

Risk Management of Small and Medium-sized Enterprises under the Epidemic

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Abstract: At the beginning of 2020, the sudden outbreak of covid-19 not only causes harm to the human body health, but also produces some influence on the normal operation of Chinese enterprises, especially affecting the financial rotation of small and medium enterprises. Small and medium-sized enterprises have made a great contribution to the economic development of our country. It is very necessary to manage and research its financial risk. Therefore, this paper analyzes the impact of the epidemic on small and medium-sized enterprises, as well as the background and risk factors of the epidemic, and finally puts forward the impact measures of the outbreak on the financial risk management of small and medium-sized enterprises, hoping to further improve the management system of small and medium-sized enterprises and help them improve their risk management ability.

Keywords: small and medium-sized enterprises, financial risk, risk management

1. Introduction

At the beginning of 2020, the COVID-19 epidemic swept through most regions of China, and all industries were hit hard, especially the catering industry, tourism industry and transportation industry, which greatly affected many enterprises, resulting in varying degrees of economic losses. According to relevant data, the catering industry lost as much as 500 billion yuan in seven days, indicating that small and medium-sized enterprises lack effective ways to prevent and reduce risks when dealing with external risks, which leads to the loss of their profits. Therefore, to strengthen the financial risk management of small and medium-sized enterprises, can help small and medium-sized enterprises get better development.

2. The Importance of Financial Risk Management

Most risks in the market will affect the operation of enterprises and form financial risks. Therefore, in the market competition, if a company only pursues profits unilaterally and does not effectively deal with market changes and risks, it will cause the problem of overstock of goods, which is detrimental to the development and growth of the company. Therefore, the management of financial risks can effectively prevent the occurrence of financial risks and improve the development ability of enterprises [1]. In the process of operation, enterprises can avoid the precipitation of funds through the control and management of funds, so that enterprises can run better. In this way, small

and medium-sized enterprises must do a good job in the stability, security and other financial management activities of the company's assets, to ensure the safety of the company's property, so as to promote the smooth progress of enterprise financial activities.

The outbreak of COVID-19 had a great impact on China's catering industry, transportation industry, and film industry, causing great losses to these industries. China's catering industry earned 4.27 trillion yuan in 2018 and 4.67 trillion yuan in 2019, but only 3.95 trillion yuan in 2020 due to the pandemic, according to the National Bureau of Statistics. The details are shown in Table 1.

Table 1: Annual income of catering industry in China from 2018 to 2020.

	Catering revenue (trillion yuan)	Year-on-year growth (%)
In 2018	4.27	9.5
In 2019	4.67	9.4
In 2020	3.96	-16.6

Box office revenue in 2020 was zero. On the whole, COVID-19 has had a certain impact on the development of small and medium-sized enterprises. By analyzing the financial data of smes under the pandemic, the following conclusions are drawn [2].

By analyzing the semi-annual reports of small and medium-sized enterprises in 2019, the distribution of cash compensation ratio of small and medium-sized enterprises is obtained as shown in Figure 1. 30%22%19%29% cash compensation ratio.

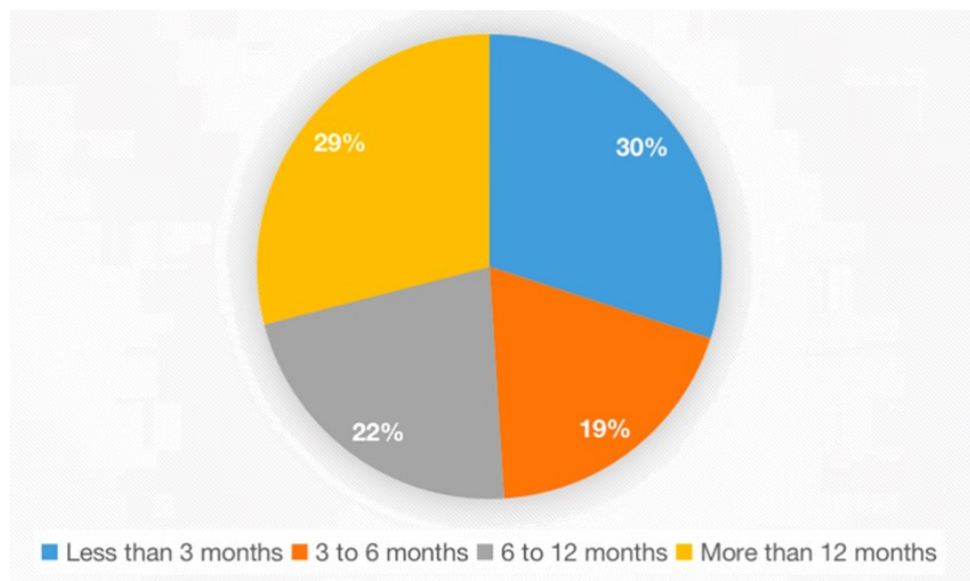


Figure 1: Distribution of cash salary ratio in small and medium-sized enterprises on the New Third Board.

As can be seen from Figure 1, the cash compensation ratio of enterprises less than three months accounted for 30%, which means that during the COVID-19 pandemic, 30% of enterprises could not pay salaries and could not operate normally. In addition, 49% of enterprises are unable to pay salaries for more than six months, which affects the cash payment ability of enterprises [3].

Obvious differentiation of cash compensation ratio in different industries Through the investigation of cash compensation ratio in different industries of small and medium-sized enterprises, the results shown in Figure 2 are obtained.

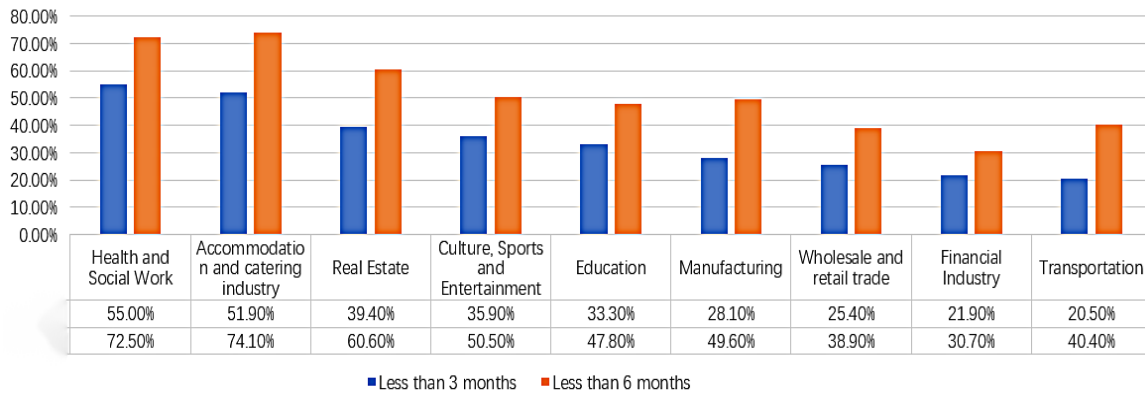


Figure 2: Distribution of cash salary ratio in small and medium-sized enterprises on the New Third Board.

As can be seen from Figure 2, due to the characteristics of the industry, accommodation and catering have the greatest turnover speed and the greatest pressure on the cash-pay ratio during the COVID-19 pandemic [4]; Culture, sports and entertainment, wholesalers and retail accounted for 35.9 percent and 25.4 percent, respectively.

3. Main Financial Risks Faced by Smes under the Impact of COVID-19

Some scholars conducted a financial survey of 995 small and medium-sized enterprises during the COVID-19 pandemic and found that 58.05% of them had a 20% decline in receivables, making it difficult to maintain capital operation. According to the survey on the biggest expenditure pressure of enterprises, it is found that most enterprises choose wage expenses, rent, etc., and even 34% of the surveyed enterprises say that they do not have the ability to pay wages for more than one month.

3.1. Business Risks

The decision-making of enterprises is not scientific. Most small and medium-sized enterprises are family enterprises. Therefore, enterprises do not consider the internal and external economic situation, blind investment will occur [5]. Due to the outbreak of COVID-19, take Haidilao, a benchmark company in Chinese catering, as an example. On January 26, 2020, Haidilao issued a full market closure announcement, and the operation of takeaway business in all stores in mainland China was suspended at the same time. Subsequently, on January 31, it announced that it would continue to close until the middle of March. Haidilao has only resumed normal operations at its 332 stores in China. According to the analysis of Haidilao's performance and research report in the first half of 2019, Haidilao lost about billions of dollars in the more than 50 days of closure, which can be imagined how hard other small and medium-sized enterprises were hit by the epidemic. On the one hand, this situation is caused by enterprise decision-making, on the other hand, the catering industry is already facing high cost, low gross profit situation, which makes its financial risk increase.

Risks caused by internal management. In order to avoid financial losses, many small and medium-sized enterprises will be engaged in financial work by internal personnel.

Inadequate inventory management. In order to adapt to the fierce competition market and seize the opportunity in the market, small and medium-sized enterprises often compete through credit sales, resulting in low capital utilization rate of enterprises and financial risks. In terms of inventory management, due to the lack of in-depth research on enterprises, enterprises have excessively high operating investment, which brings about financial crisis [6].

3.2. Financing Risks

Unstable operation. Small and medium-sized enterprises have insufficient prediction of the external economic environment, and when COVID-19 broke out, small and medium-sized enterprises could not take certain measures to face external risks in time. Due to the financing difficulty of small and medium-sized enterprises, it will lead to greater financial pressure of small and medium-sized enterprises with unstable operation, which will increase the impact on their investment difficulties [7]. Take Shanghai Jixiang Aircraft Group Co., LTD., for example, the registered location of the enterprise is located in Shanghai Pilot Free Trade Zone, and its business scope mainly involves passenger mail transportation of domestic and foreign airlines (including Hong Kong, Macao and Taiwan), passenger transportation of foreign airlines, and catering business of airlines. The changes of the company's financial data in the first half of 2019 and 2020 are shown in Table 2.

Table 2: Ratio of changes in financial data of Shanghai Juneyao Airlines Co., LTD. (Unit: ten thousand yuan).

Project	In the first half of 2019	In the first half of 2020	Variable proportion
Operating income	806136.35	416936.32	-48.28
Operating cost	689927.66	468917.72	-32.03
Cost of sales	30983.46	19036.28	-38.56
Management fees	20698.41	20248.32	-2.17
Net cash flows from operating activities	78244.23	-125387.12	-260.25

According to the analysis of the results in Table 2, the operating income of Shanghai Jixiang Aircraft Co., Ltd. has decreased by 48.28%, while the operating cost has also decreased by 32.03%. The total cash flow generated by operating activities has decreased by a huge amount, about 260.25%, mainly caused by the significant reduction of flight volume and ticket refund. 2. The impact of national economic policies. Small and medium-sized enterprises themselves are vulnerable to external economic interference, in the face of financial policy changes, it is not easy to change business policies and policies in time, which will lead to problems in the production and operation of small and medium-sized enterprises, financing and so on. 3. Low management level [8]. The management concept of small and medium-sized enterprises is relatively backward, and the quality of management personnel is uneven. Many managers lack the establishment of internal management work and mechanism, making the management link relatively weak. At the same time, due to the influence of their own environment, small and medium-sized enterprises are often not satisfied with financing, forming financing risks. (3) Debt repayment risk Small and medium-sized enterprises will face debt repayment risk due to internal operation effect, quick ratio and other problems. The sudden outbreak of COVID-19 in 2020 has made many small and medium-sized enterprises face serious capital repatriation problems, resulting in the insolvency of many enterprises, which cannot maintain the normal operation of enterprises, and even bring bankruptcy risks. Therefore, under the impact of the epidemic, only by improving business performance can small and medium-sized enterprises effectively prevent the emergence of debt repayment risks [9]. V. Analysis of the reasons for financial risks faced by small and medium-sized enterprises under the impact of COVID-19 (I) Unreasonable ownership structure and non-standard governance

mechanism 1. The equity structure is unreasonable, and most small and medium-sized enterprises in China are affected by financing structure, equity structure and so on. In this way, it is easy to form a decision-making deadlock, when the company needs to make a decision, everyone plans together, and then negotiate, vote and so on. This way of ownership structure, in terms of decision-making, it is easy for enterprises to get into the impasse of financial and operational decisions. With the outbreak of COVID-19, the irrational ownership structure of small and medium-sized enterprises has gradually affected their finances, laying hidden dangers for the financial risks of enterprises [10].

Non-standard governance mechanism. The construction of control institutions in China is generally not perfect, and many enterprises also lack boards of directors, which leads to the decision made by the chairman of the board of directors under the premise of the lack of monitoring and control, which makes the company's management difficult. In addition, although the position of chief financial officer is not set in small and medium-sized enterprises, it does not belong to the members of the board of directors. (2) the enterprise financial risk management mechanism is not sound the Chinese government for the new champions league after the outbreak of the small and medium-sized enterprises adopted various support measures, timely recover the loss of the small and medium-sized enterprises, however, affected by the internal management mechanism is not sound before, small and medium-sized enterprises in the financial risk prevention, on financing and investment in the fund use is not reasonable, Finally, the high cost and investment error rate increase in the financing process of enterprises, which is easy to produce financial risks. Taking Shanghai Juneyao Aircraft Group Co., Ltd. as an example, the calculation results of each indicator can be seen from the analysis of the main financial indicators of the enterprise, as shown in Table 3.

Table 3: Calculation table of financial data indicators of Shanghai Juneyao Airlines Co., LTD.

Project	In 2019	In 2020	Variable proportion
Operating costs/operating income	85.56%	112.47%	31.42%
(Selling expenses + administrative expenses)/operating income	6.41%	9.42%	46.96%
Net cash flow from operating activities/operating income	9.71%	-30.07%	-409.68%

According to the data in Table 3, the proportion of operating expenses in the total revenue of main business of Shanghai Juneyao Aircraft Group Corporation increased from 85.58% in 2019 to 112.47% in 2020, an increase of 31.42%; The proportion of operating and administrative expenses of commodity sales expenses increased by 46.96%, while the proportion of cash flow in operating income decreased by 409.68%. It indicates that the company's business expenses, marketing costs, operating costs and other expenses will increase compared with normal times during the COVID-19 pandemic, but the profit margin will be greatly reduced. It can be seen that due to the special situation during the epidemic and the imperfect internal financial risk mechanism of the company, the operating income and cash flow of the enterprise decreased significantly, while the cost of production services increased greatly, thus significantly affecting the profit. For small and medium-sized enterprises (3) of the audit mechanism is not sound due to the small and medium-sized enterprise scale is compared commonly small, investment funds are very limited, so the enterprise managers in the set of the financial department at the same time, also often in order to reduce the cost savings, and does not have a audit organs, even set up the auditing department, usually also is nominally, Or simply to satisfy the inspection of the company's leading authority. When smes are

affected by external economy and internal audit, financial risks will occur in the use of funds. In recent years, the state has increasingly strengthened its preferential policies for small and medium-sized enterprises. It has not only issued specific preferential policies to standardize and adjust tax policies, but also reduced and exempted taxes and R&D fees, which has promoted the development of small and medium-sized enterprises. But as the new epidemic outbreaks, many small and medium-sized enterprises in the face of emergency and economic conditions, weak ability to resist risk, and financial personnel is not professional, tax consciousness, etc., let small and medium-sized enterprises in the face of the outbreak, cannot let the enterprise through the economic change of environment, poor ability to resist risks.

4. Financial Risk Management Strategies of Small and Medium-sized Enterprises under the Impact of COVID-19

4.1. Improve the Ownership Structure and Governance Mechanism of Enterprises

The financial risk of small and medium-sized enterprises is a key problem in the development process, the premise of financial risk management is to balance the equity structure and governance mechanism, balance the governance structure of small and medium-sized enterprises. Therefore, small and medium-sized enterprises should be more aware that under the new normal of economic development, enterprises should constantly improve the ownership structure and governance mechanism, change the decision-making situation of "one dominant share" and the operation dilemma caused by the equal distribution of equity, and prevent the financial risks of small and medium-sized enterprises by establishing an effective internal management mechanism.

4.2. Improve the Financial Risk Management System of Enterprises

Firstly, smes face complex changes in domestic economic forms and increased risks. In this context, small and medium-sized enterprises should improve the awareness of financial risk, strengthen publicity and improve the risk management system in the enterprise, and implement into the daily operation, reduce the occurrence of financial risk. Secondly, the managers of small and medium-sized enterprises also need to further improve the risk awareness, let the enterprise financial personnel carry out comprehensive training, so as to enhance their professional quality and innovation ability, so that the company can timely discover and prevent risks when facing external risks and changes, and thus enhance the company's anti-risk strength.

4.3. Improve Enterprise Internal Audit

First, an internal audit mechanism should be set up at the level of the board of directors of small and medium-sized enterprises, and it should not be restricted by corporate leaders and judge the board resolutions of enterprises independently of the management. Second, the internal audit department is mainly responsible for the design of enterprise internal control system, supervision of the implementation of internal audit measures and financial accounting. Improving this part of the content can effectively reduce the internal control problems of small and medium-sized enterprises, commercial bribery problems, financial fraud problems and unclear accounts and other problems, reduce the financial risk of enterprises, standardize the enterprise operation and management mechanism.

4.4. Improve the Ability of Enterprises to Deal with Emergencies

First of all, local government departments must pay special attention to improving the level of capital turnover of smes on the basis of preventing problems, and use financial support to help them

tide over economic difficulties. After the outbreak of COVID-19, China has provided 1.45 billion yuan of relief funds to private enterprises and self-employed people, and countries such as Europe and Japan have also introduced relevant policies, which have helped ease the financial pressure on small and medium-sized enterprises. Secondly, the construction of a good financial management team helps to enhance the financial management strength of small and medium-sized enterprises, improve the efficiency of the company, help the company to enhance the ability to deal with events, and is also the key to ensure the reduction of financial risks of small and medium-sized enterprises and broaden financing channels.

5. Conclusion

The pandemic has been widespread and long-lasting. Compared with large enterprises, small and medium-sized enterprises are weak in their ability to resist risks and suffer from the negative impact of the epidemic. From the above analysis, it can be seen that the epidemic has had a serious impact on all industries in China, and the biggest impact on enterprises is at the profit level. By analyzing the importance of financial risk management of small and medium-sized enterprises and studying the impact of the epidemic on small and medium-sized enterprises, the operation risk, financing risk and debt repayment risk faced by small and medium-sized enterprises under the impact of the epidemic are analyzed, from the unreasonable shareholding structure, This paper analyzes the causes of financial risks of small and medium-sized enterprises under the impact of the epidemic from the aspects of non-standard governance mechanism, imperfect financial risk management mechanism of enterprises, imperfect internal audit institutions and weak ability to resist sudden economic environment, and finally puts forward corresponding financial risk management strategies. Through the analysis of this chapter, it not only improves our financial management ability and forecasting ability, but also creates opportunities for the further sound development of internal management ability and financial system, laying a foundation for our development. In addition, the national, local financial and other relevant departments should also take the initiative to formulate some economic relief measures and policies for the development of small and medium-sized enterprises to support us to tide over difficulties together. For private enterprises, they can also consider from the perspective of their supply chain, expand their investment channels to us by comprehensively mining the financing resources of the supply chain, and promote the sustainable development of small and medium-sized enterprises.

Acknowledgement

This thesis is completed under the inculcation and guidance of the teacher, from selection, conception to writing all infiltrate the teacher's blood and sweat; Professor's profound knowledge and strict style of study let me benefit for life, here I extend my sincere greetings and gratitude.

The experience of doing graduation thesis will also let me enjoy for the rest of my life. I realize that writing graduation thesis is a work that needs to be done seriously and attentively, and it is a real learning experience and exploration process. If I can't study and study carefully, I can't have the consciousness of the problem, I can't have my own method, and I can't have harvest and breakthrough. I hope that through this experience, I can constantly encourage myself to move forward in my future studies and life.

In addition, I also want to give special thanks to my parents, they always pay attention to me, create a platform for me to study, always give me encouragement, give me refueling, so as to help my development and improvement. At the same time, I also want to thank all the students in the dormitory and all the friends who pay attention to me. I also want to thank them for accompanying me through many happy days and paying attention to me and supporting me when I meet

difficulties. In the whole process of writing the article, many friends have also given me selfless assistance and support, here I would like to extend my sincere thanks! Finally, due to the limitation of my own ability, there must be many shortcomings in the article. Please comment and correct, and I hope you can have time to further improve, I will work harder to improve myself.

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