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# Risk Management, Bankruptcy and Restructuring Under Unique Institutional Setting: Case Studies in China

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**Abstract:** This paper aims to examine whether and how the corporate governance practices of distressed firms are sufficient to minimise the impact of corporate failure or bankruptcy in China. This paper will explore the role of government in the development agenda of promoting effective corporate governance practices (i.e. institutions) to avoid corporate bankruptcy or failure. How do these institutions promote the protective mechanism to protect corporates' interests in various industries? How these developments will in turn affect stakeholders in various sectors. This paper will investigate the impact of China's corporate governance practices research and institutional changes on the sustainable development of corporate solvencies. This paper will use bibliometric analysis to perform statistical and correlation analysis on the relevant literature. Cases from China will be used for comparison. This paper will provide recommendations for emerging economies to develop ecosystems based on good corporate governance practices.

**Keywords:** corporate risks; restructuring strategies; big data; mergers and acquisitions; institutions; stakeholder; business chain; sustainability

## 1. Introduction

China has a unique system, and as a result, the Chinese government has very comprehensive and thoughtful regulations and controls over businesses in the free market (Zhao & Zhang, 2003). These controls are designed to protect the interests of various industries and enterprises, specifically to help small and micro-enterprises grow faster, ensure financial clarity, ensure fair competition among market participants, etc (Peng & Ying, 2021). For example, after the bankruptcy of an enterprise, Article 9 of the Anti-improper Competition Law of the People's Republic of China has ensured that market participants can compete fairly by stipulating that employees in the bankrupt enterprise must keep their trade secrets. At the same time, the government has also supported a large number of enterprises through investment and other means (Pan et al., 2020). In July 2019, the Government Investment Regulations came into force, further regulating the management mechanism of government investment funds and effectively guaranteeing the role of government funding support. The scale of investment within the government budget in 2021 is 610 billion yuan. The government's protection for enterprises will also have a rich impact on the enterprise's stakeholders and market participants (Chen et al., 2024).

This paper focuses on the role of government in the development agenda to promote effective corporate governance practices (i.e. institutions) to avoid corporate insolvency or collapse. Even when under the protection of multifaceted government regulation, troubled firms can still emerge in the marketplace (Yu et al., 2022b). This is due to the unprecedented volatility, uncertainty, complexity, and ambiguity (VUCA) environment faced by contemporary organizations in the era of digital business, which scholars have defined as a "VUCA world" (Millar et al., 2018). As economic growth slows, many companies are grappling with severe cash flow problems. Others are in financial distress due to a lack of awareness and technology to use data effectively (Urbinati et al., 2019). In addition, there has always been a lag in regulatory policy regarding business practices. It is usually the case that industries and businesses reveal the corresponding problems in their development, and then regulation comes out with the corresponding regulatory policies to avoid and prevent the problems. (Huang, 2005)Therefore, governments need to develop special protection policies for businesses at risk and in bankruptcy.

For enterprises at risk and in distress, governments usually use an enterprise risk management approach. Since bankruptcy often does not seem to lead to effective physical targeting of resources (Wen, 2004), governments use court-based bankruptcy reorganization management for enterprises facing bankruptcy. This paper will use bibliometric analysis to analyze and compare keywords from relevant articles for the analysis of the Chinese case study. In terms of risk management, this paper analyzes and studies the common risk control problems in supply chain practice. This paper provides solutions for troubled companies to allocate resources and tide over the financial crisis by analyzing and studying listed companies that have gone bankrupt in China and discussing bankruptcy restructuring cases in China in recent years.

## 2. Background and Motivation for Focusing on Risk Management, Insolvency, and Restructuring in the Digital Business Era

### *2.1. Institutional Advantages for Dealing with Risks in the Digital Business Era*

In the digital business era, where information and data are exchanged more and more rapidly, some companies are in financial crisis due to managers' lack of awareness of the effective use of data and the immaturity of data analysis (Yu et al, 2023b). The Chinese government intervenes in the economic activities of enterprises through a institution of macro-regulation to overcome market failures and help enterprises grow (Yu et al.,2023a). When the market enters a special period facing more crises, the government adopts an industrial incentive institution and guides the direction of enterprise development through complementary measures such as policy subsidies and tax incentives (Yu et al., 2022h).

Corporate risk-taking is a resource-consuming activity with strong resource dependence (Zhang Min et al., 2015). For firms that receive policy support, the importation of resources inevitably affects their risk-taking. Research find that better investor protection promotes firms to engage in risky but value-adding investments (John et al., 2008) and the government can influence firm risk-taking by covering tax losses and adjusting tax rates. What's more, social networks help enhance corporate risk-taking, and countries with high government credibility have higher corporate risk-taking (Hilary & Hui, 2009).

In China, the government is an important leader in directing the flow of resources to specific industries and allocating economic resources in an effective market environment using a macro-regulatory institution (Chen et al., 2017). In the late 1980s, China began to implement industrial policies in many forms and with a wide range of scope, among which the "Industrial Policy" discussed and recommended by the CPC Central Committee, formulated by the State Council based on the recommendations and adopted by The Five-Year Plan, was the program document of industrial policy, giving full play to the government's macro-control role by planning the development of each industry in the next five years in a more systematic manner and making clearer guidelines to direct the flow of resources to government-supported industries (Chen et al., 2017). At the same time, after the 14th National Congress of the Communist Party of China in 1992, China vigorously developed a socialist market economy. The industrial policy of the "Five-Year Plan" was to give full play to the government's institutional advantages in an effective market environment. The instruments of government regulation in China include fiscal policies such as fiscal subsidies and tax preferences (Yu et al., 2016), monetary policies such as loan support and foreign trade policies such as tariff protection, as well as administrative controls and administrative coordination, information guidance and laws and regulations. The use of these instruments is directly or indirectly related to resource allocation, especially through fiscal and monetary policies, which can provide direct resource support to enterprises and direct resources to government-supported industries and sectors.

The impact of the government's macro-regulatory institution on firms' risk-taking may vary depending on the nature of the firm. The government background of SOEs makes them significantly different from private firms in terms of resource access, which also determines that the impact of industrial policies on firms' risk-taking will be significantly different between SOEs and private firms. First, with the government as an invisible guarantee, SOEs are more likely to obtain bank loans than private firms (Yu & Pan, 2008). Second, SOEs are more likely to receive government subsidies than private firms, and local governments with discretionary financial power provide financial support directly or indirectly to them. In summary, the increase in risk-taking of SOEs is still relatively small in the face of the increased resource allocation brought by industrial policy support (Yu et al., 2022e). Compared with SOEs, the positive impact of industrial policy support on enterprise risk-taking is stronger in private enterprises (Xu, Lin, et al., 2024; Xu, Wang, et al., 2024).

### *2.2. A New Model for Reconfiguration in the Digital Business Era*

Under the pressure of financial crisis and bankruptcy, there is a consensus that companies respond to risk management and bankruptcy through restructuring. The specific reasons are as follows.

### *2.3. Market Calls for New Model of Restructuring*

On the asset side, in an international and domestic environment where the overall economic development is slowing down, the number of companies that can maintain sustained growth in performance is decreasing (Chen & Zhou, 2020). The supply on the asset side is insufficient and high-quality resources are scarce (Liu & Zhang, 2020).The number of enterprises potentially available for acquisition in the market is subsequently reduced, coupled with the normalization of IPO, the opening of GEM for shelling, and the launch of the Science and Technology Innovation Board, enterprises with slightly better growth prefer to be listed independently, and traditional M&A restructuring does not maximize value (Tong et al., 2021). In this uncertain situation, investment is delayed until the business situation improves, and the supply side of the asset side is insufficient, enterprises prefer to wait and see quality recombination to cope with the risk (Liu & Zhang, 2020).

On the capital side, a large number of enterprises have a high debt ratio and insufficient cash flow (Shen & Qian, 2022). The break of the capital chain causes many enterprises to fall into financial distress and face bankruptcy. Enterprises need some new restructuring methods to integrate resources, gain market competitive advantage and survive the financial crisis. The government gradually realized that bankruptcy reorganization would further promote the transformation of bankrupt enterprises and solve the problem of the capital chain (Zuo, 2017).With the advent of the digital era, enterprise bankruptcy reorganization integrated with the new concept of digital transformation will fundamentally improve and adjust the traditional industrial structure, and create new economic growth points (Zhang et al, 2021;Yu et al., 2022a).

### *2.4. Advantages of Government Supervision of Bankrupt Companies*

Bankruptcy announces the end of an enterprise's business, which not only increases the investment risk for investors and affects the motivation of market participants, but also leads to unreasonable use of resources and undermines market competition (Lv et al., 2004). Therefore, the Chinese government has developed special protection mechanisms for enterprises facing bankruptcy including risk management and bankruptcy restructuring. For enterprises facing risks, the government first adopts risk management to help them resolve the crisis. When the risk control system cannot completely solve the enterprise's problems (Sun, 2010), the government promotes the enterprise to get out of trouble and resume effective operation through court bankruptcy reorganization (Zuo, 2017).

The government protects bankrupt enterprises can not only timely rescue enterprises and prevent major risks, but also effectively regulate the market behavior through the reasonable redistribution of enterprise resources (Han, 2004).

## 3. Role of Risk Control in Enterprise Risk Management, Bankruptcy Restructuring

### *3.1. Risk Management Status and Application*

There are always risks in the development of enterprises, and the government helps enterprises manage major risks to avoid bankruptcy through a reasonable risk control system (Fikry, 1967). In order to resolve the major risks faced by enterprises, promote high-quality development of enterprises, and continuously improve the enterprise risk prevention and control mechanism (Gao & Du, 2013), the State Council issued the "Implementation Opinions on Strengthening the Construction and Supervision of the Internal Control System of Central Enterprises" in 2019 (The State-owned Assets Supervision and Administration Commission of The State Council, 2019), proposed a specific system for government risk control, mainly including: Establish a risk management-oriented internal control system (Lin & Chen, 2016), strengthen the effective implementation of government control management (Sun & Qin, 2018), the rigid constraints of internal control information technology (Luo & Zhang, 2008), and evaluates the risk management ability of enterprises (Lu et al., 2014; Xu et al., 2024b, 2024a).

### *3.2. Risk Control Case Study*

Christopher, a famous American expert in supply chain management, pointed out that "competition in the 21st century is no longer between companies, but between supply chains". In recent years, the Chinese government has frequently issued guiding documents on supply chain finance policies, aiming to encourage and regulate the healthy and orderly development of the supply chain finance market: among them, the General Office of the State Council, in its "Guidance on Actively Promoting Supply Chain Innovation and Application" issued on November 13, 2017 (The General Office of the State Council, 2017), particularly emphasized the need to cultivate about 100 supply chain management Leading enterprises, the competitiveness of supply chain in key industries to enter the forefront of the world, and China to become an important center of supply chain innovation and application (Yu et al., 2022f). Risk management is important for effective supply chain operation in the presence of various uncertainties (William et al., 2015). The supply chain risk control industry's primary focus is on what risk control issue arises, what the characteristics of that issue are, and why it leads to risk (Yu et al., 2022g). Although most supply chain companies have a complete set of risk control programs and a more standardized operational structure, there is a lack of more focused analysis and research on typical issues in their supply chains that may pose significant risks to the company as a whole. This paper attempts to make a normative warning of problems for supply chain enterprise risk control by exploring risk control issues in the supply chain.

**Table 1.** 15 supply chain finance risk control questions.

| | What is the problem? | What are the characteristics of the problem | Why it leads to risk |
|---|---|---|---|
| 1 | Difficulty in self-reimbursement of income | All possible costs, risks, etc. in supply chain finance activities can be fully covered by definite supply chain benefits or future benefits. | Inadequate realisation of corresponding goods and elements in supply chain operations. |
| 2 | Reputation assetization issues | Inadequate competence, integrity or responsibility of firms in engaging or participating in sup- | There is a lack of comprehensive examination and evaluation of the |

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| | | ply chains and their financial activities in supply chain financial innovation. | influencing factors of borrowing enterprises in the assessment of reputational assetization (Sharma et al., 2024b). |
| 3 | Risk of depreciation and liquidity of pledged collateral | In practice, the more common agricultural supply chain risk control will use the secured collateral model, generally by the third-party logistics enterprises to provide storage services. | Logistics companies lose their goods due to improper management, or storage leads to deterioration of goods (Yu et al.,2023c). |
| 4 | Business operations and technology risks | Primarily triggered by internal factors, with risks covering the full range of operations in the supply chain. | Risks arising from internal control failures and operational errors by business personnel. Platforms are also exposed to risks such as technical failures and data loss (Mehta et al., 2023). |
| 5 | credit risk | Borrowers fail to meet their debt service obligations on time, and the platform and investors face damage to principal and interest (Yu et al., 2022d). | Failure to check all aspects of the borrower's credit and business operations in accordance with the principle of prudent examination. |
| 6 | Internet supply chain finance risks | Transaction authenticity and technical reliability are not effectively guaranteed, and users' sensitive information and personal property are subject to security risks. | The Internet is a new industry in the financial sector, and the current legal policy regulatory system is not sufficient to fully cover Internet risk vulnerabilities (Yu et al.,2023f). |
| 7 | Supply chain information asymmetry | Uncertainty between the parties about the information provided by the other party that affects the fairness of the transaction or reduces market efficiency (Yu et al.,2022i). | Access to data is limited to a single granting entity, and the processing and handling of information is not based on a particular purpose. |
| 8 | Risk transfer | Potential risks that arise in the process of transferring risk. | The focus on the analysis and research of core corporate credit risk has resulted in operational risk and moral hazard not being effectively managed (Yu et al., 2024). |
| 9 | Decentralization issues | Generating Fraudulent Transactions and Operational Risk in Closed-Loop Control of the Supply Chain. | Trading is outside the traditional financial markets and regulators and therefore lacks the necessary buffers in the face of external shocks. |
| 10 | Risk conductivity | The company's financial position is affected by other business risks. | The company’s own delivery stability is reduced affected by significant financial problems in the operations of its shareholder companies or subsidiaries. |
| 11 | Multi-level supply chain risk | Lack of transparency in multi-tier supply chains and risks to secondary suppliers. | Lack of real-time monitoring of financial, operational and compliance risks of Tier 1 and 2 suppliers, and failure to identify high-risk suppliers in advance and take relevant actions |
| 12 | supply chain disruption | Disruption of supplier supply and production operations. | Risk in the credit of the core enterprise, which spreads along the transaction chain to upstream and downstream SMEs in the system, thus affecting the overall security of supply chain financing (Popescu & |

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|---|---|---|---|
| | | | Yu, 2024a). |
| 13 | Logistics regulator risk | The bank outsources the supervision of the pledge to the logistics company, which performs the supervision of the cargo rights on its behalf and thereby introduces the risk of the logistics supervisor. | Due to information asymmetry, logistics supervisors may act to the detriment of the bank's interests in pursuit of their own interests or cause loss of the bank's pledges due to their own mismanagement and lack of due diligence (Yu et al., 2022j). |
| 14 | Ethical risks | Under conditions of information asymmetry, uncertainty or incomplete contracts prevent the responsible economic agents from bearing the full consequences of their actions. | Failure to use well-developed contracts or other economically viable means of exercising oversight over those engaged in economic activity to avoid the ill effects of their deliberately imprudent behavior. |
| 15 | Quality risk in accounts receivable | Problems with the existence and legitimacy of accounts receivable. | Lack of focus on the authenticity, legality and transferability of accounts receivable by commercial banks during credit review. |

As can be seen from Table 1, the above 15 supply chain risk control issues include financial, operational, reputation, ethics, quality, and other aspects. If a comprehensive risk control system is not established, the risk that occurs in a certain link is likely to be passed to the whole supply chain, which will have a greater negative impact on the enterprise. It is of great significance for enterprises that the Government adopts a risk control approach to help enterprises facing significant risks solve their problems. Based on this, this paper selects two specific Chinese supply chain risk management cases, analyzes the risks they face and the government's risk control policies.

**Table2.** Risk control cases study.

| | **Publishing industry: Phoenix Xinhua Bookstore Group Co.** | **PPE industry: Ningbo WK** |
|---|---|---|
| Risks | Supply Chain.<br>• There is a poor degree of synergy among supply chain members. Since the companies in each link of the supply chain are independent market entities with different interests. Therefore, they consider different priorities in the process of mutual cooperation, which leads to communication and cooperation among supply chain partners based on incomplete and asymmetric information(Yan, 2015), greatly increasing the structural costs and internal transaction costs of the supply chain in the publishing industry.<br>• Poor supply chain information communication. Although Phoenix Xinhua has established management information systems (MIS), most of these systems are used for internal management and do not create an effective information flow in the supply chain(Xi , 2021). The information chain between publishers and bookstores is broken, information between upstream and downstream cannot be transferred in a timely and effective manner, and publishers lack a timely and accurate method to understand readers' needs . | Supply Chain.<br>As COVID-19 spread globally, market demand surged, leading to disruptions in the PPE supply chain.<br>• First, embargo policies in some cities led to capacity constraints. Workers were unable to return to work and PPE factories lacked sufficient labor and machinery to produce.<br>• Secondly, Chinese manufacturers did not have enough capacity to meet such a huge increase in global demand.<br>• Finally, rising raw material prices led to runaway price increases for finished PPE products. The shortage of meltblown fabric jeopardizes the supply of mask production. The normal price of meltblown fabric, whose middle layer is made of meltblown material, was \$3,000 per ton, but rose to \$50,000 per ton at the peak (Zhao & Ye, 2022). As a result, deliveries of PPE products were |

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|---|---|---|
| | | delayed, prices rose sharply, and the supply chain was disrupted. |
| | Information.<br>• The level of industry informatization is not high. The book industry has a wide range of products and a long sales cycle, and the low level of industry informatization leads to the untimely delivery of book terminal sales information, making it difficult for book planning companies to respond quickly to market reactions, affecting market judgment and business decisions, and thus affecting business efficiency(Cheng, 2018). In the context of the rapid growth of the book market, the backward level of information technology in the industry has become an important factor limiting the healthy development of the industry.(Kwok et al., 2024a). | Logistics.<br>• Since mid-March 2020, the majority of PPE product orders have been requested to be shipped by air. All cargo airlines are operating at full capacity and air freight prices have more than tripled due to logistical disruptions. For COVID-19PPE products, the rigorous inspection process is taking longer than before (Deepthi et al., 2020). Border closures, health and administrative restrictions added to logistical delays.<br>Information.<br>• During the New Crown Pneumonia epidemic, the PPE supply chain lacked information symmetry due to the lack of timely and accurate information disclosure among firms. (Figure 2) Inaccurate demand forecasts can mislead the production plans of manufacturers with mismatched information (Khojasteh, 2018). This is the result of the bullwhip effect. |
| Risk Control Measures | Convergent Publishing.<br>• Since the proposal of "accelerating the deep integration of publishing and science and technology" in 2013, the state has issued a series of official documents on integration development, such as "Guidance on the Integrated Development of Traditional and Emerging Publishing" and "Guidance on Promoting the Deep Integration of Culture and Science and Technology" (The state Administration of Press, Publication, Radio, Film and Television, Ministry of Finance of the People's Republic of China, 2015), It promotes the innovative management mode of the publishing industry and the integration of culture and technology.<br>Promoting domestic demand.<br>• China's 13th Five-Year Plan proposes to promote reading for all, and lists the national reading project as one of the major cultural projects. According to the national reading survey report released by the China Press and Publication Research Institute, the number of books read by people aged 0-17 will be 10.71 in 2020, an increase of 3.52 books compared with 2015. The national reading policy stimulates consumption and boosts domestic demand, which has strongly boosted market demand in the book industry.<br>Intellectual Property Protection.<br>• In 2008, the National Intellectual Property Strategy Outline proposed a plan to build an intellectual property system and raise awareness of intellectual property rights. According to the General Administration of Press and Publication, in 2020, local copyright management agencies nationwide seized 4,485,600 copies of pirated books and magazines. The annual number of book copyright contracts registered nationwide increased from 10,795 in 2006 to 17,811 in 2020 (National Press and Publi- | Normative standards:<br>• 2021, the General Administration of Market Regulation, the Ministry of Emergency Management jointly issued a three-year special action plan to enhance the standardization of personal protective equipment (2021-2023) (The State Administration for Market Regulation & The Ministry of Emergency Management, 2021) to assist personal protective equipment enterprises in risk control and supply chain risk mitigation. The main work includes: focus on the release and implementation of a number of PPE national standards to increase the effective supply of national standards in the field of PPE. Strengthen the quality and safety supervision of personal protective equipment, highlighting key products and key areas of sampling. Carry out small and medium-sized individual protection standardization work to help and other aspects of the content.<br>• China News Network reported on January 7 (Lin, 2020): According to data from the General Administration of Market Regulation Standards and |

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| | cation Administration, 2020). Improving intellectual property protection is conducive to protecting the legitimate rights and interests of various market players and promoting the sustainable and healthy development of the book industry. | Technology Division, China is currently the world's fastest growing country in the scale of the personal protective equipment industry, the size of the domestic personal protective equipment industry to grow at a rate of about 15% per year. By the end of 2020, China's daily production capacity of masks increased from 10 million at the end of January to 500 million. According to the National Agency for International Development Cooperation, China provided a large number of epidemic prevention materials such as protective clothing and masks to more than 150 countries and 13 international organizations in 2020. Through risk management, the PPE industry has successfully weathered supply chain risks. |
| | Intelligent Logistics.<br>• With the support of national policies and regulations, and in order to actively cope with supply chain risks, Phoenix Xinhua has built a publishing smart logistics industrial park and an operation and dispatch center (Fang & Wang, 2020). After the completion of the construction of the smart logistics project, the operation capacity of Phoenix Xinhua's logistics and distribution center has been significantly improved, saving logistics costs of over RMB 10 million per year (Miao et al., 2022). It has realized transaction networking, transmission digitization and business informatization (Yu et al.,2023g), while meeting the business needs of different business modes such as B2B and B2C, and the overall modernization and standardization of operation environment, process and technology have achieved a qualitative leap (Xi, 2021). | |

In the era of the digital economy, WK PPE lacks global resource integration and effective utilization of fragmented information and faces risks in supply chain management. Phoenix Xinhua is unable to quickly integrate and process information across the supply chain lacks global risk management awareness, and is unable to cope with the risk dilemma of the supply chain. Enterprises often have similar problems in their operation. Therefore, this paper extracts the keywords of the articles in nearly 10 years on CNKI and Web of science with the main research topics of Risk management, bankruptcy and restructuring, and use bibliometric analysis to analyze and compare keywords according to their weights.


**Figure 1.** Web of science Risk management, bankruptcy, and restructuring-related keywords clustering.

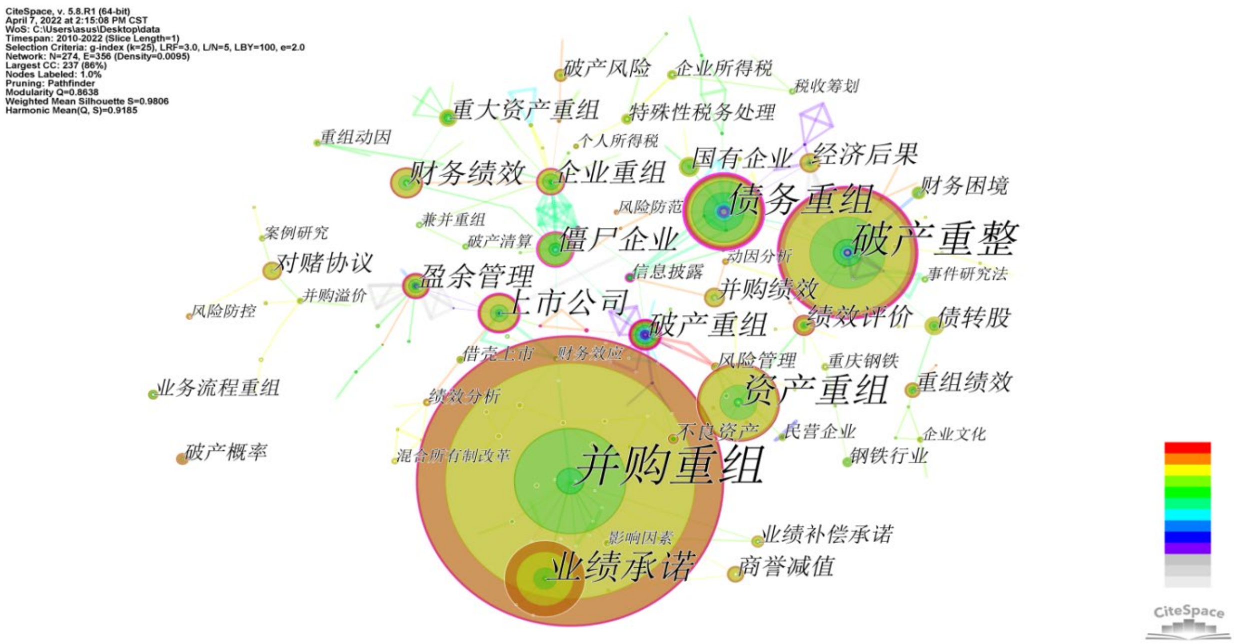


**Figure 2.** CNKI Risk management, bankruptcy and restructuring related keywords clustering.

## 4. Court Reorganization in Bankruptcy

### *4.1. Status and Application of Insolvency Reorganization*

When risk controls are not effective in helping a business to emerge from distress, the business will likely face insolvency. Under the Corporate Insolvency Act, the Government specifically targets insolvent businesses that are at risk of insolvency but still have the value of being maintained for reorganization (Antill, 2021). Bankruptcy reorganization is conducted by the court to restructure the business and debt aspects of the bankrupt enterprise to safeguard the interests of multiple parties, including debtors and creditors, and to help the enterprise emerge from its difficulties (Zhang, 2016).

In recent years, the acceptance of bankruptcy restructuring by market players has gradually increased, and the number of troubled enterprises choosing to resolve their debt problems through bankruptcy restructuring has increased significantly compared to the past. According to the report of the Supreme Court President Zhou Qiang at the beginning of 2021 (Luo, 2021): In 2020, courts at all levels concluded 10,132 bankruptcy cases, involving claims amounting to 1.2 trillion yuan, including 728 bankruptcy reorganization cases, revitalizing assets worth 470.8 billion yuan, giving a new lease of life to 532 enterprises with development prospects, and helping 486,000 employees stabilize their employment. It can be said that bankruptcy restructuring is playing an increasingly important role in helping enterprises to resolve their debt crises, improve quality and efficiency and solve social problems.

### *4.2. Advantages of Reorganization in Bankruptcy*

Bankruptcy courts, as a rule, are considered to play a key role in rescuing insolvent enterprises. In addition to having a significant impact on its stakeholders, bankruptcy reorganization can achieve optimal resource allocation and, to some extent, defuse financial risks in the industry or region, achieving greater social value.

**Table 3.** Benefits of Bankruptcy Reorganization.

| Avoid bankruptcy | Stabilize assets | Expand financing |
|---|---|---|
| Bankruptcy Reorganization can be filed in cases where the debtor is at risk of incurring causes of insolvency, facilitating timely rescue of troubled companies. | Enforcement after court approval provides a strong backing for reorganization and effective stabilization of property disposal. | Comprehensively and systematically settles the debtor's liabilities, allowing the company to realign the interests of its contributors, which helps to reduce the transaction risk for new investors, thus expanding the scale of corporate financing (Wang, 2017). |

### *4.3. Overview of Bankruptcy Reorganization Case Statistics and Analysis*

Bankruptcy reorganization is essentially a typical manifestation of the re-optimization of resource allocation among market players. More and more enterprises are resolving their corporate debts through bankruptcy restructuring, adjusting their capital and governance structure, returning to the market out of bankruptcy crisis. This paper provides statistics on bankruptcy restructuring cases of listed companies on the Shanghai and Shenzhen stock exchanges in China from June 2007 to June 2021 after the implementation of the new bankruptcy law. As of June 30, 2021, 83 listed companies were accepted by the courts for bankruptcy restructuring.

### *4.4. Industry*

By listed company industry, the manufacturing industry accounted for the largest number of listed companies accepted for bankruptcy restructuring, with 57 companies, accounting for 68.67% of the total.

**Table 4.** Industry distribution of listed companies accepted for bankruptcy restructuring 2007.6-2021.6.

| Industry | Quantity | Ratio |
|---|---|---|
| Manufacturing | 57 | 68.67% |
| Information Technology | 5 | 6.02% |
| Transportation, warehousing and postal services | 3 | 3.61% |
| Comprehensive | 3 | 3.61% |
| The real estate industry | 2 | 2.41% |
| Farming, forestry, animal husbandry and fishery | 2 | 2.41% |
| Wholesale and Retail | 2 | 2.41% |
| Leasing and business services | 1 | 1.20% |
| The construction industry | 1 | 1.20% |
| Scientific research and technology services | 1 | 1.20% |
| Electricity, heat, gas and water production and supply | 1 | 1.20% |
| Culture, sports and entertainment | 1 | 1.20% |
| Culture, sports and entertainment | 1 | 1.20% |
| Accommodation and Catering | 1 | 1.20% |
| Wholesale and retail trade | 1 | 1.20% |
| The mining industry | 1 | 1.20% |
| Information transmission, software and information technology services | 1 | 1.20% |
| Total | 83 | 100.00% |

Source: Listed company announcements（2021)

As can be seen from the above table, between 2007 and 2021, manufacturing accounted for nearly 70 percent of all Chinese listed companies facing bankruptcy. The main reasons for this phenomenon are the following points.

In the digital era, the competition faced by enterprises is the low-cost downgrade attack based on advanced technology from enterprises with more advanced digitalization and intelligence, which is a great risk for the manufacturing industry (Xiao & Lin, 2014; Yu et al, 2022c). If traditional manufacturing enterprises do not actively promote intelligence, there is a risk that they may be in a lower position in the competitive landscape.

Financial risk transmission is faster in the digital age. The flow of information between companies and many processes between companies have become highly automated (Gao et al., 2021). Once a crisis occurs in one part of the supply chain due to business, industry conditions, trade risks, etc., that manufacturing company and its upstream and downstream companies could be at great risk (Popescu & Yu, 2024b).

Since 2018, with the implementation of amendments to labor laws, the cost of labor in manufacturing has increased significantly. China's traditional manufacturing industry is mainly assembly-based, lacks technology and innovation, and relies on a large amount of labor to meet domestic and international orders. After the labor law adjustment, the traditional manufacturing industry can hardly afford the high labor cost and cannot reform and innovate the enterprise in the short term, heading for financial difficulties. This paper analyzes the reasons for the risks and bankruptcies faced by key manufacturing industries.

**Table 5.** Reasons for the risks and bankruptcies faced by key manufacturing industries.

| Industry | Industry Features | Reasons for Restructuring | Reorganization method | Policy Orientation |
|---|---|---|---|---|
| Steel | Industry overcapacity, the overall industry profit is low, under the environmental protection pressure. | Solve overcapacity and promote the improvement of cost, efficiency and technology level of enterprises. | Strategic restructuring, strong alliances, equity swaps, equity transfers. | Deepen the supply-side structural reform of the steel industry, promote the implementation of mergers and acquisitions of steel enterprises. |
| Chemical | Industry overcapacity and insufficient concentration of head companies in the downstream segment of chemicals. | Solve the problem of repeated investment and homogeneous competition. | Strategic restructuring, upstream and downstream industry chain integration and specialized integration. | Adherence to market-based mergers and enhance the sense of innovation of enterprises. |
| Coal | Regional coal companies and small coal mines overcapacity. | Policy-oriented, market pressure environmental pressure. | Equity swap, resource mutual insurance. Coal power, coal transportation (Yu et al.,2023d), coal chemical, and other industry chain combination development. | Reorganization of small coal mines by region within two years, forming 10 billion tons of coal mines by the end of 2020. |
| Auto Parts | Low concentration, small business scale. | Profit decline, foreign investors occupy the high-end market. | Mergers and acquisitions, Industry chain integration, joint ventures (Sharma, 2024a). | By 2020, forming a number of auto parts enterprise groups with a scale of more than 100 billion yuan. |
| Building Materials | Large scale and variety of industries, from cement, glass, gypsum board, concrete to stone sand, etc. | Large energy consumption per unit and low industrial concentration. | Regional integration of large enterprises, diversified shareholding. | Supply-side reform, elimination of backward production capacity. |

*4.5. Quantity Statistics*

From June 2007 to June 2021, a total of 83 listed companies were accepted by the court for bankruptcy reorganization. the number of accepted cases of bankruptcy reorganization of listed companies in 2007 was 8.

from 2008 to 2013, with the formal application of reorganization procedures, more enterprises in distress before the implementation of the new Bankruptcy Law got out of trouble through bankruptcy reorganization, and the number of accepted cases of bankruptcy reorganization of listed companies decreased year by year; from 2014 to 2018, the number of bankruptcy reorganization acceptances of listed companies stabilized at about 2 cases per year; from 2019 to 2020, the number of bankruptcy reorganization acceptances of listed companies increased significantly, and the increase may be due to the following reasons: first, due to the impact of the financing environment, some listed companies could not continue to rely on high leverage for rapid expansion and further fell into the predicament of being unable to pay interest and debt, which led to the financial crisis of listed companies (Hu et al., 2014); second, due to the economic adjustment or epidemic, some enterprises' main business revenue or profit declined, transformation was unfavorable, and the long-accumulated risks were exposed at an accelerated pace (Yu et al., 2023e); third, the policy level supports eligible listed companies to resolve their debt crisis through bankruptcy restructuring. 16 bankruptcy petitions of listed companies were ruled by the court in 2020, accounting for 19.28% of the total. from January to June 2021, the court ruled to accept 6 bankruptcy petitions of listed companies, higher than the number in the same period in 2020.

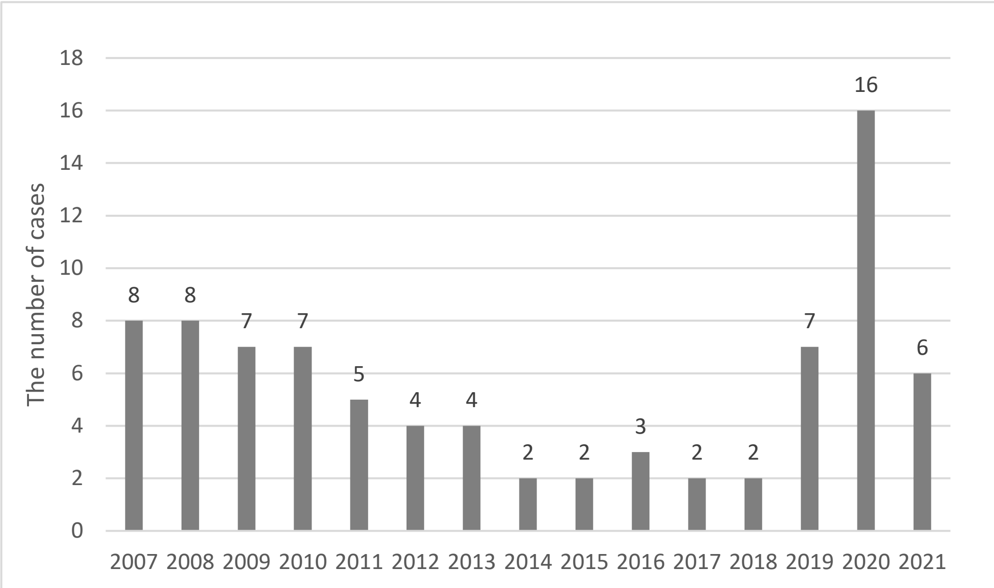


**Figure 3.** Number of bankruptcy reorganization companies’ statistics 2007.6-2021.6.

*4.6. Analysis of Core Elements of Insolvency Reorganization*

This report uses the market capitalization one and a half years after the completion of the reorganization plan and one year before the completion of the reorganization plan to measure the change in market capitalization before and after the reorganization. Excluding companies with missing data (delisted within the statistical interval, reorganization plan not completed, trading suspensions covering the statistical interval, etc.), the sample consists of 50 companies in total.

One and a half years after the implementation of the reorganization plan, there were 10 companies with a decrease in market value, 19 companies with a market value increase of 0 to 100%, 10 companies with a market value increase of 100% to 300%, and 11 companies with a market value increase of more than 300%, i.e., more than 80% of companies with an increase in market value, of which more than 40% of companies with a market value increase of more than 100%. It can be seen that with time, the proportion of the company's market value increase also tends to increase, six months to one and a half years after the implementation of the reorganization plan, the market value of the company increased by more than 300% from 3 to 11 companies. From this, it can be seen that for listed companies with the possibility of restructuring, efforts to promote successful restructuring have achieved good social and economic effects in optimizing resource allocation.

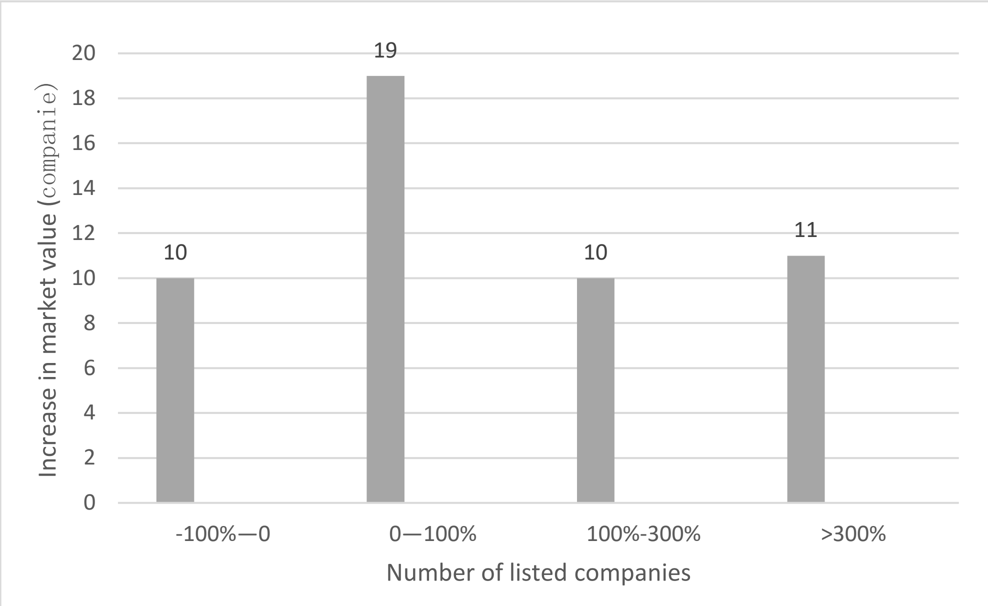


**Figure 4.** Change in market capitalization one and a half years after the completion of a listed company's reorganization plan.
Source: WIND, 2021.

*4.7. Specific Cases*

**Table 6.** Specific cases of bankruptcy restructuring.

| | Internet companies: Huao Technology | Energy companies: Yongtai Energy | Manufacturing: Chongqing Steel |
|---|---|---|---|
| Basic facts of the case | Since 2018, due to illegal guarantee and overdue debt crisis, the total debt of Hua'ao Technology Company has been nearly 300 million yuan, and its production and operation have been stalled (Deng & Li,2022). | In early July 2018, Yongtai Energy constituted a material default, triggering the bond cross-default clause. If the debt problem is not solved as soon as possible, the company is likely to be forced into bankruptcy and liquidation (figure1). Bankruptcy restructuring can stop calculating interest and lock the scale of debt,which is the only feasible way to solve the company's debt crisis (Zuo, 2017; Kwok et al., 2024b). | Due to the continued downturn in the steel market, Chongqing Iron and Steel has suffered huge losses for years since 2011. As of December 31, 2016, Chongqing Steel's total net assets were -107 million yuan. Upon the application of creditors, Chongqing First Intermediate People's Court ruled on July 3, 2017, to accept the Chongqing Steel restructuring case by the law. |
| Reorganization | • During the bankruptcy period, the court instructed the administrator to properly relocate the employees to relieve the pressure of maintaining stability and continue to fulfill the operating contracts involving public interest to protect the public interest (Zhejiang Zhongzhou law firm, 2022). Disclosed information regularly to protect the right to information of small and medium shareholders and coordinate the disclosure of annual reports to | • One of the ways to settle debts under the Restructuring Plan was to offset the debts with shares converted from capital reserves, which were restricted for two years, with no sale of shares for the first six months, after which creditors could reduce their holdings by 1/6 each quarter.<br>• Therefore, the Intermediate People's Court of Jinzhong proposed a targeted plan: first, freezing the offsetting shares. Creditors are not allowed to sell con- | The restructuring plan is based on the idea of introducing China's first steel industry restructuring fund as the restructuring party through the transfer of all shares held by the controlling shareholder; using the proceeds from the disposal of ineffective and inefficient assets to settle debts and converting capital reserve into shares to offset debts. Measures to protect the interests of more than 10,000 employees, 2,700 creditors, 170,000 shareholders, and the company |

| | | | |
|---|---|---|---|
| | avoid delisting.<br>• Through various efforts, investors were introduced through equity transfer and debt-equity swap (Figure 2). On December 21,2021, the Wuhan Intermediate People's Court ruled to approve the restructuring plan and terminate the restructuring process. | version shares. Second, judicial fines. The court imposed a fine on the nine creditors who sold their shares, by the refusal to comply with the judgment or ruling of the people's court that had taken legal effect (Hao, 2022). | itself. According to Chongqing Iron and Steel's 2017 annual report, through the successful implementation of the reorganization plan, it obtained a net profit attributable to shareholders of the listed company of RMB 320 million in 2017, which has turned a loss into a profit (Zhao, 2018). |
| Typical meaning | In response to the plight of Hua Ao Technology, after careful study and in-depth analysis of the causes of bankruptcy, it was determined that Hua Ao Technology's debt crisis was mainly due to the breakage of its capital chain as a result of poor operations, rather than the deterioration of its business (Ma, 2019). Therefore, the bankruptcy reorganization was able to help Hua Ao Technology get out of the predicament and resume its business. The successful reorganization of Hua Ao Technology effectively saved a high-tech enterprise with real operational value and guaranteed the unity of procedural justice and substantive justice, legal effectiveness and social effectiveness in the bankruptcy case. | Through the reorganization, the rate of satisfaction of ordinary creditors' claims changed from 36.57% in the liquidation state to satisfaction. The employment of more than 20,000 employees of the company was preserved. In the second half of 2021, the company's shares resumed entry into the two financing bases and the CSI index, and the share price rose steadily.(China Changan Network,2022). The successful judicial practice of the $100 billion asset restructuring case of Yongtai Energy is another model case of national bankruptcy, which has important significance for the restructuring of listed companies in Shanxi and even the whole country, especially the restructuring of private listed companies. | The case is the largest restructuring of a state-controlled listed company in China in terms of assets and debts. For the manufacturing industry, Chongqing Steel is a typical case. The success of the bankruptcy restructuring case provides a solution for the government to dispose of "zombie enterprises" (figure2) . In this case, the People's Court played a rescue role in the restructuring process, successfully divested non-performing assets in a market-oriented manner, introduced an industrial restructuring fund, and used the capital market to cooperate with the restructuring of the enterprise, providing a replicable example for the restructuring of large state-owned listed companies. |

Huao Technology, Yongtai Energy, and Chongqing Iron and Steel faced bankruptcy in the course of their operations due to excessive debts and broken capital chains. The government retained the high-quality resources of the enterprises through court bankruptcy reorganization to maximize the protection of the interests of creditors and small and medium shareholders, achieving a win-win situation for the enterprises, shareholders, employees, creditors, and the government, and achieving the organic unity of legal and social effectiveness.

### *4.8. Impact of Insolvency Reorganization on Stakeholders*

Bankruptcy reorganization has played a positive role in establishing a modern enterprise system, regulating the bankruptcy of enterprises, and protecting the legitimate rights and interests of creditors(Zhang, 2015). For creditors, they can avoid low liquidation rates caused by liquidation and have the opportunity to obtain greater returns. Debtors can avoid liquidation, get the opportunity to restructure their debts, and reopen their businesses. Protect employees, upstream and downstream interests, and protect tax revenue. Local industrial structure and maintain social stability. This paper analyzes the influence of bankruptcy reorganization on stakeholders and studies it separately from debtor and creditor.

**Table 7.** Impact of insolvency reorganization on stakeholders.

| **Impact on the debtor** | **Impact on creditors** |
|---|---|
| Personal | Property |
| While bankruptcy restructuring helps debtors to sort out their debts and settle them in order, According to Article 15 of the Law of the People's Republic of China on Enterprise Bankruptcy, it also requires | According to Article 19 of the Enterprise Bankruptcy Law of the People's Republic of China, the creditor cannot take measures to preserve or enforce the debtor's property; if it has been preserved, it |

| | |
|---|---|
| debtors to undertake the following obligations: to keep their property and information properly; to cooperate with the court and answer inquiries truthfully; to attend meetings of creditors and answer their inquiries truthfully; not to leave their place of residence without the permission of the people's court, and not to take up new senior positions in other enterprises. | needs to be released from preservation; if enforcement has been applied for but not completed, it needs to be suspended. |
| Litigation<br>Since the debtor already has a reason for possible insolvency, there is a high probability that it will face civil litigation in respect of its debts. The purpose of insolvency reorganization is to help the debtor to resolve its debt crisis so that the debtor-ridden enterprise can have a chance to continue its business, and therefore during insolvency reorganization, the enterprise is temporarily exempt from lawsuits and claims of various creditors (Xu, 2017). Civil litigation or arbitration concerning the debtor that has been commenced but not yet concluded should stay; such litigation or arbitration should continue after the administrator takes possession of the debtor's property. The word "stay" in this context means "suspension". The time of stay is from the date of acceptance of the bankruptcy petition to the date of the receivership of the debtor's property by the administrator. Upon completion of the receivership by the administrator, the action or arbitration proceeding resumes. | Claims<br>Article 46, paragraph 1, of the Enterprise Bankruptcy Law states: "An unmatured claim shall be deemed to be mature when the bankruptcy petition is accepted." An unmatured claim is deemed to be matured, but shall be reduced by the unmatured interest. Interest-bearing claims cease to accrue from the time the bankruptcy petition is accepted. Although there is a partial loss of interest to the creditor, however, the timely performance of the claim is ensured (Xie, 2019). The creditor may obtain satisfaction by the statutory order of satisfaction. In bankruptcy proceedings, creditors with different nature claims have different orders of satisfaction. The main reason why the insolvency law provides for this is to maintain social stability and to protect priority holders. |
| Property<br>The administrator is responsible for receiving the debtor's property, and the debtor's right to dispose of the insolvency estate is transferred to the administrator (Yu & Yan, 2013). Therefore, any act performed by the debtor that affects the insolvency estate (including transfer of property, discharge of debts, the conclusion of contracts, registration of property rights, assignment of claims, the performance of debts, etc.) is not permitted. The debtor's acts of discharge are invalid. The sequential discharge of the debt is guaranteed.<br>The administrator has an option to perform contracts that were formed before the insolvency proceedings and have not been performed by the debtor and the parties, to avoid the pre-bankruptcy debtor entering into contracts that are detrimental to creditors.<br>When a court accepts an insolvency case, the measures of preservation concerning the debtor's property shall be discharged and the execution proceedings shall be suspended. As a result, the debtor's property may be preserved, effectively preventing the impairment of the insolvency estate. | Rights<br>By article 44 of the Interpretation of the Security Law: If during the guarantee period, the people's court accepts the debtor's bankruptcy case, the creditor may both declare the claim to the people's court and assert its rights against the guarantor. This provision makes it easier for creditors to safeguard their rights and interests. Because in actual cases, some enterprises have unpaid claims, creditors can claim rights against the debtor or guarantor for this part of claims (Agrawal et al., 2022). That is, after the bankruptcy of the principal debtor, the creditor may Sue either the debtor or the guarantor or both, irrespective of the principal debtor's entry into bankruptcy proceedings. |

The court's acceptance of a bankruptcy petition may guarantee the right of creditors to be paid fairly, but it may also impose certain restrictions on the exercise of creditors' rights, to safeguard the smooth conduct of the bankruptcy proceedings (Agrawal et.al., 2022).At the same time, bankruptcy reorganization arranges for an administrator to dispose of the debtor's property, which allows the debtor's property to be preserved and prevents the debtor from becoming involved in litigation. The impact of bankruptcy reorganization on stakeholders is very positive and therefore bankruptcy reorganization is increasingly accepted by stakeholders.

## 5. Insights and Recommendations

China has special policies and regulations for enterprises facing difficulties, with the fundamental aim of making them sustainably repayable (Popescu et al., 2023). In the digital economy, the risks faced by enterprises are inevitable, so they must form a systematic risk control and management strategy. In corporate governance, it is important to focus not only on economic benefits but also to combine debtor-creditor and social benefits. Through the study of risk control and bankruptcy management cases, this paper provides troubled enterprises with solutions to overcome financial crises through risk control and bankruptcy restructuring, directs more social capital and professional investors to potential investment opportunities in enterprise risk management and restructuring, and also contributes to the development and improvement of the government regulatory system.

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