting for the individualism, relationship confliction may be occurred. Collectivism refers to “the tendency of people to belong to groups or collectives and to look after each other in exchange for loyalty.”^[14] The findings showed that China has the score of 54 in the individualism.^[14] The low individualism (high collectivism) demonstrates that Chinese are more willing to work in groups rather than work alone.^[14] Relationship conflicts set off when disagreements about personal values and interpersonal relationships and other incompatible things happen.^[6] Therefore, employees with individualism may not get on well with others owing to the different perceived values and thus cause the relationship conflict. As a consequence, this kind of conflict may harm the team process. However, defenders argued that it is quite common for team members to have conflicts because of difference in value. They used the Four Stage Theory to demonstrate that the conflict caused by value is quite common in the team development.^[6] In the second stage—storming, members insist taking their original ideas into their teams, which may cause conflicts and do harm to the progress. In con-

trast, in the next stage—norming, group members start to collaborate with each other. Despite the conflict at the beginning, cooperation will be the final outcome of team process. Moreover, they also illustrated that since nearly everyone needs to work in teams regardless of individualism or not. According to Colquitt, Lepine and Wesson (2009), cognitive ability tends to be highly correlated with task performance.^[6] Hence, these team members with high individualism often have high level of cognitive ability and they can actually improve the organizational performance to some extent.

In conclusion, American investment of beverage companies and individualism value should be welcomed because the advertising of American beverage companies makes Chinese people’s lives colorful and Chinese employees can gain a lot from American individualism on their work.

4. Conclusion

In this essay, there are three main parts: literature review, case study and argument. In the literature review, five sections are being talked about. Moreover, in the case study, how the Coca-Cola advertises in China is mainly talked about. In addition, in the argument section, the author argued that American investment of beverage companies and individualism value should be encouraged because the advertising of American beverage companies enriches Chinese people’s lives and Chinese employees can benefit a lot from experiencing the American individualism on their work. After reading this essay, the author recommends two research orientations for future reading. One is the cooperation between American beverage companies and Chinese local drinks enterprises. The other one is the tactics that managers apply to deal with culture differences within the teams.

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Journal of Finance Research is an independent
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PUBLISHING PTE. LTD.

ISSN 2591-7137



9 772591 713195