

Research on Risk Management for China's Transportation Enterprises

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Abstract: With the transport industry to further deepen market-oriented reform, transportation enterprises are in face of increasingly fierce market competition, it increases the uncertainty of its operations to further exacerbate the risks. To establish a sound risk management mechanism becomes particularly important. On the basis of analysis on the current status and shortcoming of risk management of transport enterprises, this paper puts forward to the strategies of improving risk management of transport enterprise, namely building an enterprise-wide risk management system, and gives a number of recommendations.

1. Introduction

U.S. professional organizations COSO Commission's "comprehensive risk management a unified framework" says that "comprehensive risk management (Enterprise Risk Management) is a process, this process is affected by board of directors, management and other personnel, and it has been from corporate strategy development to through all activities of enterprise, it is used to identify those potential events that may affect the business and manage risk, so that the risk may be the enterprise's risk appetite, it contributes to enterprises to obtain reasonable assurance of the established goal. "At present, China is now in the process of from a planned economy to a market economy, enterprises are not only faced with new opportunities, but also faced with greater risks, the SASAC was officially released in June 2006 the "central enterprise-wide risk management guidelines", which requires the central business is initiative to build enterprise-wide risk management system. It will be divided into strategic risk, business risk, financial risk, market risk, operational risk, legal risk, etc., and comprehensive risk management are defined, that is, enterprises are around the overall business objectives, and implement the basic risk management processes in all aspects of business management and operation ,and foster a sound risk-management culture, establish and improve a comprehensive risk management system, and provide reasonable assurance processes and methods so as to achieve the overall objective of risk management.

As the country's economic security and national economic lifelines, transportation enterprises play an important and basic role in the economy and society. Although China's transportation enterprises did some work at risk management, but faced a new situation, the risk of transportation enterprises are facing has been increasing. China's transportation market-oriented reform is deepening, transport companies have become as the main body of independent operating and market competition, market-oriented reforms enable the management of transport enterprises to face with an environment and uncertainties different from the past, in the transition of reform the transportation business may will find it difficult to adapt to. The global economic crisis is spreading, and taking effects for China's real economy, impact of economic slowdown gradually appears, the growth of passenger turnover rate will further slow down, the total of cargo turnover will be a slight slowdown, the development of transport enterprises is faced with a very large market and environmental risks. Faced with an increasingly fierce market competition, transport businesses must fully understand the various risks faced with, by the establishment of sound risk control mechanism, to prevent and resolve various risks in the development of enterprise and ensure the safe operation and the sustained and healthy development of transport enterprises.

2. Risk Classification of Transportation Enterprise

As we all know, mishandling of the enterprise risk by the enterprise management is the direct cause of the crisis generated. Under normal circumstances, the enterprise's risks can be divided into market risk, operational risk, financial risk and legal risks. Market risk refers to risks arising from those factors that affect all businesses, such as economic cycles, interest rates, purchasing power, they work for all businesses, can not be avoided through diversification of operations and therefore are called risks of non-dispersive. This risk's impacts on transport enterprises have been weakened.

Operational risk is the risk brought by the uncertainty of production and operation, it is mainly from sales, cost and production technology. Because of market monopoly, the sale of transportation business is a very small risk. Relatively speaking, transportation business's costs and conditions of production technologies are relatively mature, under normal circumstances the risk is relatively small. However, at present there are a large number of non-relevance of foreign investment, foreign borrowing and external security of transport companies, which gives transport companies operating an enormous risk.

Financial risk is the increased risk due to an enterprise is the borrower, which is the risks arising from the decision of making finance and therefore it is called the fund-raising venture. Financial risk is the significant risks that affect transportation enterprise survival and development. However, from perspective of the present management system of transport enterprise, the financial risk is often influenced by the desire to invest, but also by the corporate management decision-making control, it often occurs in the upper of enterprises.

Corporate law risk is due to changes in the legal environment outside the enterprise, or due to legal subjects including the enterprise itself are not in accordance with legal requirements and the effective exercise of contractual rights and obligations, and it leads to the possibility of adverse legal consequences for companies. Under the new situation of the socialist market economic system and the country's legal system increasingly improved, China's transport enterprises operating from the past to rely on the policy shifts according to their own decisions, and thus the legal risks faced by the transport enterprises is also growing.

3. Status and Lack of Transportation Enterprise Risk Management

3.1. The Lack of Standardized Risk Management System.

The transport sector has not yet been a comprehensive risk management system framework, nor did the introduction of risk appetite, risk tolerance, risk measures, stress testing, scenario analysis etc risk analysis tools. For example, based on the risk measure to allocate economic capital and to support business prospects of the decision-making processes in the use of risk information, to make enterprise development strategy consistent with risk appetite, and to take growth, risk and associated with reward, thus it helps managers to achieve business goals.

3.2. Limited Risk Management to the Security Production Area.

Over the years, transportation enterprises formed the system's safety management system and methods basing on experiences and lessons learned from summing up the incident. In the "safety first, prevention is important; safety is everybody's responsibility" principle, and formed the chief executive as the core safety production responsibility system and the three safety nets. They established and improved a range of security assurance systems in line with the industry features. They established a complete safety evaluation system. Practice has proved that the safety management system is practical and effective. For the transportation business and its employees, the concept of safe production has been deeply rooted in their minds, they have a strong awareness of security risk management. Transportation enterprises have long attached great importance to production safety has its inevitability, but under gradually mature market environment, the business environment has changed dramatically requires transportation enterprises attach importance to a comprehensive risk management. Some corporate managers believe that other risk managements including market risk, financial risk, legal risk management not only don't increase their income,

but also reduce the profits of enterprises, and even some managers used management approach of safety production to manage other risk, this understanding is very hazardous of the business to adapt to the new environment and must be changed.

3.3. Scattered and Disorderly Risk Management

Risks affect each other, both may hedge or both may also exacerbate. Plus there are always gaps between departments, the risk is very easy to crack fingers. In addition, each department only from the perspective of their own in their own language to describe the risk (including intentionally or unintentionally, to enlarge the importance of risk management in this sector) as well as makes the management underestimate or overestimate the risk of the consequences, or unable to determine the right side is heavier the lighter.

3.4. Passive Risk Management without Clear Objectives.

In transport enterprises, the lack of a systematic risk assessment, including risk identification, measurement, analysis and response, so it can not determine the current risk profile; it also has a lack of diagnostics of core internal control processes and the development of appropriate internal control optimization program; At the same time transportation companies have the lack of risk management department, risk management function, but also have the lack of risk early warning system and risk portfolio management system so on. In fact, the integration of risk management can play a significant role for the transport companies to strengthen asset management, optimization of assets and liabilities matching, improving the efficiency of utilization of funds and carrying out risk financing and implementation of risk transfer.

4. Strategies to Improve the Transportation Enterprise Risk Management—Building a Comprehensive Risk Management System

As the continuous improvement of China's socialist market economic system, companies in the market economy environment are to face the complex relationship among the three of competition, income and risk. Under the circumstances of competition increased in the market and enterprises' risk increased, enterprises with the actual situation of the enterprise to undertake a comprehensive risk management is necessary. Comprehensive risk management is that an enterprise focuses on the overall business objectives, and does the implementation of the basic processes of risk management in all aspects of business management and business management process, it must foster a sound risk-management culture and establish a sound comprehensive risk management system consisting of risk-management strategy, risk measures for financial management, risk management organization, risk management information systems and internal control system so as to provide assurance processes and methods for achieving the overall objective of risk management.

4.1. Comprehensive Risk Management Process.

The process of transport enterprises' implementing comprehensive risk management is co-ordinating management process of its all risk, all risks need to be explicitly included in the scope of the risks of risk management system, the process of specifically the implementation is shown in the next six steps, each step is expressed as: ① the high level should promote and establish the lead agency of a comprehensive risk management, and establish the specific framework of implementation according to business characteristics and business strategy; ② evaluate the methods and results of current risk management, and search for approach to comprehensive risk management according to the actual; ③ all sectors participate in discussing the complete distribution of responsibilities for risk management and monitoring systems; ④ standardize the methods and processes of enterprise-wide risk management for employees to and conduct training of the concepts and implementation methods of comprehensive risk management; ⑤ various business sectors and Management-level implement the risk management plan and comprehensive risk management, supervise the results in their daily work, and establish a comprehensive risk

management dynamic system according to feedback and adjustment; ⑥ Nurture and establish the corporate culture of comprehensive risk management in order to conduct comprehensive risk management in a more high-level. These steps are intertwined and indivisible, each measure achieves the other requirements and content to a certain extent.

4.2. A Number of Recommendations of Transportation Enterprises to Develop a Comprehensive Risk Management.

As a high-risk industry, the transport industry is not only from their own inherent characteristics such as natural monopoly, public utilities, technical and capital-intensive, operational continuity, a huge amount of investment, high sunk costs etc, but also increases uncertainty with market players and stakeholders are numerous, transport market is complex and transport operation is complex. Therefore, to strengthen risk awareness, establish risk management ideas, and strengthen risk management is imperative to the transportation business management. We should combine features of the transport sector to carry out comprehensive risk management based on enterprise-wide risk management theory and method.

(1) Theory is the guide. In order to carry out enterprise-wide risk management better, we must first strengthen learning of risk management and its associated basic theoretical knowledge. Its specific contents should include mathematics, economics, management and other basic theoretical knowledge, strategies methods related to risk management and expertise of qualitative analysis and quantitative evaluation.

(2) Strategy is the commander in chief. Combined with company's development strategy and short-term arrangements, the enterprise-wide risk management should be put into the company's work schedule. At present, transport enterprises should be accordance with the company for the purpose of the development strategy, and do well the company's overall risk management planning arrangements, the overall plan and implementation step by step, and gradually extend gained experience to implement the comprehensive risk management in a plan and step by step in all levels and in various business areas within the company.

(3) The organization is the guarantee. In order to ensure the smooth implementation of transport enterprise risk management, it should set up risk management committee under the board, which takes the overall responsibility for the entire company systems and levels, all levels and all departments of risk management. According to "happiness," Journal of the United States a survey of more than 500 large companies that, nearly 85% of companies have a dedicated risk management department to be responsible for risk management, we should be inspired by.

(4) Talent is the key. To carry out risk management training at various levels and departments in enterprise, to conduct a comprehensive risk management education, popularize the knowledge of risk management, improve risk management awareness of enterprise staff, strengthen capacity of risks identification and risks management. And do enterprise risk management training for decision-making, management, executives and various business sectors in business at different levels, different levels and in different depth and breadth of content, multi-type and multi-layered.

(5) Do enterprise risk management training such as risk management planning, operations and training for the company's high-level, mid-level and grass-roots at different levels, in the technical, economic, financial, legal, management, operating in different business areas, it will lead to the formation of risk management mechanisms and systems that the company closely integrated at all levels and a comprehensive integrated management of all types of risk to enable enterprise-wide risk management to be institutionalized, standardized and systematic.

(6) Transportation enterprises are faced with various risks due to the changes in their internal and external environmental conditions, due to the transport links and the characteristics of a number of difference, the risk may have different manifestations and management mode. Transportation enterprises should focus on strengthening the management of investment and financing risks, risks of planning capacity and route, fuel management risk, economic dispatch risk, the risk of tariff policies, market forces inhibit risk, the risk of ancillary services, the risk of transport capacity, road and route security risks, the risk of traffic congestion, transport regulatory risk, cargo safety risk,

credit risk, investment in equipment and risks.

(7) Reliability of Safe and convenient transportation, stability of fast smooth transportation and quality service are an important indicator of normal operation of transportation system, but also are the risk factors, which are closely related to risk of traffic and transport. Therefore, risk management of transportation can make use of data and information relevant to reliability of Safe and convenient transportation, stability of fast smooth transportation and quality service and use it as an entry point, according to the risk management process model of risk factors, the risk of accidents and loss of all three series links, and gradually in depth to carry out comprehensive risk management. In accordance with risk analysis, risk assessment and risk strategy posed by the risk management process model, do the overall management of transportation risks.

(8) Transport emergency management systems in the future should focus on the following areas of work: First, in a state of emergency their duties must be clear for units to perform, to cure a state of emergency under the coordination of various departments and interactive programs, but also clear personnel security responsibilities in a state of emergency; second is to further refine and enrich the contingency plans, in particular to improve the early warning mechanisms and disaster relief measures and disposal program, to improve the operability of plans.

5. Conclusion

To promote comprehensive risk management system of transportation enterprises is a systematic project, at present many enterprises carried out to explore and practice the risk management and have achieved good results. On the basis of some obtained experience, it can be extended to other aspects of risk management to form a complete comprehensive risk management system. Therefore, transportation companies, especially the management not only from a strategic height are to establish a comprehensive risk management awareness, and at the institutional, human and material, and other areas of risk management to provide adequate resources to ensure, but also on the basis of establishing a scientific basis for risk assessment system on the full use of various risk management instruments, and constantly improve transportation enterprise-wide risk management level. This requires us to be more conscious awareness of a sense of crisis, we must dare to deal with and transform a variety of risks, but also innovative in the overall risk management.

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