

Research on Financial Risk Prevention Mechanism of Chinese Private Enterprises

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Abstract

The contribution of Chinese private enterprises to the market economy is increasing day by day. However, the complex economic situation puts forward higher requirements for the management level of private enterprises. This paper takes the warning delisting of Beingmate as an example, using big data technology analysis method, through comparative analysis of its industry ranking, solvency, profitability and other financial indicators, combined with the actual operation to find out the causes of risks, and put forward relevant suggestions for private enterprises to prevent financial risks. In order to strengthen the risk awareness of Chinese private enterprises, improve the quality of management and enhance competitiveness.

Keywords

Financial analysis, Chinese private enterprises, financial risk prevention, Beingmate.

1. Introduction

Since the reform and opening up, private economy has made great contribution to the rapid development of China's economy. At present, China's economic operation is changing steadily. In the stage of high-quality development, private enterprises are also in the critical period of transformation and upgrading. In recent years, quite a number of private enterprises have become bigger and stronger, and the information disclosure is more real and detailed. More and more enterprises need to strengthen financial risk management to avoid stepping into the "minefield" in production and operation. Managers should combine big data technology, coordinate financial risk control with production and operation, match financial risk response with enterprise capacity, make adequate risk prevention preparation, and ensure healthy and sound development of enterprises.

In this paper, the case of Beingmate is selected. Firstly, because it is in the food processing industry, the private capital is active, the number of enterprises is large, and the financial data is relatively easy to obtain, which is convenient for further data comparison and accuracy improvement. Secondly, the frequent occurrence of food safety problems, improve the awareness of risk prevention of production-oriented enterprises, reduce financial risks, help to improve food safety, which is not only the needs of the market and consumers, but also the guarantee of sustainable operation of producers. This paper uses big data analysis method, combined with case analysis and comparative analysis method to explore the causes of Beingmate's financial crisis, put forward suggestions for private enterprises to prevent financial risks, and promote the healthy development of private enterprises.

2. An Overview of Financial Risk Management in Private Enterprises

2.1 Connotation and Characteristics of Financial Risk

Foreign scholars started the research on risk management based on risk theory. Financial risk management is based on the comprehensive consideration of the risks faced by the company's operation, with the help of relevant technologies, to better help the company out of difficulties and reduce the harm brought by the risks as much as possible. Stogsdill(2018) stressed that for the company, financial risk management is the core part of enterprise management, which needs to strengthen financial risk management and improve relevant systems and control measures^[1]. Hui(2019) think that financial risk management is closely related to the maximization of enterprise

value, and then analyze the methods and levels of financial risk management^[2]. It is necessary to establish a systematic financial information network to diagnose the risk and control it in time. The characteristics of enterprise financial risk are mainly manifested in the following five aspects: Objectivity. Risk is real and will not change with people's subjective; Comprehensive. Financial risk runs through the whole process of business activities, and occurs in all stages of financing, investment and operation; Uncertainty. Financial risk is objective and comprehensive, but its occurrence is difficult to determine; Immeasurability. Although the financial risk is uncertain, we can prevent the occurrence of financial risk through the trace and trend of corporate capital flow. This requires managers to have profound business ability and accurate professional judgment; Two sides. Risk represents uncertain gains and losses. Different management concepts have different response measures to financial risks.

2.2 Measurement of Financial Risk.

Scholars have tried to evaluate the financial risk by different methods. Fitzpatrick(2017) used financial ratio index to predict the financial risk of enterprises^[3]. Ukhov et al(2017) established a cash flow assessment model by combining the characteristics of pharmaceutical companies with artificial neural network, which can reduce the financial risk of supply chain for environmental retailers^[4]. Humayon and Aziz(1989) found that the research of financial risk assessment combined with the method of direct value has higher accuracy after statistical analysis of relevant literature written by previous scholars in the field of financial risk assessment^[5]. Ladiges et al(2018) advocated using hedging, adjusting financing methods and other means to deal with inflation risk^[6]. Fang Xin(2017) constructed the financial risk early warning system of tourism listed companies, including three main parts: system framework construction, index system selection and measurement analysis^[7]. Wang and Wu(2018) analyzed the influencing factors of financial leverage and enterprise risk through a case, and advocated that only financial forecast could determine the leverage ratio^[8]. Gold and Dienhart(2018) proposed to strengthen cash budget management and financing ratio to prevent financial risks by analyzing the financial indicators of Yunnan Copper's cash flow statement^[9]. Bushman and Smith(2016) introduced the catastrophe progression method to evaluate and analyze the financial situation of an enterprise in five years, and proposed measures to improve the financial situation of an enterprise by accelerating the reform of enterprise taxes and fees^[10]. strengthening the control of costs and expenses, and speeding up the return of capital turnover and conducted an empirical analysis on domestic A-share listed biomedical enterprises, and proposed three specific ways to reduce financial risk: the approach of industry average level gradually approaching, the approach of gradual adjustment of investment volume in the same direction, the approach of research and development cost and management cost, and the approach of basic balance of sales cost.

3. Financial Risk Assessment of Chinese Private Enterprises

In this paper, the private enterprise of the food processing industry Beingmate is taken as a case study. Firstly, the financial risk level of 44 enterprises in the industry in recent three years is ranked to highlight the track of Beingmate falling into financial crisis. After that, Yili shares, whose main business is similar and the risk level is quite different, are chosen to compare and analyze their debt paying ability, profitability, operation ability and cash flow ability, find out the main financial risks of Beingmate, and find out the reasons for the risks based on their operation.

3.1 Financial Risk Assessment of Enterprises in Food Processing Industry

First, calculate the financial risk level of the industry. Through the empirical research of many scholars, the Altman Z-score prediction model has a good applicability in the financial risk research of Listed Companies in China. see [Table 1](#).

$$Z = 0.012X_1 + 0.014X_2 + 0.033X_3 + 0.006X_4 + 0.010X_5$$

Table 1 Indicators and significance of "Z-score" model

Indicators	Significance
X1= Working Capital/ Total Assets	It reflects the liquidity of the company's assets. X1 continuous decrease means that the company has difficulty in capital turnover or short-term debt repayment crisis.
X2= Retained Earnings/ Total Assets	It reflects the profitability of the company. The larger the X2 value, the stronger the enterprise's ability to resist risks.
X3=EBIT/ Total assets	It can reflect the profit level of enterprise assets and effectively measure the profit ability of assets of listed companies.
X4= Equity Market Value/ Total Liabilities	Reflect the asset structure of the enterprise, the relationship between the actual value and liabilities. In this paper, the asset liability ratio is chosen to represent X4.
X5=Sales Revenue/ Total Assets	The turnover rate of total assets, which measures the results of the enterprise's operating activities with all assets, the greater the value, the better.

The lower the Z value is, the negative correlation is. $Z < 1.81\%$, the company's financial risk is in a high-level early warning state, which belongs to a dangerous area; $1.81\% < Z < 2.99\%$, it is in a controllable area, and the risk is basically controllable, which does not exclude the possibility of financial crisis; $Z > 2.99\%$, it is in a good area, the company's internal financial security level is high, and it needs to pay attention to the external risks.

We obtained the financial data of 44 major enterprises in the food processing industry from the statistical database, and substituted the data of their financial statements in 2016-2018 into the Altman Z-score Model. By default, the annual report data disclosed by these enterprises are true and reliable. After excluding 7 non-private Enterprises, the remaining 37 are private enterprises. see [Table 2](#).

Table 2 Percentage of Z value of 37 private enterprises

Time	Num in hazardous area	Percentage	Num in controllable area	Percentage	Num in good area	Percentage
2016	16	44.4%	16	44.4%	4	11.2%
2017	16	43.2%	14	37.8%	7	19.0%
2018	18	48.6%	13	35.1%	6	16.3%

According to the data above, Only six company have good overall financial situation. Half of the other enterprises are in the controllable area and half are in the hazardous area. The overall financial risk of private enterprises in food processing industry is relatively stable, and the control level needs to be improved. In 2016-2018, compared with the stable Z value of other enterprises, the Z value of Beingmate fell from 1.86% to 0.15%, and the industry ranking dropped rapidly from the 23rd to the 42nd; in terms of net profit, the loss in 2017 was 780 million, and the loss in 2018 was 1.057 billion, which has been marked as *ST shares, warning of delisting risk, which shows that its internal operation will inevitably have huge problems.

3.2 Financial Risk Analysis of Beingmate

Beingmate Baby Food Company was founded in 1994. It is an infant food manufacturing enterprise. The company is mainly engaged in the R & D, production and sales of infant food. Its main products include infant formula milk powder, nutritional rice powder, other infant auxiliary food and baby products. Beingmate has 17 series and 51 formulas, which have been registered with China milk powder formula registration system and won the "Guozi No.1" formula registration enterprise. Listed on Shenzhen Stock Exchange in 2011.

In 2013, the operating revenue was 6.12 billion and the net profit was 721 million. Since then, the performance has turned down sharply. In 2014, the net profit of Beingmate reached 69 million, a drop of 90% compared with last year. For the first time since its listing, the company has seen negative growth. In 2017, Beingmate 's revenue was 2.7 billion, and its attributable net profit was - 780 million. In 2018, the operating revenue was 2.66 billion, and the attributable net profit was - 1.057 billion. Because of the continuous loss, the "delisting risk warning" has been implemented in bainmei, and the stock abbreviation has been changed from " Beingmate " to "* ST Beingmate ".

We select Yili shares and Beingmate 's financial indicators in recent three years for comparative analysis. The reasons are as follows: two private enterprises in the same food processing industry have similar main businesses, but there is a big gap in risk level. The risk of Yili shares was controlled at more than 2.7%, and Beingmate fell to 0.15% from 1.8%. Yili Group is developing rapidly and has become the first dairy industry in Asia. In 2018, the total operating revenue was 68.058 billion, and the profit after deducting non profits was 5.328 billion. Beingmate 's performance plunged and was on the verge of delisting. In 2018, the total operating revenue was 2.66 billion, and the net profit after deducting non profits was negative 1.139 billion. Based on this, data analysis is easy to find problems. see [Table 3](#).

Table 3 Analysis of main financial indicators of solvency in recent three years

Solvency	Corporate	2018	2017	2016
Current ratio	Yili	1.2514	1.3545	1.087
	Beingmate	0.9735	1.4144	1.9331
Quick ratio	Yili	1.0568	1.0644	0.8308
	Beingmate	0.6986	1.133	1.5647
Asset liability ratio (%)	Yili	48.804	40.8188	49.1662
	Beingmate	62.758	51.6049	31.1223

From the perspective of short-term solvency index, Yili's index is relatively stable, and Beingmate 's is down by nearly half compared with the same period in 2016, rapidly falling from the high level of the industry to the low level. The asset liability ratio also increased by 31.6%, double the previous year. The decline of Beingmate 's short-term solvency and high asset liability ratio indicate that its financing risk is increasing rapidly. see [Table 4](#).

Table 4 Analysis of main profitability financial indicators in recent three years

Profitability	Corporate	2018	2017	2016
Operating profit margin (%)	Yili	10.5347	9.1531	8.1758
	Beingmate	-36.5862	-23.3783	1.6651
Return on assets (%)	Yili	29.8075	33.9071	29.155
	Beingmate	-3.5213	-0.3798	13.7913
Return on net assets (%)	Yili	23.9	24.53	23.18
	Beingmate	-56.77	-27.08	2.83

In terms of profitability, Yili shares has made steady progress, with liquid milk accounting for 80% of the operating revenue. Brands such as Satine, Ambrosial and Chang-qing have earned 55.7 billion in 2018 and 9.9 billion in 2017. High quality products combined with high penetration channels, won the market's favorite. 94% of Beingmate 's business income comes from milk powder business. The return on net assets fell precipitously, from 2.83% in 2016 to - 56.77%, mainly due to the sharp decline in net profit. According to the financial report data, the operating revenue in 2018 decreased by 64% compared with the previous year, the operating cost increased by 76%, and the net profit after deducting non profits increased from negative 799 million to negative 1.14 billion. And 94% of its operating revenue comes from milk powder business, which shows that its core business has a lot of problems, and its profitability is not optimistic. see [Table 5](#).

Table 5 Analysis of financial indicators of main operating capacity and cash flow capacity in recent three years

Operational capability	Corporate	2017	2016	2015
Turnover of total assets (second)	Yili	1.5254	1.529	1.5131
	Beingmate	0.481	0.488	0.9023
Inventory turnover days (day)	Yili	38.096	43.2303	45.3635
	Beingmate	226.8002	199.7891	137.7938
Liquidity analysis				
Cash flow ratio (%)	Yili	29.3765	85.9793	52.3925
	Beingmate	-6.0707	-18.4911	1.8047
Return on cash flow of asset operation(%)	Yili	0.1421	0.3265	0.2406
	Beingmate	-0.0303	-0.0705	0.0055

Inventory turnover days are closely related to products. Yili is mainly a fast-moving product with short shelf life and low turnover days. In the past three years, the turnover days have been continuously shortened and the sales capacity has been continuously enhanced. Beingmate is faced with a very large inventory backlog, and unsalable products cause a series of financial problems. The cash flow ability is very low compared with the industry level. In order to stabilize the operation of the enterprise, improve the liabilities and ease the liquidity pressure.

Compared with Yili, many financial indicators of Beingmate are lower than the normal level, and are increasing year by year. It is faced with great operational risk and financing risk. Improper management, poor management and channel problems cause a series of capital problems caused by unsalable products, making it close to delisting.

To sum up, the problems faced by Beingmate are more from the enterprise itself. After the rectification of the industry with favorable policies and strict supervision, the performance of Beingmate plunged, exposing a huge internal hidden danger. On the one hand, the old channels are weak and the selling expenses are high, which can't make use of the new retail to bring about the turning point of performance, and finally lead to the plight of the pillar industries. On the other hand, enterprise management is a big problem, which fundamentally hinders the development of enterprises. The untimely diversified development strategy and the low execution ability of the team not only failed to create a new pillar of b Beingmate, but also increased the financial pressure.

4. The Construction of Financial Risk Prevention Mechanism of Chinese Private Enterprises.

At present, private enterprises are facing great financial risks. Some of these risks come from the outside, more from enterprise management. The external environment should be submissive and the internal environment should be improved. The financial risk prevention mechanism of private enterprises should focus on the intersection of long-term business strategy and actual enterprise management. To this end, we put forward the following suggestions.

4.1 Establish a Reasonable Organizational Structure and Governance Structure

At the beginning of the establishment of private enterprises, family management had a considerable impetus. When the enterprise reaches a certain scale, family management has become the short board of enterprise growth to a large extent. For this reason, on the one hand, we should strengthen the management of senior personnel, pay more attention to moral quality when appointing talents, and pay attention to both ability and quality when training personnel. In order to avoid the phenomenon of excessive concentration of stock rights and powers, which makes the senior management unmanageable, and then abuse power, luxury and corruption, as well as to prevent the management imbalance caused by the organization's virtual establishment, the ineffective responsibilities of the board of directors and the unreasonable personnel structure. It is necessary to strengthen the independence and decision-making quality of the board of directors. The board of supervisors should

actively participate in the establishment of internal audit institutions, and introduce independent directors appropriately. According to the long-term strategic plan, arrange people, affairs and duties to reduce the business risk. Or choose the family office according to the needs, help the family plan the trust, manage the wealth, make the family system, deal with the family member relationship and so on.

4.2 Reasonable Optimization of Capital Structure

In view of financing risks, it is necessary to reasonably balance the proportion of self owned funds and debt financing. Under the circumstance of heavy tax burden of enterprises in our country, increasing debt financing appropriately can bring tax saving income and improve the efficiency of capital circulation. From the perspective of data analysis, more private manufacturing enterprises will not increase their liabilities in normal operation. However, the enterprises that have greatly increased the debt ratio usually have financial problems. This has something to do with the business philosophy of the enterprise. The real enterprise attaches great importance to products and quality, and does not participate in capital operation too much. Stable financing decision is also the inevitable choice of the current economic environment. The financial leverage beyond the enterprise's affordability will aggravate the difficulty of refinancing. Once the capital chain breaks, the enterprise will be forced to go bankrupt and liquidate. When choosing the amount of financing, enterprises should take into account the economic environment and policy trends, and fully consider the needs of enterprises for financing planning.

4.3 Strengthen Internal Control System

First, we should attach importance to the legality and compliance of business processes. For listed companies, under the control of the CSRC, any small means intended to whitewash peace will be exposed in front of shareholders, affecting the corporate image, reputation and future.

Second, we should establish the idea of people-oriented management, absorb talents and develop talents. Corporate culture is the soul of internal environment and the embodiment of corporate uniqueness. The sense of identity from employees is more binding than the rules and regulations, which can stimulate employees' enthusiasm and participation. Internal control is no longer the guarantee of human, financial and material security, but also an advanced management thinking, which is the management of organizational personnel. The optimization of internal environment needs to integrate human-oriented thinking into management, change the organizational concepts of "efficiency standard" and "product standard", respect the personality of employees, take office according to materials, pay attention to the coordination of different employees' personalities, improve job satisfaction, material incentive and spiritual incentive, and promote the realization of higher goals.

Third, the internal control system should be formulated reasonably according to the characteristics of operation. Special attention should be paid to the non-standard, unstable and even non-compliance legal problems in environmental protection, social security, quality, safety, credit and other aspects. Take Beingmate for example, the early failure to review the qualification of dealers, resulting in channel confusion, high sales costs, and even affect the fundamental business. Internal control was strengthened. Strictly implement "store control, disc control, price control, goods control". Dealers must be approved for positioning, otherwise they will not be provided with after-sales service and scan the code to verify the points. This system will track and trace each item and strengthen product safety.

4.4 Implementation of financial risk early warning system

Survival is the biggest problem for enterprises. Market economy requires enterprises to focus on the overall situation, analyze strategic capabilities from market, industry, region and all-round. Financial risk is inevitable, and early warning is particularly important. In the process of self-examination, enterprises find risk points and optimize the workflow through internal control. Capital flow and financial information will also show the weakness of business operation. Especially for the company

group, risk early warning can effectively help the management to find out the operation problems of the subordinate companies and identify the true and false. When carrying out investment activities, early warning of the risk of the invested enterprise will also help the investment enterprise to avoid falling into investment risk and suffering losses caused by investment failure.

5. Conclusion

After Since the reform and opening up, private economy has gradually become an important force to promote China's economic development, optimize industrial structure, prosper urban and rural markets, and expand social employment. With the continuous optimization of business environment, private enterprises are bound to usher in a more free and relaxed market environment. This requires private enterprises to take laws and regulations as the criterion, pay attention to business management and strengthen risk management. Enterprises should establish governance structure matching with long-term business objectives, improve internal control, give full play to the advantages of talents, improve innovation ability, strengthen the sense of responsibility of enterprises, and enhance the competitiveness of enterprises in legal and compliant operation.

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