

# **Risk Analysis and Countermeasures of Small and Medium-Sized Enterprises under Pneumonia Epidemic in Covid-19**

**Li Zihuan**

Shenzhen College of International Education, Shenzhen, China

2206370378@qq.com

**Keywords:** Covid-19, Small and medium-sized enterprises, Business risk

**Abstract:** The spread of COVID-19 epidemic caused the short-term stagnation of business activities of small and medium-sized enterprises, the sharp drop of business income, the aggravation of liquidity risk, the increase of credit default risk, the increase of passive layoffs of enterprises, and the prominent bankruptcy risk of enterprises. The sudden epidemic has dealt a serious and incalculable blow to small and medium-sized enterprises. Operational risk prevention is a management method that enterprises can fully foresee and effectively control operational risks on the basis of risk identification, risk assessment and risk analysis, and minimize the consequences caused by operational risks with the most economical method. Maintaining the stability of small and medium-sized enterprises and ensuring their normal operation is not only related to China's economic development, but also an important measure related to the national economy and people's livelihood and social harmony. Based on the environment of COVID-19 epidemic, this paper analyzes the business risks of small and medium-sized enterprises, and puts forward targeted suggestions, in order to help our small and medium-sized enterprises get out of the financing dilemma and resume normal operation as soon as possible.

## **1. Introduction**

There are many reasons for China's small and medium-sized enterprises to generate business risks, both external to the company and the company itself, and the individual causes of different business risks are not the same [1]. The global COVID-19 outbreak in 2020 will have varying degrees of impact on companies around the world. Some companies have suffered blows, and some companies face new challenges. At present, the COVID-19 epidemic has a great negative impact on China's social and economic life, and its impact is much greater than that of SARS in 2003, and the most severely damaged ones are SMEs [2]. The sudden outbreak of the epidemic has hit SMEs severely and immeasurably. In order to strengthen the prevention and control of the epidemic, the State Council approved the extension of the Spring Festival holiday, and various provinces and cities across the country issued notices of delayed resumption of work, requiring all types of enterprises not to resume work before they have been notified by the government [3]. Under the conditions of a market economy, business risks run through all financial links of the company, and are the concentrated expression of various risk factors in corporate finance [4]. For small and medium-sized enterprises, affected by many factors, especially the epidemic, many of them fall into survival crisis. Due to the relatively weak anti-risk ability of small and medium-sized enterprises, how to continue to survive the impact of the epidemic and the break of the capital chain is an urgent problem that Chinese central enterprises need to solve at present [5].

The spread of the COVID-19 epidemic has caused short-term stagnation of business activities of small and medium-sized enterprises, sharp decline in operating income, increased corporate liquidity risk, increased risk of credit default, increased passive layoffs, and increased corporate bankruptcy risks [6]. In the face of this unprecedented epidemic, the business activities of small and medium-sized enterprises have stagnated for a short time, and their operating income has plummeted. Coupled with small scale, weak strength, and low risk resistance, most small and medium-sized

enterprises face severe survival difficulties. Although the development momentum of the domestic epidemic has been effectively curbed, all regions have gradually resumed work and production, and economic order has gradually recovered. However, developed countries such as Europe and the United States have once again detonated the global pandemic of the epidemic, bringing serious import risks to China, which is already struggling for small and medium-sized domestic enterprises. Enterprises are again cast a shadow [7]. The important role of SMEs in the transformation and upgrading of China's industry, promoting the economy, and solving employment has become increasingly prominent. Therefore, maintaining the stability of small and medium-sized enterprises and ensuring their normal operation is not only related to China's economic development, but also important measures related to the national economy, people's livelihood, and social harmony [8]. In order to alleviate the impact of the epidemic on the economy, the government needs to actively promote the resumption of work and production of enterprises, and implement supporting policies such as increasing financial support, reducing taxes and fees, and reducing or exempting corporate rents to help enterprises tide over the difficulties [9]. Based on the general environment of the new pneumonia epidemic, this article analyzes the business risks of small and medium-sized enterprises, and puts forward targeted suggestions, in order to help Chinese small and medium-sized enterprises to get out of financing difficulties and resume normal operations as soon as possible.

## 2. Survival Status of Small and Medium-Sized Enterprises during the Epidemic Period

### 2.1 Lack of Credit Increases Financing Resistance

In addition to the information of the epidemic itself, the media and scholars have gradually turned their attention to the small and medium-sized enterprises seriously damaged by the epidemic. From the normal period, it is a huge and systematic project to help small and medium-sized enterprises get out of financing difficulties, which has a positive impact on the structural reform of Chinese enterprises and the development of national economy. Due to policies such as isolation and city closure, logistics and transportation were interrupted and workers could not return to work, which indirectly affected other industries such as processing and manufacturing, agriculture, forestry, animal husbandry and fishery, construction and e-commerce. Small and medium-sized enterprises have some problems, such as weak management ability, small scale of development, unbalanced talent structure, and less available funds for enterprises. Coupled with the impact of the epidemic, small and medium-sized enterprises can be said to have encountered great troubles and challenges [10]. According to the analysis of the characteristics of small and medium-sized enterprises, they focus on short industries in cash conversion cycle, including processing and manufacturing and catering. The impact of COVID-19 epidemic has a great impact on such enterprises, because the cash reserves of enterprises in these industries are relatively small, the cash conversion cycle is short, and the cash circulation is relatively fragile.

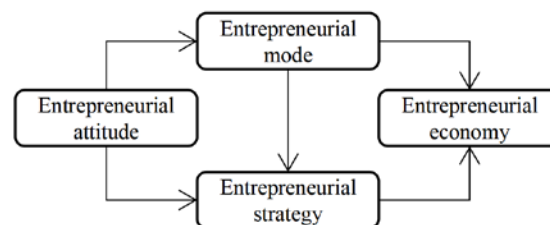


Fig.1 The Conceptual Model of the Influence Mechanism of Corporate Policies on Corporate Behavior

Affected by COVID-19 epidemic, small and medium-sized enterprises have serious problems such as broken capital chain and poor management, which makes the comprehensive credit score even more insufficient, unable to obtain the required funds through financial institutions, and can only spend more costs and find another way. The scores of enterprise policies in innovation-driven economies are higher than those in investment-driven economies. This is mainly due to the higher

level of economic development driven by innovation, the more perfect policy system and the higher efficiency of enterprise resource allocation. Figure 1 is the conceptual model of the mechanism of the influence of enterprise policies on enterprise behavior.

In China, small and medium-sized enterprises account for a large proportion, which not only makes great contributions to the development of national economy, but also provides a large number of jobs for the society and relieves the employment pressure. Due to the weak profitability of small and medium-sized enterprises, most of them only pay attention to the growth of sales and the realization of total profits, and pay attention to short-term gains, resulting in out-of-control costs, excessive use of funds, and low profit level of unit funds. Compared with large enterprises, the development time of small and medium-sized enterprises is not long, the effective credit record is short, the solvency is relatively weak, and the overall credit status is poor. The macro environment of financial management is complex and changeable, and changes in the external environment may bring some opportunities to enterprises, and may also make enterprises face some threats. Due to the limitation of financial resources, material resources and manpower, small and medium-sized enterprises can not adapt to the complex and changeable external environment, which will inevitably bring difficulties to enterprise financial management.

## **2.2 High Threshold for Financial Institutions**

Small and medium-sized enterprises are unable to issue bonds and stocks due to their own conditions. The remaining financing methods are some debt-based financing methods. If they are not selected properly, they will increase additional costs for the company, affect the company's capital turnover and create operating risks. Affected by the impact of the epidemic, many small and medium-sized enterprises have sluggish cash turnover, causing an instant increase in cash demand. For companies that lack the advantages of economies of scale, they are also affected by insufficient capacity utilization, resulting in increased costs, and many companies delay resuming work. From the environmental perspective, small and medium-sized enterprises are facing serious exclusion in the financing process. The optimization of the external environment can effectively solve their financing problems and enhance the financial support of small and medium-sized enterprises. During the epidemic, the capacity utilization rate decreased, and the associated production efficiency and inventory turnover rate decreased [11]. In addition, production revenue is affected by various factors such as upstream supply and logistics. Costs increase significantly. Production, operation and investment often have cyclical fluctuations in the same direction. The amount of debt financing and its term structure should be consistent with the production. The operating fluctuations match the same period. Such unreasonable arrangements may cause a peak in debt repayment at a certain point in time, or idle funds at a certain point in time. From the perspective of organizational structure, due to the lack of inherent advantages of small and medium-sized enterprises, large financial institutions have turned them away. In contrast, small and medium-sized banks have relatively loose loan conditions and can meet their financing needs to a certain extent.

The sudden outbreak of the epidemic has had a huge impact on many small and medium-sized enterprises. Many companies do not pay attention to risk control and prevention, budget management is not in place, and cash flow is insufficient. The existence of these problems makes companies even worse during the epidemic. Affected by the COVID-19 epidemic, financial institutions are facing difficulties in repatriation of funds and a significant increase in the risk of bad debts. They have to tighten the credit issuance limits and carefully review them. If the current interest rate level is too high and the interest rate is about to be lowered, the company still carries out debt financing at a higher interest rate level, so that the company still has to bear higher interest rates after the interest rate is lowered [12]. Sustained inflation will continue to inflate the capital demand of enterprises, and capital supply is prone to shortages. The cost of an enterprise directly affects its profits and also determines the length of its survival. Therefore, effectively solving the problem of SME labor expenses can greatly alleviate the shortage of corporate cash flow, fundamentally help companies reduce costs, and ensure their survival.

### 3. Management Risk Coping Strategies of Small and Medium-Sized Enterprises during the Epidemic Period

#### 3.1 Make Full Use of the Favorable Policy of Financing for Small and Medium-Sized Enterprises

In order to prevent operating risks, companies should carefully analyze and study the ever-changing macro-environment of financial management, grasp its changing trends and laws, formulate various contingency measures, adjust financial management policies and change management methods in a timely manner. Severely affected by the epidemic, local governments have introduced a series of favorable policies to help small and medium-sized enterprises cope with difficulties. Appropriately slow down corporate investment, control expenditures and expenses, and leave sufficient cash flow to ensure that companies survive the difficult period. During the epidemic, the development challenges and dilemmas faced by each enterprise must be combined with the characteristics of the enterprise and corresponding strategies should be formulated. Enterprises should carefully analyze the macro environment of financial management and its changes, grasp its changing trends and laws, and formulate a variety of contingency measures, timely adjust financial management policies and change management methods, so as to improve the company's ability to adapt to changes in the financial management environment. Resilience, in order to reduce the business risk caused by environmental changes to the enterprise [13]. During the epidemic, small and medium-sized enterprises faced heavy losses, and operating net cash was difficult to guarantee short-term debt and wages, and suffered development pains. Enterprise managers will explain the current difficulties and difficulties to all employees, obtain employees' support, obtain buffer time, reduce corporate capital pressure, and obtain financing time.

Generally speaking, the degree of monopoly in the market structure is positively correlated with the size of the firm. This means that the higher the degree of monopoly in the market structure, the larger the scale of the company, the stronger the company's ability to carry out technological innovation, and vice versa. Economic monopoly, enterprise scale and technological innovation capability are shown in Figure 2.

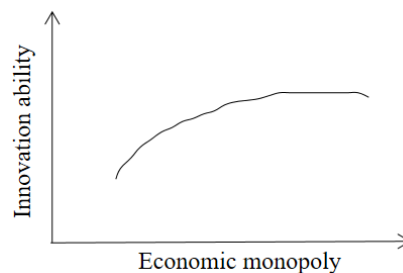


Fig.2 The Relationship between Economic Monopoly, Enterprise Scale and Technological Innovation Capability

Under the assumption of market completeness, the market has the function of allocating all kinds of resources to the best by price signals. Finally, “resource endowment-power structure-distribution structure” forms a stable relationship, forming a cumulative circulation mechanism as shown in Figure 3.

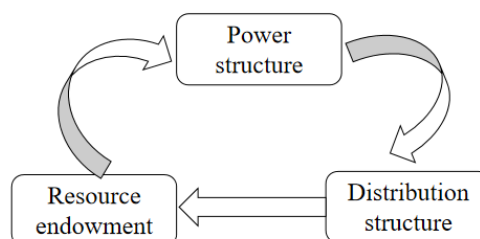


Fig.3 Stable Relationship of Monopoly Prices

We should also see that high debt ratio will lead to heavy financial burden, and when solvency is insufficient, enterprises will have financial crisis, especially small and medium-sized enterprises can not monopolize and control the market, and have great operational risks, so the debt ratio of enterprises should not be too large. In the practice of enterprise financial accounting management, it is necessary to combine the current cost pressure and current capital situation, make scientific and reasonable decisions and make tax planning according to the preferential policies and support provided by the government, so as to reduce the capital pressure of enterprise operation. Enterprises can improve product quality, improve product design, improve product performance, open up new markets, reduce the proportion of investment in fixed assets, etc., so as to improve the competitiveness of products and reduce the business risk of failing to realize the expected benefits due to the slow sales of products and the decline of market share. Enterprise managers can actively strive to implement various policies according to their own situation, reduce the expenditure of labor costs as much as possible, and ensure that enterprises can successfully survive the epidemic.

### **3.2 Financial Accounting Management of Small and Medium Sized Enterprises during Epidemic Period**

Affected by the epidemic, many small and medium-sized enterprises have experienced no income and shortage of funds. In order to relieve the pressure on small and medium-sized enterprises, the China Banking Regulatory Commission and insurance institutions have lowered their loan interest rates. Due to the impact of the epidemic, labor shortages will lead to manpower shortages and cost increases. Business managers may consider replacing manpower with machines to achieve a high degree of automation. There are a large number of small and medium-sized enterprises, and the demand for funds is characterized by a low number of loans, a large number of loans, and a short loan period. Many banks do not have these targeted products. This makes many private lending institutions see business opportunities and have designed many suitable for small and medium-sized enterprises. Personalized products [14]. Only by establishing a more complete management mechanism and response measures can companies ensure that they can pass the border smoothly when faced with similar risks. When faced with market fluctuations, companies should try to keep operating cash in a balanced state, and reasonably control the inflow and outflow [15]. Facing the situation of rapid increase in short-term funding needs, SMEs must actively raise funds, such as supply chain credit financing, and obtain the support of core enterprises, such as capital or credit, to tide over the difficulties. The confidence of entrepreneurs has a significant impact on the economy, investment, and industry. The more confident the entrepreneurs in future development, the faster the economic recovery will be, and the further the enterprise can go in this crisis.

## **4. Conclusions**

The sudden outbreak of the epidemic has brought great impact to many small and medium-sized enterprises. Effectively solving the problem of labor expenses of small and medium-sized enterprises can greatly alleviate the shortage of cash flow of enterprises, fundamentally help enterprises to reduce costs and ensure the survival of enterprises. In this paper, taking COVID-19 epidemic as the research background, taking small and medium-sized enterprises as the research object, we analyzed the impact of new pneumonia epidemic on China's macro-economy, medium-sized economy and small and medium-sized enterprises. In order to optimize and adjust the financial accounting management of small and medium-sized enterprises during the epidemic period, we should improve the risk coping strategies, improve the utilization rate of funds and overcome the challenges. Compared with large enterprises, the development time of small and medium-sized enterprises is not long, the effective credit record is short, the solvency is relatively weak, and the overall credit status is poor. Enterprises should make structural adjustments to capital and liabilities according to the changes of business environment, so as to keep a reasonable proportion. In order to reduce enterprise bankruptcy, it is necessary for regulators to emancipate their minds again, study more practical financial assessment tools, and guide banks and other financial institutions to tolerate short-term defects for

high-quality small and medium-sized enterprises that can resume operation. Only by establishing a more perfect management mechanism and countermeasures, can enterprises be guaranteed to pass smoothly when facing similar risks.

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