Enterprise Financial Risk Prevention and Control

Yixi Zhang
Chongqing Real Estate Vocational College, Chongqing, 401331, China

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Abstract: As an important part of the internal control system, financial risk is an inevitable factor in the process of business development. The occurrence of financial risk may even lead to financial crisis. Therefore, China's enterprises should effectively control and prevent financial risks, and the occurrence of financial risks of enterprises to the greatest extent is low, so that enterprises can develop steadily and healthily. This article mainly analyzes and analyzes the problems existing in the financial risk management of enterprises, and puts forward measures for enterprises to optimize financial risk control and prevention.

1. Introduction

As the domestic and international environments become more complex and changeable, the uncertainties of changes in the external environment have increased dramatically, further increasing the possibility of corporate financial risks. A field survey of the operating conditions of a large number of enterprises shows that, at present, in the process of establishing a modern enterprise system, the enterprise's financial risks are caused, and the larger external factors are mainly from changes in national macroeconomic policies and industrial policies, product markets and capital. The changes in the market and the uncertainty of the technological environment change[1]; internal factors are mainly due to the lower level of enterprise capital management decision-making and enterprise technological innovation capabilities. Therefore, research on the prevention and control of corporate financial risks is of great significance.

2. The meaning and characteristics of financial risk

Corporate financial risk is a microeconomic risk. It is the concentration and concentration of corporate operating risk. It refers to the fact that the company is under certain objective circumstances and within a specific period. During the operation and operation of the company, due to various difficulties or unpredictability, the control of the company's external operating environment and internal operating conditions and other uncertain factors, which reduces the effectiveness and continuity of the company's capital movement (fund flow)[2], which in turn makes the actual operating performance of the company deviate from the expected target, thereby Possibility to have a negative impact on the survival, development and profitability goals of the company or adverse results.

From a system point of view, any enterprise is an open economic system with the participation of human subjective behavior. Therefore, the factors or causes that cause corporate financial risk can be divided into two categories, namely the uncertainty of the external objective environment of the enterprise system. And the uncertainty of subjective management decisions within the enterprise system.

2.1 The meaning of financial risk

As the name implies, financial risk is an uncertainty factor in the financial activities involved in the production process of an enterprise. Financial risk can provide a signal to senior corporate leaders whether the company is developing healthily and how the business is doing. Business operation involves business risks, and business risks often lead to financial problems. The risks are uncertain and objective[3]. At present, financial risks can be explained from a broad and narrow
perspective. The narrow sense of financial risk refers to the risk that a company borrows a large amount of funds and its liabilities increase. If the company's poor management results in loss of solvency or changes in the company's profitability, the shareholder dividends are erratic. The broad meaning is that in the normal production and operation activities of the enterprise, due to some or other unpredictable factors, the deviation of the financial target of the company at a certain stage or a certain range from the target set at the beginning of the period is relatively large, causing the enterprise The possibility of major losses.

2.2 Financial risk characteristics

Today's society is developing rapidly, and companies are growing like mushrooms. Whether a company's development is healthy or not has plagued many managers. There are inevitable financial problems in the company's financial activities. If the financial problems are left unattended, the company's financial crisis will slowly evolve. Therefore, enterprise managers should pay attention to and have a more comprehensive understanding of financial risks before they can control the existing risks, thereby reducing the probability of financial risk.

The financial risks of an enterprise can be summarized into the following five categories: The first is objectivity. Risks may or may not appear in the company's business process, and are not transferred by human will. No matter whether the company's senior executives prefer risk or resist risk, it is possible and will exist in the daily production activities of the company. It is a very objective existence. At this time, the senior management of the enterprise can only avoid possible risks, reduce the occurrence of risks as much as possible, and cannot make it completely disappear.

The second is uncertainty. The occurrence of risk is only a possibility. No matter how comprehensive protective measures are done in advance, with the continuous changes of financial activities, it may change various factors that affect finance. Therefore, financial risks are not easy to be accurately predicted and cannot be accurate. Know the magnitude of the risk. The third is coexistence. It is well known that companies must face high risks in order to obtain high returns, so the two exist at the same time, and vice versa. The fourth is comprehensiveness. Financial risk penetrates into the production process and can be reflected in a variety of financial relationships. Therefore, enterprises must pay attention to the entire production process and control the risk of the entire process to reduce the occurrence of the incident. The fifth type is not easy to find. The financial risk of an enterprise does not exist independently, nor can it be seen through at a glance. It may exist in a small link. Once it occurs, it will cause the death of the enterprise. So companies should always monitor the existence of financial risks.

3. Financial risk performance

The financial risk is not static and changes with the financial movement. The financial risk mainly manifests as the following.

3.1 Financing risk

The risk refers to the fact that the funds that the company integrates through different channels do not play a corresponding substantial role, resulting in irrational use, and ultimately resulting in a financial crisis and the inability to repay the principal in time. It is more common for companies to borrow too much funds and thus have more liabilities, which causes the idleness of the company's funds and increases the burden of financial costs. Due to the increase in borrowing, the company's solvency is reduced, which reduces the company's credibility and affects the company. Healthy development.

3.2 Investment risk

This risk may occur during the investment process or after the investment is completed. For example, during the enterprise investment process, the investee cannot repay on time or have a bad debt for some reason, and the expected return guaranteed at the beginning of the period cannot be realized. To a certain extent, it will affect the solvency and profitability of the enterprise, which will
hinder the normal development of the enterprise. It is more common that there is insufficient research before the project is put into production, the product is produced and the sales are slow, or there are relatively large technical problems in the development process; or the market news is blocked and the investment scale is large, making the market oversupply; or because the enterprise Failure to manage its own causes will cause this risk.

3.3 Risk of fund recovery

The risk refers to the possibility that the company fails to manage the sales and collections, resulting in financial losses. It is more common that the company sells products but cannot recover the payment according to the plan, resulting in bad debts and ultimately affecting the growth of the company.

3.4 Risk of income distribution

This risk refers to the financial crisis caused by the unreasonable disposal of income and distribution. The excessively low income distribution method may weaken the solvency of the company[6]. Due to the low income distribution, the employee’s enthusiasm for work is reduced, and the work efficiency is reduced. The risk becomes larger, which ultimately leads to financial risk.

4. Analysis of the causes of corporate financial risks

4.1 Economic policy environment triggers corporate financial risks

The current macroeconomic policy environment in which China is clearly biased towards the development of state-owned enterprises is an important cause of corporate financial risks, including fluctuations in major macroeconomic policy variables such as income tax rates, interest rates, and exchange rates, as well as the implementation of industrial structure adjustment policies and national environmental protection policies. Difficulties and crises caused by enterprises[7].

The form of China's product market has changed from a seller's market to a buyer's market. For enterprises that generally produce large-scale goods and low-grade products, they are facing severe challenges to improve product competitiveness. The objective defects in the initial stage of China's capital market development cannot meet the financing needs of most enterprises and promote the establishment of its modern enterprise system.

4.2 Corporate financial risks caused by financial management decisions

Through the analysis of the uncertain factors existing in the financial management decision-making process of the enterprise, it can be seen that the enterprise is in the investment decision-making link (such as investment target determination, investment direction selection, investment plan evaluation), financing decision-making link (such as financing timing selection, financing scale determination, financing Structural optimization) and income distribution decision-making links (such as the determination of income recognition standards and procedures, the formulation of dividend policies and distribution plans) and other uncertainties are the internal key reasons that cause financial risks.

4.3 Changes in the country's macro environment

The macro environment is one of the important factors that affect corporate finance. The survival and growth of an enterprise is inseparable from the macro environment. National macro-policy is constantly changing. If the financial management system of an enterprise cannot be updated in time, it will be out of touch with it. The macro-environment includes economic, social, and legal aspects. If the macro-economic development is good, it will promote the good development of the enterprise. If the operating status is good, the profitability will be improved, and the financial risk will be small. As a result, revenues decrease, operating risks increase, and financial risks also increase[8]. According to the rapid development of the national economy, national economic policies will continue to change, such as raising or lowering interest rates, levying interest taxes and other
measures, which will change the cost of enterprises and affect the financial and operating conditions to a certain extent.

4.4 Changes in industry background

The important link between the macro economy and the financial analysis of an enterprise is done through an industry background. Therefore, the industry background is an important influencing factor in the financial analysis process of an enterprise. According to the dynamics of industry development, enterprises can adjust the development speed of enterprises in real time. If enterprises do not pay attention to changes in the industry and proceed blindly according to their own ideas, they may be contrary to the goals at the beginning of the period. The development stages of the industry in different periods may lead to different investment returns and different risks for enterprises.

4.5 Unreasonable capital structure

If a company has a large amount of large idle funds and does not use it, but borrows a lot of money, it will make the ratio of its own funds and borrowed funds become larger. Unreasonable allocation affects the capital structure of the company and high debts cause high risks. If the scale of corporate borrowing is too large, the interest on the borrowing that the company needs to pay will increase. The increase of a large amount of interest affects the long-term and short-term solvency of the enterprise. If the interest and principal cannot be returned in time, it will cause financial risks. However, companies cannot avoid because of the financial risks of debt. Moderate debt will promote the healthy development of the enterprise to a certain extent. If too little debt is borrowed, it may affect the shortage of funds, which will make the profitability weaker. Planning capital structure ratio.

Investment decision-making is very important in the development of an enterprise. Choosing a reasonable investment decision can reduce the financial risk of the enterprise. If the risk is small, the profitability of the enterprise is enhanced. The profitability is improved. Failure to make accurate judgments, fail to correctly recognize risks, and adopting the wrong method will cause the enterprise to suffer unnecessary losses to a certain extent.

5. Prevention and control of corporate financial risks

Enterprise financial risk prevention and control does not mean complete prevention, reduction or elimination of financial risk, but refers to under certain risk conditions, through risk prediction, evaluation, decision-making, processing and other means, to take the risk of possible loss Preventive and compensation measures to minimize the possibility of potential risks, or reduce the scope and extent of risk losses.

5.1 Construction of risk prevention and control target system

According to the principle of system balance deviation in economic cybernetics, the basic procedures of enterprise financial risk prevention and control system operation can be divided into three steps: setting control standards, judging risk status and correcting system deviations. According to the different roles of system corrective measures, the basic methods of enterprise financial risk prevention and control system operation can be divided into three methods: pre-control, in-control and post-control. The combination of basic procedures and basic methods of system operation constitutes the operating mechanism of the enterprise financial risk prevention and control system. Due to the lack of professional risk management professionals and the general existence of short-term profit-seeking behaviors, it is determined that the operating mechanism of most companies to prevent and control financial risks has major defects, which is important for the ability to prevent and control financial risks the reason.

Based on the understanding of the target system of corporate financial risk prevention and control, the analysis framework of corporate financial risk prevention and control strategy system can be proposed from the three levels of risk state transfer, risk mechanism improvement and
corporate characteristics optimization. Among them, the risk state transfer strategy is the most direct risk prevention and control strategy in the strategy system. It is usually based on the company's risk status in terms of its profitability, operating capacity, solvency and (or) growth ability, and takes direct prevention. With control measures. The risk mechanism improvement strategy is a deeper level of risk prevention and control countermeasures in the strategy system. To improve the financial risk mechanism of the enterprise, corresponding measures should be taken from the establishment of a well-structured risk prevention and control system, strengthening the concept of risk in the process of enterprise management decision-making, etc. The enterprise characteristic optimization strategy is a strategic risk prevention and control strategy in the strategy system. The strategy composition of the optimized enterprise characteristic should be based on the comprehensive evaluation of the enterprise's industry characteristics, operating characteristics and management characteristics, etc., to address the weaknesses in the enterprise characteristics. Links or disadvantages, formulate corresponding optimization measures from a strategic perspective.

5.2 Raise awareness of corporate financial risks

There are financial risks everywhere in the company's capital movement. To prevent the company from suffering losses, it is necessary to increase the risk awareness of the company's employees, strengthen the employees' risk judgment and processing ability, and timely and accurately before the financial risks cause large losses. Identify existing risks, strengthen employee knowledge training, strengthen dynamic analysis, improve risk value concepts, improve financial management regulations, and straighten out financial relationships within the enterprise.

5.3 Improve financial risk management system

Reasonable distribution of the relationship between the company's human resources and capital, so that it can be fully guaranteed in production operations, organization and management, so that the company's various tasks can be smoothly implemented, and the improvement of the financial management system can save The purpose of cost is to improve production efficiency.

5.4 Strengthening the enterprise internal audit system

A good audit system can well promote the normal development of the enterprise. By strengthening audit supervision, it can find and improve the problems in the accounting system in a timely manner. Only under a good internal control system can the financial information be comprehensive, accurate, and timely. Make good financial decisions and identify risks to create good conditions.

5.5 Establish a reasonable capital structure

Enterprises should determine a reasonable scale of liabilities according to the actual situation, review the situation, grasp the timing of borrowing, and at the same time predict the use effect of debt financing and weigh the cost of revenue. For debts with different maturities, do a reasonable match to reduce the pressure on debt repayment. Enterprises should also improve their own capital accumulation capacity and constantly enrich their capital.

References

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