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Analysis of the Advantages and Disadvantages of Corporate Financing Channels and Case Studies

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Abstract. Financing, as the cornerstone of enterprises' funds, is the core support for its long-term operation and development. Researchers have conducted a scientific and systematic analysis of the main financing channels. However, some enterprises lack a comprehensive understanding of the financing channels and the space for optimizing the financing structure, resulting in a series of problems such as unreasonable financing structure and high financing costs. Therefore, this paper aims to summarize the advantages, disadvantages, and actual performance of various financing channels by collecting relevant research materials and data. And combining them with practical case analysis as well. At present, it is known that external financing is the main financing for enterprises. Although enterprises should take certain risks, it is more conducive to financing and long-term development. Inside it, equity financing and debt financing each have their own advantages and disadvantages. In contrast, internal financing has the opposite advantages and disadvantages in the development of enterprises. The financing risk is relatively low, but at the same time, excessive internal financing can also easily squeeze the development space of enterprises.

Keywords: Internal financing, equity financing, debt financing, case study.

1. Introduction

As a key link in enterprise operation, financing activities are not only the bottom line for survival of enterprises, but also the cornerstone that profoundly affects their long-term development pattern. At present, China's economy is in a critical stage of transformation and upgrading, and market competition is becoming increasingly fierce. Continuous and sufficient financial support is an important guarantee for enterprises to cope with challenges and the core reliance for expansion and development. However, different financing channels have different potential problems. Some financing channels have high thresholds, while others have high risks, which brings financing confusion and risks to enterprises that are not familiar with financing channels.

In enterprises' financing structure, bank loans often hold a dominant position. However, excessive reliance on bank loans is not a good choice. In the long run, many companies in reality face various financing problems when developing. Many small and medium-sized enterprises (SMEs) have long relied on bank loans for financing. They take the risk of capital chain breakage during bank tightening policies easily [1]. SMEs always rely too much on traditional financing methods. This narrows their financing channels and make their financing structures unscientific. Ultimately, SMEs

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face problems such as difficult financing, expensive financing and high financing risks. For another example, the development of technology-based enterprises has a clear lifecycle—start-up, growth, maturity, and decline periods, and there are different financing needs each [2]. This means that technology-based enterprises need diversified financing rather than relying singly on one or two financing methods. An unscientific financing structure generates multiple risks for technology-based enterprises: overly single financing channels can lead to the breakage of the company's capital chain, while financing mismatched to development stages can lead to a lot of issues, such as unsustainable financing or insufficient financing amount. Nowadays, the financing market is becoming increasingly mature. The multi-level capital market is constantly improving, providing differentiated financing tools for different enterprises. On this basis, a comprehension of various financing channels can not only clarify their characteristics and differences, but also provide directional guidance for enterprises to cope with financing challenges and catch up with new financing trends.

Based on the research results of previous scholars in various financing channels, this paper comprehensively summarizes the advantages and disadvantages of each financing channel, and analyzes various financing cases to more specifically demonstrate their actual performance and potential problems, providing detailed reference information for enterprises to scientifically choose financing channels.

2. Introduction to financing channels and comparison of advantages and disadvantages

Current financing channels are primarily divided into two categories:external financing and internal financing. This paper will discuss the advantages and disadvantages of internal financing, as well as equity financing and debt financing within external financing.

2.1. Internal financing

Internal financing refers to a financing method in which a company does not rely on external funds and only obtains the necessary funds for development through its own internal accumulation. The funds for internal financing mainly come from the retained profits of the enterprise itself. This financing method does not require seeking external funding from the company, so it will not increase the company's debt or other additional financing costs.

2.1.1. Advantages of internal financing

The main advantages of internal financing include: free use of funds, extremely low costs, and risk resistance. Free use is reflected on that enterprises have the ability to directly access internal funds and independently determine their use. This means that the enterprise does not need to accept external additional constraints. For example, through internal financing, companies do not need to bear additional disclosure obligations from external financing requirements. Low cost is reflected on the absence of excessive financing cost requirements. Funds obtained through internal financing do not have to pay cumbersome handling fees, nor do they have to regularly pay interest or dividends. This financing method only requires a small amount of internal fund allocation costs, which can alleviate the financial pressure on enterprises. Risk resistance is reflected on the fact that internal financing comes from the accumulation of the enterprise itself. There are no difficulties in paying interest or dividends at maturity, nor will it lead to default and subsequent problems such as credit rating downgrade and restricted financing channels. The larger the proportion of funds obtained through internal financing in the capital structure, the lower the financial risk of the enterprise [3].

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2.1.2. Disadvantages of internal financing

Internal financing also has significant limitations. Firstly, internal financing relies entirely on the company's own accumulation, which depends on the company's own development status. This means that it cannot draw funds beyond itself like external financing, and is prone to missing out development opportunities. Meanwhile, relying overly on internal financing occupies a company's operating capital, which will hinder business development and expansion.

2.2. Equity financing

Equity financing refers to the financing of enterprises through the issuance of stocks. Investors will acquire partial ownership of the enterprise by purchasing stocks. In this way they share both the profits and risks of the enterprise proportionally. Equity financing mainly involves public issuance, non-public issuance, additional issuance, and rights issue. The funds obtained from this financing method do not need to be repaid within a specific period, but sometimes enterprises need to pay dividends.

2.2.1. Advantages of equity financing

The advantages of equity financing mainly lie in two aspects: providing long-term and stable capital flow, and diversifying enterprise operational risks. From the perspective of capital acquisition, equity financing is aimed at a wide range of investors to raise large-scale funds in a long-term and stable manner, thus meeting the substantial financial support needed by enterprises for operational development and scale expansion. From the perspective of enterprise operational risk, equity financing disperses ownership of the enterprise to investors, who can also share the risks and rewards of the enterprise. This means that when a company faces operational difficulties, its core shareholders will provide funding, decision-making assistance, and also bear the company's losses. This risk-sharing relationship enables enterprises to have stronger development resilience in the face of uncertainty.

2.2.2. Disadvantages of equity financing

Equity financing also has drawbacks, including high costs, diluted control, and pressure on performance and information disclosure.

Relatively, equity financing has a high cost, which often becomes a heavy pressure that enterprises have to bear. Taking the issuance of common stocks as an example. In this process, enterprises always need to bear a large amount of expenses, such as consulting fees, asset appraisal fees, and underwriting fees. Cost like these brings significant financing costs to the enterprises.

In the process of equity financing, the entry of new investors can easily change equity structure and lead to dilution of control. When the control is too diluted, shareholders may have difficulties reaching consensus in the decision-making process. For example, in terms of profit distribution, new shareholders may pursue higher dividends, while existing shareholders are more likely to value the company's reinvestment and long-term growth potential [4]. This can reduce the decision-making efficiency and ultimately hinder the enterprise's future development.

Enterprises can often finance a lot at once through equity financing. However, whether these funds are utilized scientifically determines whether financing can create corresponding value. If a company fails to develop a scientific funding plan, it can easily lead to low efficiency in capital

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utilization, dispersion of company resources, and ultimately backfire on the company's development pace.

The operating conditions of enterprises determine investors' returns, which makes investors extremely concerned about the company's performance and even withdraw their investment when the returns cannot meet expectations [5]. These have led to the need for long-term detailed information disclosure by enterprises, which also imposes significant performance pressure.

2.3. Debt financing

Debt financing refers to a method by which enterprises raise funds from financial market or institution through debt instruments. It primarily includes bank loans, bond issuance, and financial leasing, and generally requires enterprises to possess a good credit standing.

2.3.1. Advantages of debt financing

The financing cost of debt financing is controllable. Moreover, compared to equity financing, listed companies expend lower costs for debt financing theoretically [6]. In many countries and regions, corporate debt interest can be deducted before tax, thereby reducing the company's taxable income and ultimately reducing costs [7]. Also, its process is relatively more simple and it does not require a lot of time and effort. Before formal financing, the cost of debt financing can be known through relevant contract. This enables enterprises to make a good long-term debt planning. Meanwhile, debt financing does not require a large amount of information disclosure in contrast to equity financing. It only require core information related to corporate credit. This results in the overall process simpler and less time-consuming. Finally, debt financing has a leverage effect. Companies can amplify returns if confident. Conversely, if the company ultimately loses money, the losses will be amplified too.

2.3.2. Disadvantages of debt financing

The disadvantages of debt financing involve repayment risk and limited financing scale. Debt financing has strict requirements for repayment at maturity. Once a company encounters operational difficulties and cannot repay its debts, it will directly face debt default. This lacks any elastic space. Moreover, the scale of debt financing should match the credit rating and business operation status of the enterprise. Financial institutions strictly evaluate a company's ability to repay debt. If a company lacks sufficient qualifications, it will be difficult to finance enough to support its development. SMEs generally face difficulties in evaluating their credit status, therefore often leading financial institutions to tend to reduce their financing scale [8].

3. Case study

3.1. Equity financing

In 2006, Jingdong borrowed a bridge loan of 2 million yuan with a 10% interest rate from a listed company to raise funds. It also received a commitment to raise an additional 3 million yuan when the profit reached expectation at the end of the year. However, due to the sharp decline in the stock price of this listed company later on, it need funds urgently. Not only was it unable to provide the remaining 3 million yuan, but it also required the repayment of the 2 million yuan originally lent to Jingdong. At that time, Jingdong's development was in a critical period. The 2 million were already

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invested for the enterprise's expansion. The requirement brought huge pressure to Jingdong. In 2007, Capital Today was optimistic about the future value of Jingdong and made a venture capital investment of $10 million to purchase Jingdong's stocks. Jingdong paid off $2 million in debt and decided to build its own logistics. Later, Jingdong received more investments from companies such as Bull Capital and Tiger Global Management, which not only solved the company's crisis, but also successfully built its own logistics, reducing a major cost of operation—transportation costs.

It can be seen that equity financing has helped Jingdong raise a large amount of funds, not only paying off debts and rescuing the company in a critical moments, but also supporting Jingdong's self-built logistics plan, laying the foundation for Jingdong's future development and growth.

Equity financing has a significant impact on the development of enterprises, which is reflected across different industries rather than in a single company. In reality, Jingdong is not the only company that relies on equity financing to develop and grow.

In recent years, many car companies have begun to pursue diversified battery supply. BYD has developed lithium iron phosphate blade batteries, which has high battery volume utilization, for self-supply. This has brought an upgrade in battery technology and a decrease in the dependence of battery companies. At the same time, competition in the power battery industry has become increasingly fierce. The Contemporary Amperex Technology Co. Limited (CATL), which focuses on power battery systems as its core business, has encountered revenue growth difficulties. From 2021 to 2024, CATL's year-on-year revenue growth rates were 159%, 152%, 22%, and -9. 7% respectively, showing a declining trend. In the face of heavy market pressure, CATL plans to invest in new things such as sodium-ion batteries and battery swap stations. It also decides to broaden its integration into global capital markets to seek development opportunities. On May 20, 2025, CATL listed on the Hong Kong Stock Exchange and issues 117. 9 million shares. It is one of the largest IPOs in Hong Kong's recent history. This listing provided new growth potential for the company.

This Hong Kong IPO not only provides funds to support the realization of CATL's plan, but also enhances CATL's international reputation and lays the foundation for its development in the global market. Through this Hong Kong IPO, CATL achieves revenue growth and gets new possibilities for corporate expansion. In the third quarter of 2025, CATL has recorded total revenue of RMB 283. 072 billion and net profit attributable to shareholders of RMB 49. 034 billion. This performance falls just RMB 1. 7 billion short of its full-year 2024 profit. Many securities regard this quarterly result as "exceeding expectations" [9].

3.2. Debt financing

Evergrande Real Estate Group was once a leading enterprise in the real estate industry. Debt financing played an important role in it. Through issuing bonds, bank loans, and other means, Evergrande had obtained a large amount of financial support. Then it used these funds to purchase and construct land, successfully achieving rapid business expansion. Supported by high leverage, Evergrande gradually became the leading enterprise in the real estate industry at that time. In 2016, Evergrande also entered the World's Top 500 and became the world's top real estate company. However, behind the high returns there lies a series of problems. As the company expands, Evergrande's debt risk is also constantly accumulating. From 2008 to 2014, Evergrande's equity ratio continued to increase above 1, its current ratio tended to be between 1 and 2, its cash-to-liability ratio was almost negative, and the ratio of current liabilities to total liabilities was mostly above 70% [10]. These data explain Evergrande's unstable financial structure, lack of debt repayment ability, and severe financial pressure. Finally, the negative effects of debt financing were reflected under the impact of the "three red lines" policy in August 2020 and the sluggish real estate economy.

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Evergrande faced a dual dilemma: On the one hand, it lacked sufficient funds to repay old debts; On the other hand, it experienced a credit collapse, making it difficult to borrow new debts. In December 2021, Evergrande formally declared a debt default and initiated debt restructuring.

Throughout Evergrande's development history, debt financing demonstrates both its leverage effect in helping the company generate higher returns and its inherent instability in changing market conditions, which can easily leads to debt defaults.

4. Conclusion

This paper summarizes the advantages and disadvantages of various types of financing currently available, and summarizes their actual performance through case analysis as well. Internal financing provides enterprises with freedom in the use of funds with low costs and risks. However, excessive internal financing can squeeze the development space of enterprises and affect their expansion; Equity financing can quickly and long-term raise large amounts of funds, diversify operational risks. But it can bring high financing costs and complex operating regulations, as well as dilute corporate control, which have a negative impact on decision-making efficiency. At present, equity financing often brings opportunities for enterprise development and plays a strong supporting role in the process of enterprise expansion;The debt financing process is simple, cost-effective, and controllable. However, compared to equity financing, its debt repayment lacks flexibility and carries the risk of default. Moreover, the financing ceiling is usually determined by the qualifications of the enterprise, making it difficult to quickly raise large amounts of funds to support the expansion. The existence of leverage effect also simultaneously amplifies the returns and risks of enterprises. In reality, although its financing amount is lower than equity financing, the threshold is also relatively low, so it has a larger market than equity financing and is well-known and used by more enterprises. This paper objectively and scientifically evaluates the advantages and disadvantages of various major financing channels, providing information basis for enterprises to construct a reasonable financing structure.

Due to insufficient market data, this article was unable to summarize the various emerging financing channels currently available. In the future, various financing channels need to adopt targeted measures such as mechanism optimization to further solve the financing difficulties of enterprises and help them achieve high-quality development. Emerging financing channels also need to avoid the theoretical and practical shortcomings of mature financing channels, and inject more flexible and effective vitality into corporate financing.

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