Research on Financial Risks and Prevention Strategies for Logistics Enterprises

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Abstract. Logistics enterprises face problems of the large scale of infrastructure and the long cycle of capital recovery. It is much likely for them to have financial risks. In the process of financial risk control, logistics enterprises in China face problems of irregularity of financial management activities, difficulty in external financing, the weak ability of making profits, the lack of awareness of financial risk prevention and an effective system of internal financial risk control. Logistics enterprises should improve financial management systems of logistics enterprises, strengthen credit accumulation, improve the financial environment, focus on improving enterprises’ ability of making profits and improving financial management’s risk awareness and quality, and improving enterprises’ internal financial risk control systems, so as to improve the ability of fighting against risks.

1. Introduction

As the pattern of global economic integration forms, demands of the logistics market in China rapidly increase, the contemporary logistics industry has entered the rapid development phase. But at the same time, it faces international competition. On the one hand, logistics enterprises in China face more abundant market resources and multiple development opportunities. How to develop new projects and strengthen cooperation and win-win situations with other operating bodies have become key problems in development of logistics enterprises. On the other hand, as investment, development and cooperation of projects increase, logistics enterprises should strengthen management and control over financial risks, tell hidden danger in operation and financial management risks in market competition, construct comprehensive and scientific financial risk management and control mechanisms, reasonably plan, organize and coordinate production and operation activities of logistics enterprises, continuously improve economic power of logistics enterprises.


2.1 The nonstandard of financial management activities can easily cause failure

Due to characteristics of the logistics industry, there are usually subordinates of the group company in different districts. In the concrete financial management process, there may be some irregular activities which can cause failure. For example, backward capital management modes, financial disintermediation and arbitrary investment without survey in the early stage can cause serious loopholes and huge risks in capital in the whole financial management system of logistics enterprises. There are several reasons.

2.1.1 Management modes are old, management concepts are backward

Most logistics enterprises in China are privately owned enterprises. Some are even family businesses. It results in old management modes and backward management concepts. Generally, investors of logistics enterprises are managers. When facing major decisions, managers are always dictatorial. It is likely that a mistake in personal decision causes irreparable losses for the whole enterprise. Besides, employee training systems are not mature; financial management concepts are
backward; quality of the financial staff is low; awareness of risks is weak. All these result in weak financial management links and many financial risks.

2.1.2 The capital management level is low, the ability of fighting against risks is weak

In the process of production and operation activities, logistics enterprises always lack reasonable planning of using capital, causing capital to be hard up and be likely to be trapped in financial predicament. At the same time, as the debt percentage is high, enterprises need to pay high interests and profits largely decrease. All these increase uncertainty of financial risks for logistics enterprises, which is not beneficial for operation and development in future [1]. Besides, logistics enterprises have a small scale, lack capital, have unitary products (service), and have weak internal management links. These characteristics cause the ability of fighting against risks to be weak and accordingly increase financial risks for enterprises.

2.2 External financing is difficulty, capital chains tend to localize

In the increasingly fierce competition, logistics enterprises have to keep the occupation in the market and expect to improve the occupation at the same time. To realize this purpose, financial leverage is necessary to support it. But now in the logistics industry in China, most are private small and medium sized enterprises. Due to unitary capital structure and bad credit of enterprises, internal financing does not have enough motive power. Generally, the capital structure of logistics enterprises is simple. Capital is mainly gained by internal financing. In the process of internal financing, the main object is shareholders. Since the financial ability of shareholders is limited, it is difficult for logistics enterprises to ease the present situation of capital shortage. Besides, unitary capital structure not only severely restrains development of logistics enterprises in future, but will also result in its low ability of fighting against risks.

2.3 The ability of making profits is weak, it is difficult to operate continuously

At present, the industry of logistics has become a key industry as economy rapidly develops. In order to survive, it is common that logistics enterprises largely decrease their service prices in actual operation. It leads to complex prices in the market of logistics. On the one hand, it impedes development of the industry of logistics. On the other hand, it causes serious problems to the financial structure of enterprises and even makes enterprises not able to operate continuously. Logistics enterprises should fully build up good enterprise brands, strive to strengthen their power, realize large increase of soft power, consolidate bases for development, welcome larger opportunities of development, and realize continuous increase of profit-making ability.

2.4 Lack of awareness of financial risk prevention

So far, the financial management in China is influenced by traditional planned economy and restricted by the level of professional education. Their comprehensive quality and business quality should be improved. Their financing concepts and methods, especially professional ethics and professional judgement, cannot adapt to demands of the market economic environment to a larger degree. In the process of work, the financial management of logistics enterprises does not have enough professional skills and they do not have the ability of fighting against risks compatible with their posts. Most of them have wrong awareness that as long as they manage and use capital well, enterprises will not suffer from financial risks. At the same time, some senior leaders give guarantee rashly and have few legal senses. All these have joint responsibility and can result in financial crises. Especially when professional skills largely fall behind development of financial practice, financial risk of enterprises will increase. Thus, it is necessary for the financial staff to improve their awareness of financial risk prevention and not treat it lightly.

2.5 Lack of effective internal financial risk control system

One of the effective methods of preventing financial risks is to regulate daily operation activities through internal control systems. Due to the following reasons, some logistics enterprises have not paid attention to internal control systems. Firstly, internal control systems will impede working
efficiency. It requires extra posts and procedures to regulate internal control systems. Secondly, since mobility of the internal staff is large, it is difficult to carry out comprehensive and systematic study. If control is implemented, its effects will not be comprehensive. Thirdly, employees are not aware of the concept of risk, internal risk control consciousness is weak, risk management professional ethics is not strong, and risk measurement ability is limited.

Due to the above reasons, enterprises have been lacking effective internal control systems. Managers have misunderstanding of internal control systems, making them not develop well. It also brings financial risks to enterprises, makes their economy not able to develop well, decreases their ability of paying debts, and even causes losses to enterprises or causes the risk of bankruptcy.


3.1 Improve financial management systems of logistics enterprises, strengthen financial planning

Logistics enterprises should establish mature and comprehensive internal budget management systems, supervise and examine implementation of budgets in all departments through compiling budget plans, organically combine restraining mechanisms and stimulating mechanisms using the method of achievement assessment, and control potential risks. At the same time, they should gradually improve internal control systems and strengthen internal control systems through the work shift system and segregation between incompatible posts, so as to realize the purpose of decreasing financial risks. Logistics enterprises must introduce in financial staff with financial planning knowledge and abundant experience to scientifically plan and control the overall capital and realize value preservation and increment of the capital. Through professional financial planning, logistics enterprises must make sure to acquire the most capital with the least costs in financial, so as to satisfy capital demands [2]. On the other hand, logistics enterprises also need to introduce in managers with professional experience. In the 21st century, the talent strategy is the key of enterprises. Good managers can reasonably distribute resources for the current staff, stimulate their motivation in work, improve the overall quality of them, bring their potential into full play, realize the overall planning of talent resources, and improve the ability of financial management.

3.2 Strengthen credit accumulation, improve the social image, and improve the financial environment

Most logistics enterprises in China are medium and small sized enterprises. In the current stage, credit support from banks has become the main channel of external financing for medium and small sized enterprises. But due to asymmetric information and the universally low credit level of logistics enterprises, it is difficult to get loans from banks. Besides, banks always require them to provide stable guaranties with equal value, while logistics enterprises will not buy real estate and movable property with stable prices due to the lack of capital. It seems to form a vicious circle. In order to solve this problem, logistics enterprises should strengthen their credit accumulation. Thus, logistics enterprises should pay attention to improvement of their credit level, positively contact with banks, and keep good cooperative relationship with banks. A high credit level decreases risks of bank capital and reduces costs for banks to acquire financial conditions of logistics enterprises. It will be no longer difficult in applying for loans. They may even get higher amounts of loans, which have practical significance for logistics enterprises to enlarge their production and advance continuous development.

3.3 Focus on improving enterprises’ ability of making profits and effectively decreasing financial risks

In order to improve enterprises’ ability of making profits and decrease financial risks, firstly, logistics enterprises should positively carry out refined management. Logistics enterprises should sort out various procedures inside enterprises, realize standard procedures, improve enforcement, effectively control costs, and realize transition from extensive management to refined management,
which is an important aspect of increasing efficiency and improving the ability of making profits. Secondly, logistics enterprises should continuously optimize business modes. Quantity and quality of business can directly decide benefits of enterprises. Logistics enterprises should improve business largely. At the same time, they should continuously and reasonably control length of business chains, optimize business modes, and improve profit margins of projects. At last, enterprises should emphasize information construction, build a good logistics information system, improve the logistics efficiency, and provide high-quality service for customers, so as to advance enterprises’ ability of making profits.

3.4 Improve financial management’s risk awareness and quality

Since financial risks are expressed in all links of financial management, managers should build up strong risk prevention awareness, strengthen risk prevention education, and permeate risk prevention awareness into all links of financial management. At the same time, it is especially important to form a financial group with good business skills, strict disciplines and good quality [3]. Only in this way can all financial management systems be implemented and improved, and financial supervision and management functions can be brought into full play, so as to restrain irregular behaviors to some degree. Besides, it is necessary to strengthen comprehensive quality of managers, strengthen financial risk awareness, inculcate concepts of financial risk management, organize relevant training regularly, test relevant knowledge of employees through tests, and connect rewards to test results, so as to improve effects of management.

3.5 Improve internal financial risk control systems of enterprises

Firstly, they should correctly and reasonably set management departments and posts, and make clear responsibility systems for all departments according to the operation scale. For example, set the marketing department responsible for sales or leasehold of developed projects; set financial department responsible for accounting and financial management, etc. Secondly, they should strengthen budget management and establish mature accounting information systems. Logistics enterprises can try to establish budget management and operation organizations. On the one hand, set budget management committee responsible for decisions and control over budget management; on the other hand, set budget management office responsible for compilation, adjustment, test, supervision, analysis and report of budget.

4. Conclusion

Only by emphasizing financial risk management ideologically can logistics enterprises continuously increase financial risk prevention and management awareness of decision-makers and the financial management, set up modern and informative financial risk management and control, assessment and early warning mechanisms, and combine production purposes, development plans, operation projects with financial risk management and control, so as to increase the ability of logistics enterprises to supervise, manage and prevent market risks, save production costs, expand project development, get healthily and stably developing financial management effects, benefit maintain the normal order of the economic market in China, and create good domestic market development environment.

Reference

