

A Study on the Financial Management of Small and Medium Enterprises in Jilin Province

Qian Zhang

College of Humanities and Sciences of Northeast Normal University, Changchun, Jilin Province 130117, China

824974748@qq.com

Keywords: Small and medium enterprises; Financial risk; Risk management

Abstract: Since China's WTO accession, the economic globalization has brought both unprecedented opportunities and severe challenges to the development of small and medium enterprises. Small and medium enterprises, powering the development of national economics and the society, have been effectively addressing the unemployment problem for the country. Nowadays, there are numerous factors constraining the development of China's small and medium enterprises, especially the factor that the financial management is usually overlooked. Instead of going after long-term economic imperatives by taking advantage of financial management, a majority of these small and medium enterprises only pursue short-term purely economic interests, which makes them less competitive and puts them in vulnerable situations when faced with risks from the outside. The paper takes the actual situation of small and medium enterprises in Jilin into account to analyze the existing problems in financial risk management and thus puts forward some countermeasures to the problems in the hope of accelerating the development of these enterprises in Jilin.

1. Overview of Financial Risks in Small and Medium Enterprises

1.1 Definition of Small and Medium Enterprises (SMEs).

The most recent official definition of small and medium enterprises (SMEs) is elaborated in the "Regulations on the Standards for Classification of Small and Medium Enterprises" (the Regulations) jointly promulgated by the Ministry of Industry and Information Technology. The Regulations divide SMEs into three categories: medium, small and mini. Detailed standards are dominated by industrial features and each enterprise's specific circumstances, including the number of employees, operating revenue and total assets. For instance, in industry, enterprises with less than 1000 employees or an operating revenue lower than 400 million are considered as SMEs; In agriculture, forestry, livestock, farming and fishery, enterprises with an operating revenue lower than 200 million are considered as SMEs; In architecture, enterprises with an operating revenue or total assets lower than 800 million are considered as SMEs; In transportation industry, enterprises with less than 1000 employees or an operating revenue lower than 300 million are considered as SMEs.

Since the national standard for classification is too detailed and complicated for academic studies, the paper adopts a more ambiguous definition for SMEs. SMEs in this paper refers to those independently-owned, self-managed enterprises with a small market share and sales lower than the industry average.

1.2 Characteristics of Financial Risks.

The essential characteristics of financial risks are "comprehensive", "objective" and "uncertain". These three factors are individually different but all largely accountable for the generation of financial risks. Firstly, comprehensiveness means that financial risks can occur at any time or all the time from the beginning of a financial process to the end of it. This is the comprehensive financial risk. Secondly, the objective financial risks are risks caused by non-anthropogenic factors. The most unique feature of these risks is that they are usually affected by force majeure, instead of people's

expectations, and thus threaten the safety of finance in enterprises. Last, the uncertainty of financial risks, as the name implies, indicates that the occurrence of financial risks, just as most other risks, is usually out of control and brings great uncertainty to the enterprise. The time, location and origins of risks remain largely uncertain and thus can badly damage the finance situations.

2. Current Situations of Financial Risk Management of Small and Medium Enterprises in Jilin Province

2.1 Basic Understanding of Risk Management.

Currently, many SMEs in Jilin Province has cultivated a basic understanding of risk management and established a suitable environment, appropriate targets and certain principles for the process. Firstly, they set up an up to bottom management mode. The majority of SMEs in Jilin are private-owned enterprises. Due to the unique characteristics of this kind of enterprises, such as patriarch-based management, centralized ownership and etc., when they establish their internal control, they pay careful attention not only to the internal management mode of the operating process but to the building of internal environment as well, including human resources policies, corporate governance and etc. Secondly, their risk management is target-oriented. To ensure that they can identify and assess certain risks, most SMEs usually develop achievable goals based on their current circumstances, such as operating goals, compliance goals, strategic goals and so forth. Thus, enterprises can manage to identify, preliminary prevent and manage financial risks.

2.2 Primary Risk Management Process.

Most SMEs have started their own effective financial management regulations. In response to the current management chaos and arbitrary decision-making process, SMEs in Jilin have improved the internal systems, relevant training systems, business management and employee qualities. Specifically speaking, the management is carried out from the following perspectives: Firstly, strictly control the cash flow. Strictly supervise the in and out, income and expenditure, access, collection and other usage of the cash follow. This measure can not only prevent the generation of bad debts, but also stop potential corporate corruption, malversation, embezzlement and etc.; Secondly, clarify the accountability. Set up separate departments for finance and accounting respectively led by separate leaders so that the senior management holds the ability to update the corporate's organizational structure. The directors of business, finance, human resources are independent of each other and have no power to interfere each other's work scope or instruct each other; Thirdly, formulate proper internal financial management systems in accordance with different development stages of the enterprise.

3. Existing Problems of Financial Risk Management of Small and Medium Enterprises in Jilin Province

3.1 Low Efficiency in Financial Management.

For one thing, the management lacks adequate efficiency and feasibility. The fundamental reason responsible for this is that sufficient emphasis is not placed on the formulation of financial management system by the enterprise. Thus, professional financial management awareness can hardly be established, resulting in the internal chaos among employees of finance department, including confusions in workload sharing and mess in management and supervision. For another, the quality of employees varies widely, which can be a threat to the efficiency of financial management as well.

3.2 Weak Financial Risk Management Process.

All thriving SMEs value the importance of financial risk management process and the processes are all carefully considered and tested before being put into practice. The most important feature representing that an enterprise has reached a full-scale or has a promising future is that it has an

appropriate financial management system, especially a proper financial risk management system. Only by implementing effective financial risk management system can the enterprise promptly enable its financial risk precautions plans before the risk actually strikes its business and help the enterprise live through the risk. In our previous research, we saw weaknesses in this area in some SMEs in Jilin. They lack professional financial management staff to precisely identify incoming risks and thus put the entire enterprise in a confused and disadvantage position when risks actually occur. Financial risk precaution system might sound easy but requires tons of preparation work in advance.

3.3 Defective Internal Control.

The management structures of many SMEs in Jilin are with flaws. The development of a country no longer exists without enterprises, while the development of enterprises cannot happen without proper corporate governance. However, although some modern enterprises may have achieved a certain scale of business, their performance in corporate governance can be even worse than those of some small start-ups. According to the current circumstances, over half of the SMEs in Jilin are unaware of the importance of internal corporate governance structure, which means the structure will not be among their top agendas when they decide the development of the enterprise. Hence, without departments overseeing each other inside the company, the chaotic management will deteriorate the financial risks.

3.4 Unsafe Investments.

Any small or medium enterprise longs for scaling up to a large enterprise when its development reaches a certain stage. However, most of the time, the inherent difficulties in fund-raising for SMEs stand in the way of development and business expansion. From the perspective of enterprise's management, investment decisions are decisive to the strategic deployment of the company. Some SMEs that were eager to scale up eventually failed, not because they were not mature enough and needed more time to develop, but because the fatal investment decisions carried out by the management. For the investors or management of SMEs, the failure of investment means that their enterprises can hardly recover from the powerful blows in the next few years, which is destructive to them. Therefore, before any investment decision is made, SMEs should always bear possible risks in mind and prepare precautions plans for them in time.

4. Solutions to Optimize Financial Risk Management of Small and Medium Enterprises in Jilin Province

4.1 Enhance the Efficiency of Financial Management.

Firstly, SMEs should accelerate the building process of proper financial management systems in order to effectively control corporate assets, improve the quality of financial information and lay a solid financial foundation for achieving the sustainability of the enterprises; Secondly, formulate all-round financial management policies. For one thing, SMEs should clarify policies on workload sharing and staff rotation to strictly restrain the maximum time length for one employee to be in the same office. Once the maximum time is reached, staff should be scheduled for rotation immediately. Thus, different positions can oversee and constrain the power of each other and effectively protect the safety of corporate finance and assets. For another, SMEs need to complete and improve the auditing policies and restraining policies inside the company. They need to ensure the authenticity, accuracy, completeness and legitimacy of their accounting information, urge all departments to establish mutual restraining policies and avoid potential damage to the corporate assets; Thirdly, standardize the accounting and relevant systems. Choose properly among different categories of accounting, use various accounts to cross check the information and clarify the contents; Prepare accounting statements or other related information to ensure everything comply with the "Accounting Law of the People's Republic of China", ensure that the accounting can offer authentic, complete and effective financial data to serve as efficient reference for the financial

decision-making process, improve management systems, and formulate regulations on fixed assets, cash and bank deposits. Standardize the process of check collection and complete and improve the salary and welfare system for employees, the cost analysis system, property inspection system, financial processing procedures and etc.

4.2 Improve the Quality of the Management and the Employees.

Establish and complete evaluation and performance incentive systems. Motivate the employees and keep their interest in step with the company's by distributing incentives such as stock shares and dividends. Meanwhile create a management system around the power and liabilities, and use performance evaluation as an incentive to inspire employees' creative thinking and pioneering spirits. This measure should be able to cover each individual employee and position and should link the risk management performance to employees' individual performance, so that it can engage every member into the internal control of the company. It is essential and significant for the achievement of corporate management to associate employees' performance with the risk management results; Establish complete training system. SMEs in Jilin should have their own complete training systems. Financial staff should participate in regular trainings to improve their professional skills. At the end of the year, the management also need to provide employees their fair, objective and all-round comments together with performance evaluations and appointments on a competitive basis. SMEs should deepen employees' impression of risk management skills and elaborate the significance of financial management system by emphasizing the policies and corporate culture during the training. Besides, various training strategies should be adopted in accordance with different positions and personalities; Refine the pool of potential workforce. The pool of potential workforce is always a complementary force behind the long-term development of an enterprise. Therefore, SMEs in Jilin should build their own pools of potential workforce according to their current situations and corporate features. In addition, SMEs can also learn from the advanced models of talent management in developed countries in order to form their personalized talent management systems and thus attract more talented people to work for them.

5. Formulate Internal Control System in SMEs

SMEs in Jilin should strive to establish suitable internal control systems under the risk-oriented principle. During the operation and production process, enterprises should try to complete and improve their risk management systems and keep risk management at the top of their agenda list in the internal control system; SMEs should also set up risk-oriented auditing policies and risk precautions policies to identify, assess, avert and comprehensively control risks hidden in the production process threatening the company and achieve a fair balance in terms of risks and rewards. Meanwhile, lower the financial risk and production and operation risk to certain level, so that the company's risk discount rate may go down as well. Thus, the enterprise can reduce the loss of assets and costs, furthest protect the assets safety and achieve the utmost earnings.

Improve the Management of Investment Decisions. Firstly, to improve investment decisions, policy makers in SMEs should strengthen their capabilities of scientifically appraising and analyzing the investment programs and get rid of the old judgement based on subjective experience and impulse; Meanwhile, they also need to grasp a better understanding of financial management to increase the chance of making right decisions and successful investment. Besides, the management of SMEs should pay more attention to improving the professional skills of their financial staff and their financial policies. It is also vital to standardize the accounting and conduct regular trainings for financial staff, providing new professional knowledge for them. Only by this can a company find accurate and reliable investment messages in time. And the policy makers can scientifically analyze and appraise these messages before making the right investment decision. Secondly, increase the internal investment. For many SMEs, the internal circumstances are much more transparent than those of the outside. Most enterprises put their investment in the maintenance and expansion of their reproduction. The most common goals of external investment are to obtain high returns in a short time, and to exert an influence on the production and operation of other enterprises or simply to

control them. However, these two goals both contain high risks for the enterprise. Especially for SMEs without sufficient funds, it is even harder to spare money for external investment. Therefore, SMEs should regard their normal production and operation as the bottom line. Only when the production and operation are guaranteed should they start considering possible internal investment and external investment should always come last. Finally, try to avoid blind expansion. Many SMEs in Jilin blindly adopt a “large but all-encompassing, small but all-encompassing” diversified business model. However, these models are usually vulnerable for SMEs in the investment process due to the restraints of funding and company size. Hence, we encourage SMEs to follow a “small but specialized” path. SMEs should carefully judge their financial situations and funding capabilities before selecting the sizes of investment programs, so that they can ensure the sizes would not exceed their own ability

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