

# Analysis and Selection of Enterprise Financial Strategies under Different Life Cycles

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**Abstract:** The theory of enterprise life cycle provides a systematic perspective for analyzing the dynamic development of enterprises, which divides the evolution of enterprises into four stages: start-up stage, growth stage, maturity stage and recession stage. Based on the life cycle framework, this paper deeply analyzes the differences and core contradictions of financial characteristics in each stage, and puts forward the adaptive financial strategy model. The results show that the strategy of "low debt, high equity and zero distribution" should be adopted to ensure the survival in the start-up stage; the scale expansion should be supported by equity-debt financing in the growth stage; the endogenous financing and high cash dividend should be used to balance the shareholder return in the maturity stage; the transformation should be realized by asset divestiture and strategic restructuring in the recession stage. The research value lies in the construction of the three-dimensional linkage mechanism of "financing-investment-allocation", which provides a theoretical basis for enterprises to dynamically adapt to financial strategies and avoid periodic risks.

**Keywords:** Financial strategies, enterprise finance, different life cycles.

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## 1. Introduction

The theory of enterprise life cycle reveals the dynamic evolution law of enterprises from start-up to decline, and divides this process into four typical stages: start-up, growth, maturity and decline. Each stage has essential differences in resource endowment, risk structure and business objectives, and as the core tool of resource allocation, the effectiveness of financial strategy highly depends on the adaptability of stage characteristics. If the financial strategy is mismatched with the life cycle stage, it will lead to significant operational risks: excessive debt in the start-up stage may aggravate the cash flow rupture, conservative investment in the mature stage is easy to miss the opportunity of innovation, and rigid strategy in the recession stage will accelerate the decline of enterprises [1]. This adaptation logic requires enterprises to transform financial strategy from static planning to dynamic response system.

The current global economic environment is characterized by high uncertainty and accelerated technology iteration, and the life cycle of enterprises is showing a trend of compression. Start-ups in emerging industries may quickly jump to maturity, while traditional enterprises are facing the challenge of recession ahead of schedule. In this context, the flexibility of financial strategy has become the key to the sustainable competitiveness of enterprises. However, the existing research has obvious limitations: most of the literature focuses on the strategy design of a single stage, lacking the dynamic path of cross-stage cohesion; There is insufficient discussion on the financial restructuring framework of enterprises in recession, which overemphasizes the possibility of defensive contraction and ignores the possibility of reverse transition [2].

This paper aims to build a dynamic financial strategy framework based on life cycle. The study first analyzes the core financial contradictions in each stage, and then puts forward the strategic portfolio model of "financing-investment-allocation" three-dimensional linkage, emphasizing that the optimization of capital structure needs

to synchronously adapt to investment efficiency and cash flow security. Finally, by designing the financial early warning indicators of the turning point of the life cycle, it provides the decision-making basis for the smooth transition stage of the enterprise.

## 2. Analysis of Financial Characteristics of Enterprises in Different Life Cycle Stages

### 2.1. Financial Characteristics in the Start-Up Period

Start-up enterprises are facing the typical contradiction of coexistence of high operational risk and low financial risk. Due to the low credit level, lack of collateral assets and high probability of bankruptcy, the external debt financing capacity is severely limited, the capital structure mainly relies on equity capital, such as founder's capital injection and venture capital, and the asset-liability ratio is significantly lower than average level of the industry, so as to avoid the risk of cash flow rupture caused by the pressure of debt repayment [3]. At the level of asset operation, enterprises are forced to extend the turnover cycle of accounts receivable due to weak market negotiation ability, and at the same time, they need to pay suppliers in cash, which superimposes the risk of inventory backlog, resulting in a significant lengthening of the cash cycle and liquidity pressure.

High R & D and market verification investment squeezes gross profit rate, lack of scale effect makes fixed cost allocation insufficient, coupled with sharp fluctuations in sales revenue, profits are often in a state of loss or meager profit, return on assets, return on equity and other indicators have been depressed for a long time. The cash flow structure further exposes the pressure of survival. Continuous net outflow of cash flow from operating activities and investment activities, the former is difficult to cover procurement expenditure due to the lag of sales returns, the latter is constrained by the rigid demand for equipment purchase and R & D investment; As a result, financing activities have

become the core source of cash, but the scale of financing is limited and highly dependent on external capital injection, and the ability of endogenous accumulation is weak.

## **2.2. Financial Characteristics in the Growth Period**

Growing enterprises present a dynamic balance between scale expansion demand and financial risk control. With the improvement of product market recognition, sales revenue and profit have entered a fast growth channel, and profit indicators such as gross profit rate and return on assets have improved significantly. However, the simultaneous expansion of capital expenditure has led to a continuous net outflow of cash flow from investment activities, and the pressure of capital demand is still prominent.

In terms of capital structure, enterprises take the initiative to increase financial leverage to support expansion, financing channels tend to diversify, and asset-liability ratio climbs to a higher level in the industry. Although this strategy can exert the tax shield effect and accelerate the formation of economies of scale, the expansion of debt scale will increase the interest burden and debt repayment risk. Enhanced market bargaining power shortens the turnover cycle of accounts receivable, strengthened supply chain management extends the turnover cycle of accounts payable, and inventory turnover accelerates due to the growth of demand, which jointly promotes the shortening of cash cycle. However, in order to meet the raw material procurement and labor costs required for production expansion, the operating cash outflow remained high, and the cash flow from operating activities could only achieve a rough balance, which was difficult to cover all investment needs. The financial governance model has changed from the founder's centralization to specialization and decentralization, professional managers are involved in capital allocation and risk control, and decision-making pays more attention to the balance between return on investment and cost of capital [4]. However, rapid expansion may lead to decentralization of resource allocation, and if the yield of new projects is less than expected, it may lead to a decline in asset turnover and an increase in earnings volatility.

## **2.3. Financial Characteristics in the Mature Period**

Mature enterprises have formed a stable market share and brand influence, and the core financial characteristics are the equilibrium state of low operational risk and high cash flow. At this stage, the growth rate of sales revenue slowed down but maintained a high level, gross profit margin and return on assets tended to be the leading level in the industry, and the profit margin was stable and sustainable, which accumulated abundant free cash flow for enterprises. In terms of capital structure, enterprises usually have high credit rating and diversified financing channels, and can optimize capital structure by increasing debt financing. The net cash flow from operating activities continued to be positive, the production capacity formed by early investment entered the payback period, the turnover efficiency of accounts receivable improved and the return of funds accelerated; the cash flow from investment activities gradually turned from negative to positive, the demand for fixed assets renewal decreased, and the capital expenditure focused on technological upgrading rather than scale expansion. Financing activities turn into net outflow due to debt repayment and dividends, reflecting the

ability of enterprises to reduce external dependence and strengthen endogenous financing. Asset operation efficiency is facing new challenges.

## **2.4. Financial Characteristics in the Recession Period**

The core contradiction faced by enterprises in recession is the dual pressure of shrinking market demand and deteriorating financial structure. With the decline of product competitiveness and market saturation, sales revenue has shown negative growth, gross interest rate and return on assets have declined significantly, and even sustained losses have occurred, resulting in the loss of internal accumulation capacity and the overall deterioration of profitability indicators. In terms of capital structure, due to the lack of equity financing channels and dependence on debt to maintain operation, the asset-liability ratio has risen to a high level in the industry, the financial risk has risen sharply, and the pressure of debt repayment may lead to the breakdown of the capital chain.

Shrinking market demand leads to inventory backlog and prolonged turnover days. Accounts receivable are slow to recover due to the loss of customers or the decline of payment ability, while enterprises are forced to pay suppliers in cash due to credit damage, further lengthening the cash cycle and aggravating the liquidity crisis. The cash flow structure shows a typical "survival contraction": the net cash flow from operating activities continues to be negative, the cash inflow from investment activities mainly relies on the disposal of assets to ease the financial pressure, and the financing activities turn into a net outflow due to the debt repayment needs or financing difficulties, which highlights the high dependence of enterprises on external blood transfusion and the exhaustion of endogenous hematopoietic function.

The internal control system is weakened by brain drain and organizational laxity, the allocation of resources tends to maintain survival rather than innovative investment, and the stagnation of technological upgrading further accelerates the decline of market position.

## **3. Financial Strategy Choices under Different Life Cycle Stages**

### **3.1. Active Financing and Steady Start in the Start-Up Period**

Start-up enterprises are facing the core contradiction between high operational risk and shortage of funds, and their financial strategy needs to focus on the goal of "maximizing cash flow" and adopt the stable strategy of "low debt, low income and no distribution". At the financing level, due to insufficient credit and lack of collateral, enterprises need to actively expand equity financing channels, including founder capital injection, angel investment and venture capital injection of initial funds, and make full use of government-guided funds, seed funds and science and technology loans and other policy support tools. At the same time, the scale of liabilities was strictly controlled to avoid the risk of cash flow rupture caused by fixed interest expenditure. The capital structure was dominated by equity, and the asset-liability ratio was significantly lower than industry average.

In terms of capital utilization, it emphasizes extreme cash flow control, highly concentrates limited resources on core business research and development and market verification, and ensures liquidity security through weekly cash flow

forecasting, reserving at least six months of operating funds, and shortening the cycle of accounts receivable. Investment decisions follow the "focus principle", avoid diversified expansion, and give priority to ensuring the investment efficiency of product development and early customer acquisition. Because of the unstable profit and the urgent demand for endogenous accumulation, the distribution policy often implements zero dividend distribution, and all retained earnings are used for reinvestment.

### **3.2. Enhanced Expansion and Capital Optimization in the Growth Period**

Growing enterprises need to focus on the dynamic balance between scale expansion and capital structure, support market share through diversified financing, and improve the return on capital. The financing strategy adopts the mode of paying equal attention to both equity and debt, relying on credit enhancement to expand bank credit, private equity and open market financing, moderately increasing the debt ratio to a reasonable range of the industry to reduce the cost of capital by using the tax shield effect, but it is necessary to strictly control liquidity risk and avoid excessive leverage.

The investment side should concentrate resources to strengthen core competitiveness: give priority to capital for capacity expansion and technological upgrading, integrate market share through horizontal mergers and acquisitions or strengthen supply chain control through vertical mergers and acquisitions, and carefully evaluate synergy to avoid resource dispersion. Working capital management focuses on accelerating turnover and risk coordination, shortening the period of accounts receivable through dynamic credit policy, extending the period of accounts payable, optimizing the cash conversion cycle, and establishing a customer credit rating system to reduce the risk of bad debts [5].

The distribution policy implements low cash dividend and high retained reinvestment portfolio, replaces cash dividend with stock dividend, concentrates surplus on new market development, and takes into account shareholders' short-term income demands and endogenous power of continuous expansion. Financial governance needs to turn to specialization and decentralization, establish business unit decentralization mechanism and supporting return on investment assessment, ensure that the rate of return of new projects covers the cost of capital, and prevent the loss of efficiency during the expansion period.

### **3.3. Steady Operation and Profit Distribution in the Mature Period**

In the mature stage, the market share of enterprises is stable, the profitability is stable and the cash flow is abundant, and the core of financial strategy is to balance shareholder returns and sustainable development. In terms of financing, enterprises should take internal retained earnings as the leading factor to reduce external debt dependence and avoid interest burden eroding profits. At the same time, asset securitization and other tools can be introduced to optimize the capital structure, maintain liquidity and reduce leverage risk. The investment strategy emphasizes diversification and synergy, integrates resources through mergers and acquisitions, consolidates economies of scale, and explores new growth points of related industries to avoid risks in a single industry.

Profit distribution has become the core task of this stage, which needs to follow the principles of stability and capital

maintenance. On the premise of guaranteeing R & D and capacity upgrading funds, a high proportion of cash dividend policy will be implemented. Specifically, the strategy of "fixed dividend payment rate" or "low normal dividend plus additional dividend" is adopted to ensure the predictability of shareholder returns, and the asset-liability ratio after distribution is not lower than industry warning line, and is supported by sufficient cash flow. Financial governance needs to dynamically adjust the proportion of retained earnings, take into account the demands of shareholders' earnings and the needs of transformation reserves, and achieve long-term value continuity.

### **3.4. Strategic Contraction and Restructuring in the Recession Period**

Enterprises in recession are facing challenges such as shrinking market share, declining profitability and increasing cash flow pressure. Financial strategy needs to focus on asset preservation and resource reconstruction, alleviate short-term crisis and activate long-term value through strategic contraction. At the financing level, priority should be given to endogenous financing, and new debt should be strictly avoided to control leverage risk. If necessary, we should reduce the debt ratio through debt-to-equity swap or introduce strategic investors to supplement capital, so as to avoid the chain crisis caused by debt default. The investment strategy emphasizes the divestiture of non-core assets, the sale of idle fixed assets, the closure of inefficient business lines to quickly recover funds, and the implementation of supply chain restructuring and lean management for the retained core business, so as to concentrate resources to maintain competitiveness.

Transformation and reorganization are the core path to break through the recession dilemma, which needs to balance business hemostasis and the cultivation of new kinetic energy. On the one hand, it evaluates the feasibility of investment in emerging areas and simulates the compatibility between ROI and cash flow of technology investment. On the other hand, we should design structural restructuring schemes, such as splitting up loss-making businesses, setting up subsidiaries, introducing strategic capital injection, or reshaping businesses through leveraged buyouts by management. The distribution policy implements zero cash dividend, concentrates limited resources on transformation reserves, and strengthens transparent communication with creditors and shareholders to maintain the basis of trust. The essence of financial strategy in recession is to shrink in exchange for living space, to reorganize and activate the momentum of transformation, and ultimately to realize the leap-forward allocation of resources to the new growth pole.

## **4. Conclusion**

The financial characteristics and strategic adaptation logic of each stage of enterprise life cycle have been systematically verified. In the initial stage, cash flow control is used to resist operational uncertainty, in the growth stage, capital leverage is used to leverage scale barriers, in the mature stage, diversified investment is used to maintain sustainable returns, and in the recession stage, resource restructuring is used to activate transformation momentum. Dynamic adjustment of financial strategy is the core competence for enterprises to overcome the life cycle trap. Future research can further explore the quantitative impact of technological innovation

on life cycle compression, as well as the real-time response mechanism of financial early warning model under the digital economy, so as to provide more accurate decision support for enterprise strategic transformation.

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