

# Study on the Causes and Countermeasures of Enterprise Financial Risk

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**Abstract:** In the environment of fierce competition, the financial security of enterprises becomes extremely important. Enterprise financial security is a key issue in enterprise operation, which directly affects the survival and development of an enterprise. Therefore, enterprises should always pay attention to their financial situation, improve risk awareness, and establish a sound financial risk prevention system. Business management should take appropriate action to respond to changing domestic and international trends. This paper analyzes the financial risk of the company, and studies preventive measures according to the analysis results to reduce the financial risk of the company and improve the market competitiveness of the company in the challenging competitive environment, so as to provide guarantee for the sustainable development of the company.

**Keywords:** Financial risk, Causes of financial risk, Risk control.

## 1. Financial Risk Theory Basis

### 1.1. Financial Risk Concept

Corporate financial risk refers to the impact of unforeseeable or uncontrollable factors on corporate finance that occur in the process of production and operation. The reason for the company's loss is that the company's financial situation is uncertain. The financial risks of enterprises are objective and cannot be eliminated. The only way to mitigate a company's financial risk is for management to specify appropriate control systems and reduce the impact of financial risk on the company. There are two main reasons for the formation of financial risk, one is the financial risk caused by external factors, and the other is the financial risk caused by internal reasons.

### 1.2. Financial Risk Characteristics

As a type of risk, financial risk has the common characteristics of risk, but also has its unique attributes. As shown in Figure 1.1, the characteristics of financial risk mainly include four characteristics: objectivity, comprehensiveness, uncertainty and co-existence of profit and loss.

First, objectivity, risk exists everywhere, always exist. Financial risk is not transferred by people's will, people can not avoid it, can not eliminate it, only through various technical means to deal with the risk, and then avoid the risk;

Second, comprehensive, financial risks exist in every link of enterprise financial management, and financial risks will be generated in financial activities such as fund raising, fund application, fund accumulation and fund distribution.

The third is uncertainty. Financial risks may or may not occur under certain conditions and in a certain period of time.

The fourth is the co-existence of income and loss, the risk is proportional to the return, the greater the risk, the higher the return, on the contrary, the lower the risk, the lower the return.

### 1.3. Classification of Financial Risks

Financial risk is basically divided into five aspects: financing risk, investment risk, operating risk, inventory

management risk and liquidity risk.

Financing risk refers to one of the financial risks of the company is the potential solvency loss and the change of the company's earnings (shareholders' income) due to the issuance of bonds.

Investment risk refers to the risk that investors bear in order to achieve investment objectives and cause losses or bankruptcy in future transactions and financial activities.

Business risk refers to the phenomenon of low economic benefits caused by changes in the external environment and insufficient adaptability of economic entities to the environment in the business activities of enterprises, which is called business risk.

Inventory management risk means that it is crucial for an enterprise to maintain a certain amount of inventory for its normal production, but how to determine the optimal inventory is a thorny problem. Too much inventory will lead to overstock of products, occupy enterprise funds and lead to high risk. Too little inventory may lead to the untimely supply of raw materials, affecting the normal production of the enterprise, and in serious cases may cause the default of customers and affect the credibility of the enterprise.

Liquidity risk refers to the possibility that corporate assets cannot transfer cash normally and definitively or corporate debts and cash payment obligations cannot be performed normally. In this sense, the liquidity risk of enterprises can be analyzed and evaluated from the two aspects of liquidity and solvency of enterprises. Due to the enterprise's ability to pay and repay the debt, the problem is called cash shortage and cash insolvency risk. The problem that occurs when an enterprise's assets cannot be transferred to cash with certainty is called liquidity risk.

### 1.4. Financial Risk Management Process

Manage the company's financial risk through a sound management process, which consists of 5 steps:

The first step is to gather initial risk management information. The first collection of information requires a comprehensive collection of all data about the company's

risks and risk management. Specific responsibility for the collection of initial information should be assigned to relevant functional departments and business units.

The second step is risk assessment. Risk assessment consists of three stages: risk identification, risk analysis and risk assessment. A large number of qualitative and quantitative scientific methods can be introduced into the risk assessment process. Enterprises must implement the dynamic management of risk management information.

The third step is to develop a risk management strategy. When formulating risk management strategy, the company must first unify the preference and risk tolerance according to the business characteristics, determine the risk warning line, and comprehensively consider the allocation principle of human and financial resources required for risk management. Finally, corresponding countermeasures should be taken.

The fourth step is to propose and implement a risk management solution. The company should develop a risk management solution for multiple risks or each major risk in accordance with its risk management strategy, and specify the specific elements that the plan should typically include.

The fifth step is the supervision and improvement of risk management. Enterprises should focus on major risks, major events and major decisions, major management and business processes, monitor the implementation of risk management processes, and apply various methods to verify the effectiveness of risk management.

## **2. Cause Analysis of Enterprise Financial Risk**

### **2.1. Analysis of Causes of Financing Risk**

#### **2.1.1. Unreasonable debt structure**

In recent years, the total liabilities of some enterprises are mainly current liabilities, which are too dependent on several financing channels, resulting in a single debt structure and lack of flexibility. When the market environment or policy environment changes, the company will face financing difficulties or rising costs, which will affect the rationality of the company's debt structure.

#### **2.1.2. The solvency fluctuates**

In recent years, the current ratio, quick ratio, asset-liability ratio and cash ratio of some enterprises have fluctuated to varying degrees, which is caused by the impact of the novel coronavirus epidemic and the unreasonable structure of their own debt. During the COVID-19 pandemic, factory shutdowns and export disruptions have caused problems in some industries, while some companies have relied on short-term borrowing for a long time, ignoring the increased risk of their own short-term liabilities and weakened long-term solvency. These problems will make the company in the face of market competition and economic risks can not effectively deal with, and then affect the stability of the debt structure.

### **2.2. Analysis of the Causes of Investment Risk - Mismatch Between Foreign Investment and Income**

Some companies over-invest in a product or service, and the market demand does not meet expectations, resulting in poor sales and cash flow cannot cover the investment expenditure. At the same time, due to changes in the market environment, the expected return and cash flow of the project

will have a negative impact, as well as the decline in consumer demand, the decline in demand, the intensification of competition among enterprises or policy adjustments, and other factors will lead to the project return is not as expected, and then affect the mismatch of cash flow.

## **2.3. Cause Analysis of Business Risk - Inventory Overhang**

Some enterprises inventory backlog is mainly due to two reasons, first, due to the rise of global trade protectionism in recent years, resulting in the export of products in some industries facing tariffs, technology, security and other barriers, which has brought certain challenges to the development of the industry.

Secondly, since the outbreak of the novel coronavirus epidemic in 2019, the global economy has been hit, and the epidemic has caused a huge impact on the global economy. The impact of the epidemic has led to a decline in market demand in some industries, and the inventory overstocking of some enterprises has increased their inventory costs and management difficulties.

## **3. Enterprise Financial Risk Prevention Measures**

### **3.1. Suggestions on Financing Risk Prevention and Control**

#### **3.1.1. Reasonable planning of debt structure**

Enterprises should actively explore and experiment with bank loans, equity financing, supply chain financing and other financing channels. Companies can reduce their reliance on a single funding model and reduce the financial risk associated with channel-specific issues. At the same time, management needs to actively establish good relationships with various financial institutions who understand the guidelines and financing needs of various financial institutions in order to quickly obtain funding support when needed. At the same time, cooperation with financial institutions can improve financing efficiency and reduce financing costs.

#### **3.1.2. Preventing the impact of the post-epidemic era**

In the post-epidemic era, national policies have a huge impact on the economic environment, and enterprises should set up special economic and policy research teams to regularly track the national economic situation and policy changes, and timely understand the relevant information of national economic policies in the post-epidemic era, so as to make response strategies in advance.

At the same time, enterprises can strengthen communication and cooperation with the government, understand the trend of national policies and implementation rules, strive for policy support and resource tilt, and reduce the financial risks caused by policy changes.

#### **3.1.3. Pay attention to the international political and economic situation**

Enterprises need to pay close attention to the international political and economic situation, understand the changes in the international market and international trade policies, in order to timely adjust business strategies and financial management, and reduce the financial risks brought about by changes in the international situation.

## **3.2. Investment Risk Prevention and Control Suggestions**

### **3.2.1. Prevent the impact of mismatch between investment decision and market demand**

When enterprise management makes investment, it is necessary to analyze the consumer demand of the target market, such as demand size, growth potential and demand characteristics. According to the company's own resources and capabilities, develop investment strategies and product plans suitable for different types of needs.

At the same time, it is necessary to establish an efficient and good customer feedback mechanism to collect and analyze the feedback of customers who purchase the company's products in a timely manner. Adjust investment strategy and product planning based on customer feedback to ensure that it keeps pace with market needs.

### **3.2.2. Prevent the impact of changes in the market environment**

First of all, enterprises should strengthen market analysis and forecasting, pay close attention to the dynamic changes in the home appliance market, including consumer demand, competitor conditions, raw material prices, etc., in order to adjust investment strategies in a timely manner and reduce market risks.

Secondly, according to changes in the market environment, flexibly adjust the company's strategic direction, product positioning and business model to adapt to new market demands and competitive trends. Maintain organizational flexibility to respond quickly to market changes.

Finally, it is to collaborate with other companies, institutions or organizations to jointly address the challenges brought about by market changes. Through cooperation and exchange of resources and industry information, interests complement each other and market risks are reduced.

## **3.3. Suggestions on Business Risk Prevention and Control**

### **3.3.1. Pay close attention to the economic situation**

Nowadays, the world integration pattern is further improved, and the business conditions of enterprises are closely related to the international political and economic situation. Managers need to pay close attention to the changes in the international political and economic situation, especially to understand the changes in the international market and international trade policies, so as to timely adjust the business strategy and financial management strategy and reduce the financial risks brought by the changes in the international situation.

At the same time, enterprises need to implement a diversified market strategy, open up markets in multiple countries and regions, and reduce their dependence on a single market. This can effectively disperse market risks and improve the company's market adaptability and anti-risk ability.

Finally, enterprises need to strengthen exchanges and cooperation with international partners, understand the needs and trends of the international market, learn from international advanced risk management experience and financial management concepts, and improve their own internationalization level and risk response ability.

### **3.3.2. Develop diversified sales channels**

Due to the inventory backlog caused by the epidemic, enterprise management needs to develop product sales channels to sell the backlog products in the warehouse. Nowadays, the rapid development of e-commerce platforms brings opportunities to enterprises. Enterprises should expand online sales channels, expand the sales network through live streaming and short video promotion, and plan targeted promotional activities to stimulate consumers' desire to buy. To speed up inventory turnover.

## **4. Summarize**

Based on the systematic theoretical knowledge system in the field of financial risk research, this paper first introduces the background and basic financial status of the enterprise, and then establishes three different levels for the identification and analysis of corporate financial risk, which are: financing, investment and operation. The analysis found that:

First of all, its financing method is single, and the financial structure is unreasonable, mainly short-term borrowing. And the company has a large fluctuation in the current ratio and quick ratio. This indicates that the company's ability to pay its debts in the short term is weak.

Secondly, in terms of investment risk, the enterprise has the following problems: the amount of foreign investment expenditure of the company continues to increase, but the income generated by the invested projects is not high, which affects the operation of the enterprise.

Thirdly, its inventory increased year by year, and the inventory backlog of enterprises was serious. Lead to insufficient warehouse space, increase inventory costs and management difficulties.

Finally, enterprises are greatly affected by external factors, whether it is the change of international environment or domestic economic environment, it will affect the development of enterprises.

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Thank you.

## **Disclosure statement**

The authors, Lina Sha, Guanlin Liu, jointly declare that there are no conflicts of interest that could potentially influence the impartiality or objectivity of the research presented in this paper. We confirm that throughout the processes of manuscript preparation, data collection, analysis, interpretation, and publication, there were no conflicts of interest. Each author, independent of any commercial or financial interests, is committed to ensuring the scientific integrity and transparency of the research. We uphold the principles of academic honesty and are dedicated to maintaining the values and standards of the academic community.

## **Author contributions**

Lina Sha made significant contributions to the conceptualization, data analysis, and writing of the paper. Guanlin Liu provided key insights in methodology, and contributed to the writing of parts of the paper. Each author contributed importantly to the work and approved the final version of the manuscript. Lina Sha, as the corresponding

author, was responsible for overseeing the overall direction of the project. Each author contributed importantly to the work and approved the final version of the manuscript.

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