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Financial Risk Disposal Mechanisms for Large Enterprises: Synergistic Pathways between Government Bailouts and Market-oriented Restructuring

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CITATION

Pizengolts VM et al. Financial Risk Disposal Mechanisms for Large Enterprises: Synergistic Pathways between Government Bailouts and Market-oriented Restructuring. *Finance and Trade Dynamics*. 2025; Vol 2 (No. 1): 280.

<https://doi.org/10.63808/ftd.v2i1.280>

ARTICLE INFO

Received: 2 December 2025

Accepted: 31 December 2025

Available online: 26 February 2026

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Abstract: Through the case analysis between China, America, and Europe, this research work has demonstrated that “the single-mode model was no longer able to handle the complex financial risks and therefore needed diversified and tiered strategies on the basis of respective standards of systemic significant, risk urgency, and enterprise restructuring value.” It concludes that there is a dynamic approach with phase differentiation: First, in the phase of initial occurrence of risks, emergency assistance is provided by the government for alleviating risks to achieve stability; second, for the phase of enterprise restructuring, bankruptcy reorganization trusts and assets management companies are applied as market-oriented tools; and third, for stages of disposing assets, REITs and other funds are applied for regaining value. Synergistic mechanisms are able to function effectively only after demarcating bail-out boundaries for the government, enhancing the toolbox for market-oriented tools, forming inter-departmental coordination frameworks, and avoiding moral hazards.



Keywords: financial risk disposal; government bailout; market-oriented restructuring; bankruptcy reorganization trust; synergistic mechanism

1. Introduction

1.1. Research Background and Questions

The current global financial structure has seen a paradigm change in terms of how large enterprise risks are to be managed and resolved. What was regarded as “too big to fail” earlier, often necessitating unconditional government intervention, has seen a lot of erosion in recent years, resulting in a “paradigm shift” towards market-oriented resolution strategies (Berndt et al., 2025). This also signifies recognition that government-led bail-out strategies are often unsustainable and market-distorting with regard to incentives. This proves to be problematic for countries that often have undeveloped structures for debt restructuring at the corporate level (Hotchkiss et al., 2023). Current analyses in financial crises also clearly reveal that bail-out and bail-in strategies vis-à-vis moral hazards are fraught with far-reaching implications (Kaddour et al., 2025).

This vulnerability nucleus within the corporate segment contributes to added complexities, especially in countries where credit growth has proceeded at a rather fast pace. This speedy growth has impeded debt-servicing capabilities and exposed complex risk patterns within systematically prominent firms, which cannot altogether be resolved within the framework of simple resolution frameworks (Asia & Pacific Dept, 2024). The COVID-19 pandemic has highlighted tensions within this context where policymakers stand challenged to balance short-run strategies for stabilizing distress vis-à-vis long-run structural strategies for change. Comparison studies within countries amidst the pandemic experience drastic disparities between state-led strategies for intervention and market-oriented strategies for change, within distinct payoff patterns for speedy recoveries and systemic strengths (Prusko & Ehmke, 2023). The on-going development within traditional frameworks for bankruptcy resolution, wherein innovations within non-conventional reliance on traditional frameworks for resolution and development within new tools for resolution emerged, enhance



arguments within non-validities for single-pathway disposal frameworks (Hotchkiss et al., 2023).

1.2. Research Significance and Innovations

Covering the implications of managerial incentives on bailout strategies has very important implications for theory as well as for practice relating to financial stability. This research work is important in adding to existing literature as it offers a framework for analysis that involves bailout strategies coupled with market-oriented instruments of firm restructuring rather than viewing them as alternatives. It is recognized that various disposal instruments play complementary roles in a firm's continuum from initial provision to ultimate asset recovery.

2. Theoretical Framework

2.1. Theoretical Foundation and Government Bailout Mechanism

An effective bailout must therefore coordinate central bank support and fiscal support in terms of capital, since containing the problem within their own institutions is not sufficient to avoid failures and contagion (Sim, 2023).

The question is whether or how government support can provide an effective substitution for market-driven financing arrangements during episodes of disruptions in capital flow, and it becomes apparent that the most important limitations emerge for pure intervention strategies (Acosta-Henao et al., 2024). During episodes of sudden stops in international capital markets, financial intermediaries are expected to display large degrees of risk aversion and restrictive constraints on domestic credit, resulting in large decreases in domestic credit supply. Credit guarantees provided by government support can provide only limited substitution for this kind of market failure by shifting the borrowing costs for domestic money to below those for foreign debt and hence facilitating existing businesses to ensure the very survival of their operations during episodes of disruptions in their external sources of finance.

2.2. Market-oriented Restructuring Mechanism



Restructuring mechanisms for market-oriented companies function in non-governmental channels and are concerned with restoring efficiency and reorganizing capital structure instead of only improving company liquidity. Restructuring debt has a great impact on corporate investment activity in many ways (Jiang et al., 2019). Debt reduction, resulting from successful debt restructuring, alleviates debt overhang pressures that impeded investment by removing creditor-debtor disputes that restricted investments to projects that could enhance firm value.

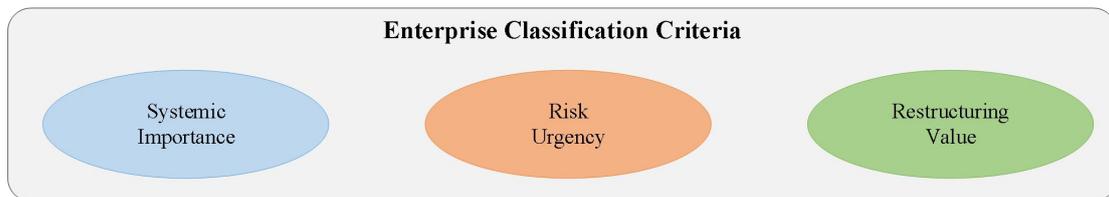
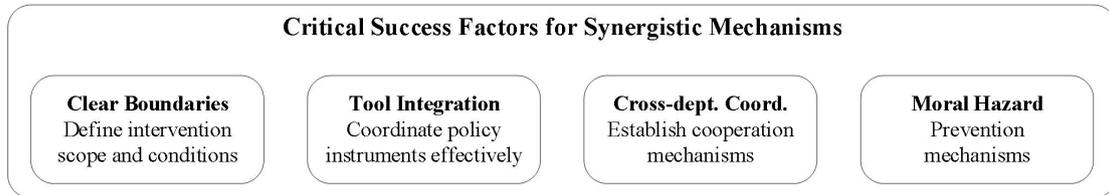
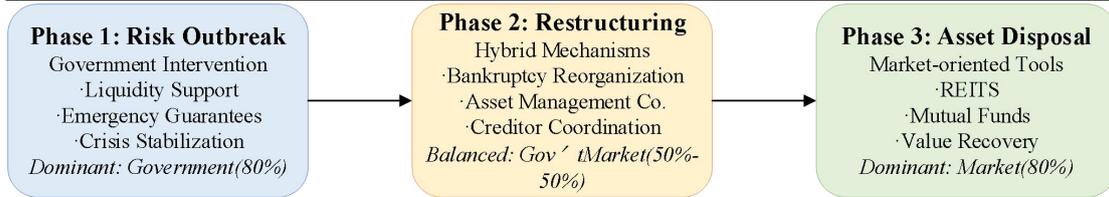
The institutional framework is a core determinant for the effectiveness of market-oriented restructuring, where financial system structure defines the respective weights of banks, capital markets, and public institutions in the course of resolution (Brunnermeier et al., 2022). Banking-oriented financial systems display characteristic intervention behavior different from market-oriented financial systems, with active public involvement in credit allocation and corporate governance in bank-dominated financial systems. This structural trait can create both opportunity and hinderance simultaneously: on one side, structural ties to banks can consolidate negotiation for restructuring and monitoring for debtors' compliance, but on the other side, it can also cause soft-budget constraints and delay dispositions for asset readjustments in case of distorted incentives for creditors caused by government guarantees.

2.3. Construction of Synergistic Disposal Framework

The framework for synergistic disposal combines government bail-out facilities and market-oriented instruments for enterprise restructuring by means depicted in **Figure 1** below. This framework understands that enterprise financial risk disposal needs change from stage to stage in the period between entry into and out of crisis situations.

Figure 1

Government-Market Synergistic Disposal



Classification criteria allow for differential treatment: more systemic businesses are treated with more involvement by the government, urgent threats necessitate fast action, and higher-value restructuring qualifies for more resources to save rather than wind down.

3. Research Methods and Case Analysis

3.1. Research Methods and Case Selection

Three distinct geographical settings serve as the basis for empirical research: China can be seen as representing a bank-based financial structure with significant state ownership and involvement in corporate governance arrangements on a large scale, while countries within Europe represent an intermediate setting with hybrid characteristics in their financial structure and stakeholder capitalistic traditions. Cases are primarily selected within each geographical setting to ensure they occurred within the context of 2020-2024 to remains relevant to modern-day practical policy needs while also adjusting for differences within larger macroeconomic settings.

The criteria for case selection underline enterprises that exceed minimum threshold levels for systemic significance, which are jobs exceeding 10,000 employees, total assets exceeding \$10 billion, or provision of critical infrastructure on which essential economic functions are dependent. The reason for this selection



criterion is to ensure that only instances where substantial coordination problems between government and markets are at issue are selected, rather than ordinary bankruptcy cases. The sources for documenting cases are official filings, courtroom proceedings, government announcements, reports by creditor committees, and financial press reports.

3.2. Typical Case Analysis

The HNA Group case illustrates how harmonious disposals are progressively applied in the Chinese institutional environment. The Hainan provincial administration appointed administrators to strike a balance between public stabilizing needs and creditor recoveries in accordance with a scheme that integrated debt to equity swaps, debt rescheduling, and shrewd asset stripping for aviation-targeted buyers. The scheme approved in October 2021 assigned aviation core assets to new vehicles controlled by Liaoning Fangda Group and redistributed beneficial rights to financial creditors via trust arrangements to secure formal completion as of April 2022.

The Silicon Valley Bank failure earlier in March 2023 showcases market-driven resolution within the framework established in the United States but with substantial provision for backstops by the government. Another program created within the Federal Reserve structure was for the Bank Term Funding Facility to provide institutions with funds using securities posed as assets valued at par instead of market value, thereby ensuring no forced sales occur for other institutions that find themselves in comparable situations with unidentified losses. First Citizens Bank took over SVB's operations in March 2023.

The Credit Suisse merger by UBS in March 2023 is an example of how European countries manage their crises by favoring fast-market solutions within regulatory frameworks. The Swiss government rejected ideas for nationalization after experiencing outflows of capital and reduced market confidence even after previous capital increases. The Swiss National Bank offered CHF 100 billion liquidity support while making FINMA approvals for the acquisition by UBS on March 19, 2023.

3.3. Case Comparison and Pattern Summary



Comparison analysis indicates that variations exist methodically in terms of deployment for garbage troubleshooting mechanisms depending on institutional context and enterprise characteristics as shown in **Table 1** above. The intensity of government intervention is positively related to state ownership concentration, and its maturity is inversely related to bankruptcy institutions, whereas reliance on market mechanisms increases with development in the capital market.

Table 1

Comparative Analysis of Financial Risk Disposal Cases

Case	Jurisdiction	Total Assets (USD bn)	Systemic Risk Level	Government Intervention	Market Mechanisms	Resolution Duration	Dominant Model
HNA Group	China	100+	High	Working group coordination, court-administered reorganization, state-backed acquirer	Debt-equity swap, trust beneficiary rights, strategic investor introduction	27 months (Jan 2021 - Apr 2022)	Government-led hybrid (70%-30%)
Silicon Valley Bank	United States	209	High	Systemic risk exception, FDIC bridge bank, Federal Reserve liquidity facility	Private sector acquisition, market-based asset transfer	16 days (Mar 10-26, 2023)	Market-oriented with government backstop (40%-60%)
Credit Suisse	Switzerland	530	Very High	SNB liquidity provision, government loss guarantees, regulatory facilitation	UBS merger, AT1 bond write-down, market-based integration	7 days (Mar 12-19, 2023)	Government-facilitated market solution (50%-50%)
Evergrande Group	China	340	High	Local government housing completion support, creditor committee coordination	Offshore debt restructuring, asset disposal, domestic bond exchange	Ongoing (began Sep 2021)	Government-supported market resolution (60%-40%)



Lufthansa Germany/EU	45	Medium	Government	Private	18 months (Apr 2020 - Oct 2021)	Balanced hybrid (50%-50%)
			equity participation (€6bn stabilization package), state guarantee	creditor participation, operational restructuring		

Note: Government-market percentages represent estimated relative influence in resolution process. Systemic risk levels assessed based on employment, interconnectedness, and critical infrastructure provision.

The inverted creditor hierarchy in Credit Suisse resolution and SVB exemption from systemic risk also indicate that regulators are willing to set aside normal market principles when contagion risks exceed worries about moral hazard.

Cross-case analysis reveals that there are three types of disposal patterns: government-led hybrids are most common in bank-based economies with controlling ownership structures, market-driven strategies coupled with strategic government support for select cases are typical for countries with advanced bankruptcy regimes, and balanced hybrids for coordinated market economies, where stakeholder engagement and regulatory intervention are combined. Systemic significance affects this, with riskier cases pulling in more state intervention, no matter institutional preference. The success of complementary approaches is dependent on well-defined parameters for intervention, alongside commitment to restoring market discipline after crisis management.

4. Policy Recommendations

4.1. Clarifying Government Bailout Boundaries and Improving Market-oriented Tools

It becomes important to define where boundaries ought to exist between intervention in government and where they are no longer valid or applicable within marketplace interventions. Requirements ought to focus on maintaining enterprise connectivity factors within established frameworks to analyze systemic risk for interventions within bailouts.



Tool upgradation for market orientation requires infrastructure development for creditor coordination and information transparency during the entire restructuring phase. Distressed debt markets are aided by standardized valuation approaches that ensure price realization for distressed assets, thereby reducing information gaps so far as private capital engagement in resolution deals is concerned. The effectiveness of asset management companies requires independence from political intervention coupled with professional management expertise in niche industries, as seen in China's experience, where success in AMC operations has greatly differed according to the level of governance and harmonization between incentive structure and objective functions for maximization of recoveries. Pre-pack procedures for bankruptcy expedite proceedings by facilitating creditor Debtor negotiations prior to bankruptcy, which cuts court overheads but embraces enterprise value by maintaining business operations.

The emergence of niche restructuring finance vehicles fills gaps in capital provision during the course of disposals. Debtor in possession finance vehicles provide super priority for new money infusion during reorganization to entice private capital involvement by mitigating risks involved in distressed enterprise loans. The bankruptcy reorganization trusts enable negotiations for complex multi-creditor deals by packaging interests into transferable beneficial interests to achieve market-driven prices and coordinate stakeholder activity. REITs and infrastructure vehicles create exit strategies for non-core asset sales derived from reorganized businesses to provide proceeds for creditor distribution rather than fire-sales procedures for illiquid special situations asset sales.

4.2. Constructing Synergistic Operation Mechanisms and Strengthening Legal Safeguards

Coordination between government and market needs to possess institutional frameworks that ensure information sharing and decision coordination between various agencies. Inter-ministerial coordination committees, including financial regulators, fiscal authorities, competition enforcers, and industry regulators, can assess systemic risk implications and ensure that fragmented policies do not arise, resulting in regulatory arbitrage or conflicting intervention intentions. Institutionalization of consultative procedures to manage communication schedules

and escalation procedures can overcome coordination problems during stress situations where drastic action demands exceed coordination capacities in informal cooperation formats. Various coordination procedures are shown to handle distinct issues in CD implementation in **Table 2**.

Table 2

Policy Framework for Synergistic Financial Risk Disposal

Policy Dimension	Government Role	Market Mechanism	Coordination Tool	Implementation Challenge	Mitigation Strategy
Bailout Boundary Definition	Establish systemic risk criteria; Set intervention thresholds	Market discipline through creditor monitoring	Risk assessment committee with independent experts	Political pressure for case-by-case exceptions	Mandatory public disclosure; Legislative override requirement
		Private DIP financing; Syndicated restructuring loans	Joint public-private funding vehicles		Penalty pricing; Graduated withdrawal schedules
Liquidity Provision	Central bank emergency facilities; Government guarantee programs	Competitive bidding; AMC market transactions	Hybrid auction platforms combining strategic and financial buyers	Moral hazard from implicit guarantees	Independent valuation; Transparent pricing mechanisms
Asset Disposal	Strategic investor coordination; SOE participation in key sectors	Bondholder committees; Out-of-court workouts	Pre-negotiated restructuring frameworks	Holdout problems; Inter-creditor conflicts	Cram-down provisions; Majority voting rules
		Private equity participation; Management buyouts	Board representation sharing agreements	Principal-agent conflicts; Efficiency losses	Performance milestones; Time-limited intervention
Creditor Coordination	Court-supervised reorganization; Government mediation	Bankruptcy procedures; Debt enforcement	Specialized commercial courts; Alternative dispute resolution	Legal uncertainty; Jurisdictional conflicts	Precedent establishment; Cross-border protocols
Operational Restructuring	Temporary state administration; Government-appointed managers				



Note: Coordination tools represent mechanisms bridging government intervention and market-based resolution. Implementation challenges vary by institutional context and enterprise characteristics.

Legal framework enhancements relate to procedural deficiencies working against the effectiveness of the disposal mechanism. Cross-border insolvency regimes assume added significance in view of the widespread existence of multinational corporations, necessitating recognition regimes and coordination mechanisms to avoid asset stripping via jurisdiction shopping. Creditor priority regimes are in need of reform to include super-priority DIP loans while ensuring predictability to ensure forward pricing for credit.

The creation of dedicated restructuring courts and judges with financial expertise increases the pace and quality of decision-making in large-scale company restructurings. Case management procedures to ensure consistent standards for documentation, hearing schedules, and approval timelines can limit uncertainty in procedures that discourage private capital from participating in situations where distress has occurred. The power to grant forbearance subject to sunset clauses can strike a balance between relaxing prudential standards during stress events to stabilize the financial system, rather than undermining supervisory frameworks on a long-term basis that affects Systemic Risk management priorities.

5. Conclusion

5.1. Main Conclusions

It concludes that for large organizations, financial risk disposal needs to achieve synergy between government bailout approaches and market-oriented approach strategies for risk disposal instead of using only one approach strategy for intervention. It has shown within its framework theory that ‘the optimal disposal strategies for risks change over time depending on whether they are in the stages of risk emergence, operations, or asset realization.’ Analysis also shows that cases are systematically varied between countries for mechanism usage, ‘with government intervention intensity positively related to state ownership concentration and inversely related to bankruptcy institutions’ maturity.’



Effective synergetic strategies are absolutely dependent on bail-out boundary needs being specified, on bail-out coordination facilities, and on credible commitment to restoring market discipline within countries experiencing crises.

5.2. Policy Recommendations and Research Prospects

Designing policies must focus on building institutional frameworks for cooperation between regulation agencies for sharing information, coupled with transparent guidelines for activation and deactivation of interventions. Upgradation of legislative frameworks with provisions for debtors favoring reorganization, international frameworks for cross-border insolvency, and designated ‘restructuring courts’ can reduce resolution period durations and optimize coordination between interested parties. Infrastructural development for facilitating trading on distressed debt, common valuation frameworks, and ‘pre-pack’ bankruptcy frameworks can promote private investments in disposals.

One direction for future research work could involve exploring the optimal ordering for treatment instrument deployment by industry type. Long-run implications for emergency facilities created during recent crises also merit assessment for how temporary institutions shape enduring attitudes about market discipline. Cross-national analyses for studies examining evolution patterns for disposal mechanisms within emerging markets undergoing fast-paced development in their financial sectors could also provide enlightenment for design for institutional change.

Conflict of interest: The authors declare no conflict of interest.

Funding: This research received no external funding.



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