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Analysis of Management and Control of Enterprise Financial Risk

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Abstract

The rapid development of economy brings opportunities to the management and development of enterprises, but also brings certain risks to enterprises. The operation of enterprises can not be separated from financial management, and the financial situation of enterprises is also an important factor affecting the development of enterprises. In order to improve the overall competitiveness of enterprises, enterprises need to fully understand the risks of financial management, to prevent financial risks to the maximum extent, and to reduce the harm they bring. Therefore, this paper mainly expounds the financial risk of the enterprise, analyzes the causes of the formation of the financial risk of the enterprise, and puts forward some measures and suggestions on how to manage and control the financial risk of the enterprise.

Keywords

Financial risks, Risk identification, Risk management.

1. Introduction

Different industries, different types of enterprises in the business process will face a variety of decisions and various situations. Enterprises can make timely response to conventional situations or problems. However, if the enterprise can not control the deviation between the expected operating results and the actual results caused by the uncertain factors in the operation process, this may have an impact on the financial situation of the enterprise. It can be seen that financial risk is accompanied by the business process of the enterprise, and whether the financial risk can be managed well will affect the long-term development of the enterprise to a certain extent.

2. Overview of Enterprise Financial Risk

Financial risk exists with capital circulation. This circulation process is the transfer and accumulation of financial risks, and ultimately brings influence to the production and operation of enterprises. The financial risk of the enterprise will make the enterprise be affected by the uncertain factors such as the financial structure and the profit of the enterprise in the business activities, which will lead to the problems in the financial activities of the enterprise in a certain aspect or in a certain link. This effect will make the actual financial data of the enterprise different from the expected data, and the enterprise will suffer losses as a result. The financial risk of enterprises is mainly formed in the raising, investment, recovery and distribution of funds. In the link of raising funds, the financial risk mainly shows that the possibility of losing solvency is increased because the enterprise borrows funds, and can be divided into debt financing risk and equity financing risk according to the different sources of funds. The risk of debt financing is mainly caused by the excessive debt repayment pressure caused by the excessive proportion of corporate liabilities, the rise of debt interest rates and the like. The risk of equity financing is mainly aimed at the difference between the expected and actual results in the process of stock issuance. In the investment link, the financial risk is mainly the financial

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risk that the enterprise may not meet the expected return on investment when it invests internally and externally. In the recovery of funds, financial risk is mainly caused by the uncertainty of the amount of accounts receivable and the time of recovery. In the process of capital allocation, financial risk may be due to the distribution of income by enterprises, which will have an impact on subsequent production and operation.

We can summarize the characteristics of enterprise financial risk as follows. Firstly, the enterprise financial risk has the objective existence characteristic. Enterprise financial risk is the result of the influence of various uncertain factors inside and outside the enterprise in the process of enterprise management, and it exists objectively in every link of capital movement. Secondly, the financial risk of enterprises has the characteristics of complexity. The whole process of enterprise production and management may have financial risk, which will bring some difficulty to the control of enterprise financial risk. Thirdly, the financial risk of enterprises has identifiable characteristics. People can use analytical tools, analytical methods to predict the probability of potential financial risks, and effectively control uncertain factors or take appropriate measures to minimize losses. Forthly, enterprise financial risk has dual characteristics. The dual nature of financial risk is that it brings good side to enterprise management and also it brings unfavorable side to enterprise management. The good side is that financial risk can improve the understanding of financial risk, enterprises can take measures to effectively prevent and control financial risk, ensure the utilization rate of funds, and enhance the ability of enterprises to resist risks. The unfavorable side is that financial risk may bring financial losses to enterprises.

3. Analysis of the Causes of the Formation of Enterprise Financial Risk

3.1. Impact of the Business Environment

At present, the competition between industries and enterprises is becoming more and more fiercely, and the development of business activities is greatly affected by its macroeconomic environment. The uncertainty of the external market environment makes the enterprise operation often encounter some unpredictable risk problems, which leads to uncontrollable mistakes in the financial decision of the enterprise. Especially in the context of the increasing integration of the global economy, the risks faced by enterprises in the course of operation are more complex and diverse. Economic development cycle, economic policy, exchange rate, interest rate, price and other factors will affect the economic benefits of enterprises, and then will bring uncertainty to the financial situation of enterprises.

3.2. Impact of the Soundness of the Internal Oversight Mechanisms Enterprises

Internal control and internal audit are important means of internal supervision. Effective internal control system and internal audit system are conducive to the smooth operation of enterprises. The soundness of the internal control system and the internal audit system will be influenced by the size of the enterprise, the operating stage of the enterprise, the degree of attention paid by the management and so on. Restricted by operating costs, small enterprises with short establishment time often have some management problems such as simple organizational structure, unscientific setting of post responsibilities and responsibilities. The internal control system of such enterprises is relatively low, its internal audit independence is not strong, and the financial risks faced by enterprises are large. In contrast, the larger and longer-established enterprises have often formed an effective internal control system and internal audit mechanism adapted to their own enterprises, which can play a corresponding supervisory role in the financial management activities of enterprises, thus enhancing the ability of enterprises to prevent and resist financial risks.

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3.3. Impact of Inadequate Risk Awareness Among Some Employees

Influenced by factors such as personal knowledge structure, Some employees in the enterprise have the problem of weak risk consciousness and lack of understanding of the causes and hazards of financial risks. Especially in the environment of new technology and new ideas, if the decision-makers or financial personnel do not have a deeper consideration of the specific situation experienced by the enterprise, and fail to identify the potential risks faced by the enterprise in time, it is possible that the blind operation of the enterprise will affects the financial situation of the enterprise and then affect the survival of the enterprise.

3.4. Impact of Bias In Decision Analysis

If the decision made in the course of business operation is not scientific, it will lead to lower income than cost. This will inevitably have a certain impact on the financial situation of enterprises, and even affect the subsequent operation of enterprises. The decision-making is based on the use of scientific methods for data. If the enterprise lacks scientific guidance in the process of making decisions and fails to carry out scientific analysis of the actual operation of the enterprise, then conclusions made by the decision-makers will be flawed. In addition, if there is an error in the process of collecting data in the process of making decisions, it will also have an impact on the decisions of enterprises. The decision making is directly related to the business development of the enterprise, and the deviation of the decision analysis process will bring a certain degree of financial risk to the enterprise.

3.5. The Impact of Poor Financial Management in Enterprises

In the course of business operation, the liquidity of assets and the liquidity of assets are very important. Whether there are enough monetary funds to pay, whether the inventory goods can be sold in time, and whether the accounts receivable can be recovered in time, these factors may lead to the financial risk of the enterprise. In addition, borrowing money to maintain the operation of enterprises, this behavior is a double-edged sword. When the business is in good condition, the debt management will provide leverage for the enterprise, but if the business condition is poor and the debt ratio is too high, the enterprise will be in trouble when the enterprise pays the principal and interest of the debt. More seriously, enterprises will face bankruptcy liquidation. It can be seen that the flow of assets and whether the capital structure is reasonable will bring financial pressure to the enterprise, and then bring financial risk to the enterprise.

4. Recommendations for the Management and Control of Enterprise Financial Risks

4.1. Enterprises and Employees Need to Increase Risk Awareness

On the one hand, the business decision determines the business direction and strategy of the enterprise, and then affects the financial situation of the enterprise. Therefore, when making decisions, enterprises should fully consider the impact of the internal and external environment on the management of enterprises, based on the long-term development of enterprises, and combined with the actual operating situation of enterprises. At the same time, enterprises should always maintain risk awareness in the process of operation, make use of scientific decision-making methods to make decisions, ensure the effectiveness of decision-making, and prevent the blindness of decision-making. Enterprises should reduce the probability of financial risk to enterprises as far as possible. On the other hand, enterprises can introduce advanced management concepts and knowledge through propaganda and training, so as to improve the financial management level of enterprises and enhance the risk awareness of enterprise employees, especially to improve the risk awareness of enterprise decision makers

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and financial personnel. For example, for financial personnel, financial work not only has the basic accounting function, but also has the management function, especially the risk management. With the enhancement of employee risk awareness in various departments of the enterprise, the personnel of each department of the enterprise can actively discover the potential risks in their daily work, and provide the possibility for the enterprise to resolve the risks in time.

4.2. Enterprises Need to Further Standardize Their Financial Management Activities

Unreasonable resource allocation and unreasonable capital structure are the important reasons to induce financial risk. Therefore, enterprises should further standardize financial management activities.

On the one hand, we should further improve the relevant rules and regulations of financial management in order to strengthen the internal supervision and management of financial activities. For example, enterprises should strictly control the opening of bank accounts, timely grasp the opening of bank accounts and the flow of funds between accounts; strict use of all kinds of funds and reimbursement business audit process. These measures can help enterprises to find financial loopholes and make up for them in time, thus reducing financial risks.

On the other hand, we should adjust the proportion and scale of the liabilities according to the characteristics of the industry, improve the liquidity of the assets, and effectively reduce the financial risk of the enterprises and realize the sustainable development of the enterprises. Business managers should monitor the financial situation of enterprises in real time, find potential risks in time, and take measures to maintain good financial situation. At the same time, the use of funds is reasonably planned to ensure that there will be no idle funds, but also to ensure the need for funds in the operation of enterprises, and to avoid the situation of debt maturing and insolvent or insolvent. Specifically, enterprises can take the following measures: the first measure is that enterprises can diversify their risks, such as enterprises can invest funds in different projects, and the gains and losses between projects can be complementary. This helps enterprises to reduce the overall financial risk of the enterprise. The second measure is that the enterprise can use the cash flow budget to realize the effective control of the cash flow. On the basis of ensuring the security of the enterprise's capital, the liquidity of the enterprise's assets and the solvency of the debt can be improved, thus increasing the return rate of funds and reducing the financial risk of the enterprise. The third measure is that enterprises should strengthen the management of accounts receivable and inventory. Enterprises can use modern technology to establish effective accounts receivable management system and inventory management system. From the formation of accounts receivable to the recovery of accounts receivable, we should check the turnover speed of accounts receivable and inventory, and speed up the return of funds.

4.3. Enterprises Need to Construct Effective Financial Risk Supervision and Control System

The establishment of enterprise financial risk monitoring system is a comprehensive and complex project, which requires enterprises to carry out the financial risk supervision responsibilities of all levels and departments, and to establish a perfect internal control system ,as well as internal and external audit system. Whether there is an effective financial risk monitoring system can affect the ability of enterprises to deal with financial risks. Therefore, enterprises should establish and strengthen the risk monitoring mechanism for their own financial management under the guidance of scientific ideas, and can improve the ability of enterprises to respond to financial management risks from three main aspects: financial information, departmental linkage and personnel supervision.

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In terms of financial information, the timeliness and accuracy of the information is very important. Enterprises can use modern information management technology platform to realize real-time data transmission and summary calculation. At the same time, enterprises can also use this technology platform to monitor the financial situation of enterprises in real time, and warn the anomalies in time. Specifically, according to the operation situation and financial data, the enterprise should determine the risk index of each link, and then construct the whole risk evaluation system of the enterprise, and carry on the risk assessment against the system. Of course, the risk evaluation index system of enterprises is not fixed, but also should be adjusted according to the actual situation. In addition, enterprises should also formulate risk emergency mechanism to deal with emergencies and ensure the normal operation of enterprises.

The linkage between departments should strengthen the cooperation between various departments of enterprises. By clarifying the responsibilities of each department, enterprises realize the unity of power, responsibility and interests within the department. In the face of financial risk, this kind of interdepartmental linkage can effectively shorten the reaction time of enterprises, optimize the allocation and use of interdepartmental resources, and enhance the ability of enterprises to control risks. Of course, if possible, in order to reduce the risk caused by market factors, this linkage and cooperation mechanism can also be formed between upstream and downstream enterprises.

In the aspect of personnel supervision, enterprises should assign the responsibility of risk supervision in each post according to their own management characteristics. Enterprises can promote the ability of financial personnel and managers to identify risks through regular or irregular training and learning, especially for the identification and response of key business links of enterprises.

5. Conclusion

Under the changeable market situation, different enterprises face different financial risks. When controlling financial risks, enterprises can supervise all aspects of enterprise management with the help of internal monitoring system of enterprises. The enterprises should identify potential risks in time, in order to avoid or reduce risks as much as possible, and achieve sustainable development.

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