

Driving Efficiency in NPA Disposal the Synergistic Effects of Organizational Adaptation and Operational Excellence

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ABSTRACT

The profit level in China's non-performing asset disposal market is not high, transaction costs are high, tradable opportunities are limited, the industrial chain flow in the trading market is not smooth, and market transactions lack diversity. The maturity of the entire market, institutional activity, and asset richness all require further systematic optimization to enhance their contribution to resolving financial risks. In the new digital economy, where data serves as a key production factor, digital initiatives based on digital technology and linked by data are becoming important levers for driving capital market efficiency and driving force transformation, serving as a new impetus for financial technology. As the practical foundation of macroeconomics, asset management companies are active participants in digital transformation, shouldering the important task of implementing high-quality development of non-performing assets. Based on this, this study adopts a mixed research method to gain a deeper understanding of the business processes and performance dimensions of non-performing asset disposal. By studying digital dimensions such as digital technology, organizational change, and operational management, it demonstrates their impact on non-performing asset performance. It helps enterprises understand the mechanism and positive effects of digital technology on businesses, and assists governments and policymakers in further recognizing the impact of digitalization, weighing the costs and benefits of digital management, and formulating guiding policies for enterprise digitalization.

Keywords: Non-performing asset; Digital technology; Organizational change; Operation management

Introduction

1.1 Background introduction

Non-performing assets (NPAs) have always had a negative impact on bank profitability, not only on the bank's monetary profitability but also on the long-term development of the financial system. A good NPA management system can have a positive impact on the banking industry, thereby promoting the economy. Non-performing assets are valuable assets. Accurate pricing can truly reflect the value of the assets. Through effective processing methods, these values can be quickly mined and restored. Efficiently handling non-performing assets can optimize the asset structure, increase the rate of return on capital, and enhance profitability. From a macro perspective, accelerating the disposal of non-performing assets can help financial institutions clarify their own risks and formulate reasonable avoidance plans, minimizing the risks involved in financial reforms. China's economic development is inseparable from monetary mechanisms and related policies. With the sharp increase in the scale of non-performing assets, the management of non-performing assets has attracted increasing attention. How to quickly complete the disposal of non-performing assets, improve capital liquidity, and then generate expected capital value (Dube, 2022; Jegadeeshwaran & Basuvaraj, 2019).

International experience has shown that in order to prevent and resolve financial risks and maintain national financial security, an effective solution is to strip non-performing assets from bank balance sheets and establish specialized third-party institutions for takeover, known as Asset Management Company (AMC) (yang, 2022).

In the late 1990s, in response to the credit crisis caused by the outbreak of the Asian financial crisis, the Chinese government drew on international disposal experience and established four major financial asset management companies, namely Huarong, Changcheng, Dongfang, and Xinda, to properly dispose of the huge non-performing assets of state-owned commercial banks. Practice has proven that this creative reform has resolved systemic risks in the financial system, played a significant historical role in the reform of state-owned commercial banks, and maintained the stability of social credit (yang, 2022).

After years of development, China has gradually built a "5+ 2+ N+ bank system AIC+ foreign investment system" pattern, which specifically includes: "5" represents a national AMC; "2" represents two local AMCs in each province; "N" refers to unlicensed local AMCs. Asset management companies mainly undertake the grouping of small-scale non-performing assets with low disposal efficiency by the five major AMCs and local AMCs; the "banking system" was established with the beginning of this round of market-oriented debt-for-equity swaps, led by major state-owned banks. AMC subsidiary specializing in debt-for-equity swaps. As the end of the financial cycle, the disposal of non-performing assets is crucial to preventing secondary financial risks, improving the allocation of financial resources, and maintaining the stability of the financial system.

1.2 Statement of the problem

The profit level of the non-performing asset disposal market in China is not high, transaction costs are high and there are few tradable opportunities. The industrial chain flow in the trading market is not smooth. Market transactions are not diversified enough. There are not enough market participants. The maturity and institutional activity of the entire market, asset richness are still in their infancy, and further systematic optimization is needed to improve their contribution to resolving financial risks.

1. China has a large supply of non-performing assets, rapid growth, and insufficient disposal.
2. Non-performing asset classification and matching do not meet demand
3. The level of digitalization needs to be improved urgently

Chinese non-performing asset management companies urgently need to improve their digitalization and informatization levels to reduce costs. On the one hand, non-performing asset disposal institutions can use the platform to expand channels and find more investors, and at the same time, it also allows suitable investors to find suitable assets more conveniently and improve transaction efficiency; on the other hand, relevant disposal institutions can use the platform to expand their channels and find more investors. Digitization and informatization facilitate participation in the asset disposal process to reduce management and business costs.

1.3 Research questions

1) How is the level of digital technology, organizational change, operation management and non-performing asset disposal performance of non-bank in China?

2) what is the impact of digital technology on non-performing asset disposal performance of non-bank in China?

3) How is the model for non-performing asset disposal performance of non-bank in China?

1.4 Research Objective

1) To assess level of digital technology, organizational change, operation management and non-performing asset disposal performance of non-bank in China.

2) To explain the impact of digital technology on non-performing asset disposal performance of non-bank in China.

3) To create the model for interrelationship between digital technology, organizational change, operation management and non-performing asset disposal performance of non-bank in China.

Literature review

2.1 Overview of NPA disposal formance in china.

Non-performing assets (NPAs) have always had a negative impact on bank profitability, not only on the bank's monetary profitability but also on the long-term development of the financial system. A good NPA management system can have a positive impact on the banking industry, thereby promoting the economy. Through effective processing methods, these values can be quickly mined and restored. Efficiently handling non-performing assets can optimize the asset structure, increase the rate of return on capital, and enhance profitability. From a macro perspective, accelerating the disposal of non-performing assets can help financial institutions clarify their own risks and formulate reasonable avoidance plans, minimizing the risks involved in financial reforms. China's economic development is inseparable from monetary mechanisms and related policies. With the sharp increase in the

scale of non-performing assets, the management of non-performing assets has attracted increasing attention. How to quickly complete the disposal of non-performing assets, improve capital liquidity, and then generate expected capital value. Disposal of non-performing assets plays an important role in preventing and defusing financial risks and serving economic transformation and adjustment (Dube, 2022; Jegadeeshwaran & Basuvaraj, 2019).

In the pilot work of non-performing loan transfer, AMCs have actively participated since the pilot. In the field of non-performing asset transfer in personal loans, local asset management companies have actively collected and disposed of non-performing asset packages launched by banks after the pilot work was launched. Up to now, local AMCs have acquired over 90% of the total transfer scale of non-performing personal loans, making them the main force in this field. Under the guidance of regulatory authorities, AMCs actively play a countercyclical regulatory role, and with years of accumulated rich experience and professional skills, are increasingly participating in risk resolution in key areas. As a local AMC deeply rooted in the local area, with its natural geographical genes and good cooperation advantages with local governments, it actively participates in the resolution of non-performing assets of local state-owned enterprises. The non-performing assets of local state-owned enterprises are becoming an important source of acquisition for local AMCs (Jun, 2024).

The non-performing asset management industry in China has played a positive role in disposing of non-performing assets, revitalizing existing assets, preventing and resolving financial risks, and supporting the development of the real economy, from its inception to the formation of a systematic system. It has made outstanding contributions to the reduction of non-performing loan ratios in Chinese banks and the socio-economic development. During the policy-oriented development stage from 1999 to 2006, the establishment and operation of the four major financial AMCs significantly reduced China's non-performing loan balance and non-performing loan ratio, causing the non-performing loan ratio to drop from the highest 30% to around 9% and the non-performing loan balance to around 1.3 trillion yuan. During the market-oriented transformation stage from 2007 to 2012, the non-performing loan ratio further decreased from 9% to around 1% , and the balance of non-performing loans decreased to around 0.5 trillion yuan. In 2013, China entered the stage of comprehensive marketization, and the establishment of local AMC and AIC institutions gradually improved the non-performing asset management industry in China. The non-performing loan ratio tended to stabilize and remained within the range of 1% to 2% (Chuanquan, 2024).

Although China's non-performing asset management industry has achieved good results, due to the gradual process of industry construction, there are inevitably certain operational and regulatory risks in the development process, and its development is not yet mature. In 2024, the State Administration for Financial Regulation issued the " Measures for the Management of Non Performing Asset Business of Financial Asset Management Companies", which starts from the entire process of acquiring, managing, and disposing of non-performing assets of AMCs, systematically expands the scope of non-performing asset acquisition, clarifies and refines the standards for non-performing assets of non-financial institutions that can be acquired, and comprehensively regulates the non-performing asset business of AMCs. Intended to guide AMCs to focus on their main business of non-performing assets, improve their professional capabilities in acquisition, management, and disposal, leverage their financial rescue and countercyclical adjustment functions, and

play a positive role in preventing and resolving financial risks and supporting the development of the real economy in the new situation. At the same time, it also encourages AMC's to cultivate differentiated core competitiveness and play an active role in the reform of insurance for small and medium-sized financial institutions. The orderly expansion of the scope of non-performing financial assets that financial asset management companies can acquire (Songhui, 2024).

Subsequent AMC's should carry out asset management business in accordance with regulatory requirements. 1) Focus on the main responsibility business and enhance professional capabilities. Based on market demand and policy guidance, clarify the scope of assets that can be acquired, which should not only include bad debts within the banking system, but also include non-performing loans from other financial institutions and the real economy. Enhance internal professional capabilities to ensure efficient disposal of non-performing assets. 2) Accelerate the clearance of non-performing assets and improve the efficiency of market-oriented operations. Establish a more flexible asset auction and transfer mechanism, and introduce more market-oriented mechanisms in the process of asset transfer and disposal. Diversified asset disposal channels should also be established to enhance asset disposal flexibility through equity transfer, asset restructuring, and other means. 3) Be a good "firewall" for financial risks and a "stabilizer" for maintaining financial security. By acquiring and disposing of non-performing assets, we can effectively prevent the accumulation of non-performing assets and the transmission of risks. By accelerating the clearance of non-performing assets, reducing the accumulation of systemic risks, and maintaining the smooth operation of the financial market (Yiming, 2024).

2.2 Theoretical foundation

2.2.1 The theory of innovation.

In 1912, the Austrian-American economist Joseph A. Schumpeter first proposed the innovation theory in "The Theory of Economic Development". Innovation is an activity in which production factors are combined in a new way to create a new effect. He divided innovation activities into five forms: new product development, production method update, market expansion, supply source update and corporate organizational structure reorganization. Schumpeter emphasized that innovation is not the same as invention. Only inventions that produce positive effects in actual economic activities can become real innovations (Aslam et al., 2020).

2.2.2 The theory of technology spillover

Technological spillover effects refer to the spillover of emerging advanced technologies to relatively backward groups in social and economic development, causing the backward groups to benefit and benefit from technological spillovers, which will cause the latter to increase their productivity levels, but technology owners will not be able to obtain all the benefits (Wang, Wang, & Liu, 2024). New investment has a spillover effect. Not only the investing manufacturer can improve productivity through accumulated experience, but other manufacturers can also improve productivity through learning (Yue, Huang, & Cao, 2024).

2.2.3 Information asymmetry theory

1970s, Akerlof first proposed free information in "The Market for Lemons: Free Quality and Market Mechanisms" Theoretically, this study examines the relationship between

information non-price and market efficiency by constructing a second-hand car market model (Akerlof, 1970).

In financial asset transactions, asset values are expected future values, so it is difficult to evaluate the transaction value. Buyers are more willing to buy at the market average price. Due to their uniqueness, high-quality assets are less likely to be familiar to market participants and less likely to be traded. As a result, transactions in the asset trading market have been sluggish, and the best transaction time has been missed, making it difficult for the value of non-performing assets to be reflected (Kolari & Pynnönen, 2023).

2.2.4 Financial Intermediary theory

With the vigorous development of the financial ecosystem, the role of non-bank financial intermediaries is increasingly increasing in order to accelerate the efficiency of fund utilization, prevent and control financial risks, reduce opacity and the vulnerability of over-the-counter transactions. Non-bank financial institutions have had a profound impact on liquidity demand and control. Firstly, non-bank financial institutions themselves have become the main source of the surge in liquidity demand, especially for investment funds facing liquidity mismatches. On the other hand, non-bank financial institutions are increasingly involved in the exclusive field of liquidity supply. Non-financial institutions currently account for around 50% of global financial activities (Aramonte, Schrimpf, & Shin, 2022).

Conclusion

This study adopts a mixed research method combining quantitative analysis and qualitative analysis to investigate the impact of digital technology, organizational change, and operational management on the non-performing asset disposal performance of non-financial institutions through a survey of 60 local AMCs in China. This study analyzed four latent variables, namely disposal performance (DP), digital technology (DT), organizational change (OC), and operational management (OM). The study used structural equation modeling (SEM) for modeling and analysis. Through the study of 260 valid samples, it was found that: 1) digital technology has a significant positive correlation with the disposal of non-performing assets. 2) Digital technology has a significant positive correlation with organizational change. 3) Digital technology has a significant positive correlation with operational management. 4) Organizational changes have a significant positive correlation with the disposal of non-performing assets. 5) Operational management has a significant positive correlation with the disposal of non-performing assets.

The conclusions of these quantitative analyses were also validated in subsequent qualitative analyses, and valuable audio and text materials were collected through interviews with key personnel from 20 non-performing asset management companies. Through the analysis of these data, not only has the reliability of quantitative analysis results been demonstrated, but the richness of research results has also been further supplemented. This study theoretically demonstrates that the promotion effect of digital technology on asset management companies is multifaceted, clarifying the relationship between digital technology, organizational change, operational management, and disposal performance, and enriching the effect of digital technology on the micro level economic impact of enterprises. It helps enterprises recognize the mechanism and positive effects of digital technology on enterprises, and helps governments and policy makers further understand the impact of

digitalization, weigh the costs and benefits of digital management, and formulate digital guidance policies for enterprises. In practice, most non-performing asset management companies have recognized the substantial promoting effect of digital technology and are actively deploying digital technology applications to enhance new quality productivity.

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