Problems and strategies in financial management of private enterprises in Dongguan

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Abstract — Dongguan, a famous manufacturing city, was attacked in the financial crisis. As an important part of Dongguan's economy, their development will affect the industrial transformation and restructuring of economy in Dongguan. The biggest problem that private enterprises encountered is how to treat their financial management issues. It is of important economic and social significance to solve this problem.

Keywords — Private enterprise; Financial Management; Problems; strategies

I. INTRODUCTION

In today's financial crisis situation, for the development of private enterprise, financial management plays a vital role. Constantly updated, financial management is improving in its breadth and depth. For private enterprises in Dongguan, how to treat their problems existing in financial management, how to improve them, better perform their functions, make them healthily develop, and reduce theirs losses under the financial crisis, is urgent. As private enterprises backward in information technology, having financing difficulties and weak internal management control, having difficulties of recovering funds, having the situation of broken capital chain, therefore, it is necessary to analyze their financial management issues and put forward effective solutions that can make them healthily develop, out of the woods.

II. STATUS AND PROBLEMS OF PRIVATE ENTERPRISE IN DONGGUAN

A Development Status of Private Enterprise in Dongguan

According to survey, from March 2009, private enterprises in Dongguan began to develop rapidly. The number of newly registered households rebounded significantly and a substantial increase aroused in registered capital, this trend continued into October. The number of newly registered households in Guangdong Province is 110900, an increase of 20.14% over the previous year, higher than the whole year of 2008(109500), and it’s the highest over the years. The newly registered capital is 96.509 billion Yuan, up 18.41%; the number of new employees is 894500. Private enterprises in Dongguan have made great contributions in increasing tax, providing jobs and other areas of economic development in China. However, in the development course of private enterprises in Dongguan, we found only a few enterprises can complete primitive accumulation in a short time, and become large scale enterprises that have huge capital, standard management and strong market competitiveness, while a large part of private enterprises have come to a standstill or a premature-end in the fierce market competition. This is resulting from many factors, and internal financial management is one of the most important factors that influence the development. The key to improve financial management and promote private enterprises healthily develop is to understand the status of their financial management, improve the viability of enterprises and expand their business.

Table | Number changes about private enterprises in Dongguan

<table>
<thead>
<tr>
<th>Number of private enterprises</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
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<td>Data from: China's macro-analysis system for data mining</td>
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B Problems existing in financial management of private enterprises in Dongguan

1) Financial team has low quality and changes frequently.

Private enterprises, invested or controlled by the natural person, are wage labor-based for-profit economic organization. Of many private firms, especially those in Dongguan, the bosses often do not know much about the financial side, and the quality of their financial teams is not high, which both has a direct impact on business operations and development. Cronyism is common in these enterprises, especially in the sensitive financial sectors, the traditional value “family world” is employing standard. “Loyalty” has become an important symbol of employers. For the financial officers without blood, it’s hard to balance against the family power. Many financial officers are not educated formally or professionally and they lack of the knowledge and the ability of financial management, so they couldn’t provide effective information for the senior management and they just act in line with the will of the boss. Some officers go on posts without formal training, even some begin to work when they haven’t completed junior middle school, and of course they don’t have knowledge of financial management at all. In order to meet the requirements of the boss and contend with tax examination, they often amend the account books and make them inconsistent with the facts. In this case, the professional talents are hard to retain, the financial and accounting team changes very frequently and many financial and accounting officers couldn’t work for a very long time. So they are not very familiar with the accounting business and make a hash of their financial affairs. While the business is transferred between new and old officers, they lack communication or the
new accountant have not been trained, which will lead to the error in the operation in the future.

2) **Backward information construction in internal financial management**

In private enterprises, internal information construction is a very important factor of financial management. Among small scale enterprises, information collection and processing is non-standard, and very few financial officers involved in it. Many bosses make decision based on their own experience, so the accuracy of the decision-making information is low. In Dongguan, the vast majority of private enterprises are confined to the accounting system of traditional mode. They couldn’t compare the information obtained in advance and make the right decision to eliminate hidden dangers. Owing to internal and external constraints, for them, it’s hard to use scientific and effective financial management tools, e.g. discounted cash flow analysis. Reasons are as follow: first, lack of management resources. Because the operators are not well educated, they don’t have the ability to use the tools; second, the demarcation between business organization and management action is unclear, operators are overwhelmed by the daily affairs and they do not have time to use the discounted analysis, then simple analysis is seen as the rational economic behavior; third, the technology cost of discounted analysis is high; fourth, the primary concern of private enterprises is to survive. They don’t consider long-term but recent cash flow and can’t keep up with market trends. Usually the funds are not applied efficiently. Although information survey system is gradually improving in Dongguan, the financial management still needs to be strengthened. The information control of cost is weak, there are no professional cost accounting staffs to calculate the product cost in many companies, and they have no abilities to make accounting classification; while in the situation that the information is not informed, product cost occupies a large proportion in operation. This will be resulted in the wrong product pricing, which is not conducive to market competition.

3) **Weak awareness of financial risk and financial mismanagement**

In order to escape the supervision of banks, many enterprises in Dongguan set up many accounts. In some cases, according to the will of the boss, most of the operations are not settled by bank but paid in cash above quota to escape national tax. Generally these enterprises have problems in bad debt management, capital management of inventory cost, the process of updating or improvement of fixed asset. Taking up a lot of money, the efficiency in the use of funds is reduced. In order to save expenses, in some enterprises, the same person at the same time acts as accountant and cashier; in some enterprises, they only record bank accounting, cash accounts can be adjusted as needed. All can be accounted according to the requirements of the boss. Notes against the rules could be seen everywhere, and reimbursement procedures are not complete. Many private enterprises in Dongguan are involved in investment, but they do not realize the risk and their awareness of financial risk is very weak. They often ignore short-term financial risks that require companies to have fast liquidity. In recent years, private enterprises develop rapidly. Each firm wants to use financial leverage to obtain bank loans regardless of cost. This will result heavily in debt and cause risks; Some companies use alternative methods and modify the use of the loans, which made current liabilities much higher than current assets, so that enterprises will face great potential crisis; Companies guarantee each other, the same assets repeatedly mortgaged, or for financing to continuously invest in new project, and so the costs of business operations and finance charges are increased. Then the capacity to pay is increasingly fragile, financial chain is too tight, finally there is the risk of fracture.

4) **Weak financial management and imperfect system**

Confined by the size and the personnel quality, there are many weak areas in financial management, for example, inventory control weakness, capital idle, financial slack and wasting material. Many enterprises have stock more than volume of business twice. They don’t have strict control of receivables and cannot recover funds. Specific as follows: first, there is no strict credit policy; second, recovery period is too long, lack of effective collection measures; third, receivables cannot deliver or become doubtful. Some private enterprises, cash idle, did not participate in the production flow, and they think that cash (including bank deposits) the more the better; While some companies on the contrary, bought a lot of immovable property, unable to cope with operating funding needed badly and be trapped in financial distress. Many managers of private enterprises, they focus on cash management and neglect management of assets, semi finished products and materials. While cash go wrong they in time to find, but they do not care about raw materials, semi-finished products and fixed assets, so capital losses are serious. Because a large part of private enterprises often are controlled by one person or a few people, their decision making and management is subjective and arbitrary. They lack of the theoretical methods of financial management, so that their duties are unclear and they act beyond their duties. There are many problems existing in many private enterprises, such as, information distortion, chaotic financial management and so on. Company set up extra fraud accounts, resulting in false illusion: virtual loss of profits and losses of real profit. All these are due to lack of strict financial controls. Most private enterprises lack a sound system of internal financial control, an auditing system, a quota management system, a financial inventory system, a cost accounting system, an approval system of financial revenue and expenditure, and other basic financial management systems.

### III. REASONS FOR THE FORMATION OF PROBLEMS FO FINANCIAL MANAGEMENT

#### A Internal factors of enterprises

Seen from the company's internal factors, organization forms, capital structure, financial personnel quality, production tools, management and financing way, they all affect the development of private enterprises. Different organizational forms have different sources of capital, and then the laws applicable to them are different. Some private enterprises in Dongguan are organized in the form of family ties, friends or relatives. The ties of affection are in the place of rules and
regulations. Investors are often in management, their quality directly affect financial management activities of enterprises. Construction of internal information affects the quality of financial management, whose role is reflected in the duties and powers of financial management and the level that financial information disclosed in the financial management. At present, financial management of considerable enterprises in Dongguan still have distance from information technology and computerization, and thus affect the standardization of financial management of private enterprises. Good, healthy, cohesive corporate culture is not only the important factor to attract and stable financial management personnel, but also an important foundation to regulate financial management of private enterprises. In many private enterprises, there exists a variety of unhealthy culture atmosphere. Owing to weaknesses of financial management, they do not want to establish strict control system that meets demand of staffs. Often the only person has the final say and loyalty is more important than quality. Staffs lack of security for social security, so they do not want to recruit or have difficulties in recruiting qualified accountants, and accounting talents are difficult to retain, which led to backwardness of financial management.

B External factors of enterprises

Seen from external factors, business can not survive out of the macro factors, such as: government policies, financial market conditions and impact and constraints of industry characteristics. Just after financial crisis, private enterprises in Dongguan are still in the process of recovery. In this context, the phenomenon occurs from time to time, that is, some owners of private business fled and didn’t pay workers their wages, e.g. on March 5 this year, in Zhongming Electronics Co., Ltd. employees refused to work because of poor food. Now in market economy, many people are not fully aware of the market conditions, industry competition and the importance of credit ideas, which has brought many problems for the financial management of private enterprises. Many government departments lack of effective supervision for private enterprises and accounting supervision can not be really implemented. Dongguan Government has introduced economic policies, the market-oriented components of economic structure are to be further developed, and the financial markets are to be improved, which are all external factors that cannot be ignored. However, accounting intermediary didn’t really exert their supervision function, relevant laws and regulations are not in particular for them, and there are no implementation details that are matched with them. The implementation basis is inadequate, some enterprises failed to abide by laws and law enforcement is not severe, which affected standardization of the financial management, and illegal violation phenomena in business activities are more common. Most accounting firms are not willing to make the auditing report for private enterprise, because of the instability of private enterprises and relevant risks. The most important is that relations between private enterprises and the bank affect the financing channels for private enterprises in Dongguan, which made them a shortage of funds and constrain the development of their financial management.

IV. STRATEGIES IN FINANCIAL MANAGEMENT OF PRIVATE ENTERPRISES IN DONGGUAN

A Strengthen the accounting team building and raise the quality of management

First, strengthen the accounting team building. For the status of low quality of financial teams, companies must strive to build and create high-quality finance teams, strengthen financial staff training and also improve the overall quality of all workers. For example, hold monthly business assessment and set up training class to improve the quality of accountants. Second, implement the system of appointing and safeguard financial officer responsibilities and rights. Educate private business owners to have legal sense, tell them to comply with laws and regulations, to sound fiscal foundation work, continuously improve the quality of internal auditing work and enhance the supervision of accountants to achieve the purpose of regulating the accounting basis work in all domains. Only in the situation that employees and employers can work together with one mind, it’s possible to improve the management, the financial management and competitiveness of the enterprise. Third, private enterprises should establish mechanisms for selection, especially for the financial staff. Enterprises must abandon the idea of cronyism, select candidates in the competition and maximize the selection of outstanding talents. At the same time, using effective methods to mobilize the enthusiasm and creativity of staffs, create a good environment for their growth, improve professional quality and practical capacity of staffs, and then promote personnel of financial management to forge ahead. Finally, companies should proceed from its own characteristics, and improve the management quality of personnel, make them become professionals that dare to make a unique perspective for dealing with enterprise development. In this way can meet the needs of the development of market economy, so companies can stand in the competition position, to win the trust and support of government, financial institutions, investors and the public.

B Strengthen information technology of financial management

Information construction of private enterprises in Dongguan is backward, so it’s urgent to strengthen information technology of the financial management and follow closely the pace of the times. Private enterprises should make full use of modern information technology, strengthen the network construction and develop the financial network. To adapt to the market economy, it’s urgent for them to make computerized accounting popular. And they should establish the network of their own, the network between enterprise and bank, the network among enterprises, and implement bank reconciliation system. Establish the control system through the internal computer network. In each process of production and operation or some important stage establish control sectors. Coordinate accounting and financial analysis to achieve effective internal financial control. Financial management software can help companies effectively use funds and control cost. Based on the theory of financial budget management, combine the fixed budget, historical data, zero-based budgeting, flexible budget law and other commonly used methods of financial management theory with
business operations, provide a set of business processes of financial integration, from the budget system of scientific establishment, a variety of budgets, and balanced distribution of processing summary to assessment of control. Under the financial crisis, private enterprises should strengthen the information construction among enterprises or between enterprises and customers. Information plays a vital role for private enterprises to grasp master market information and run their business.

C Strengthen the management of funds and the control of financial risks

In large part the shortage of funds in private enterprises in Dongguan is due to mismanagement. The flow of funds is an event that involved in the various departments within the enterprises. Therefore, private enterprises should strengthen the control of funds strictly, should open bank accounts strictly in accordance with the bank settlement methods, transfer by bank if it should, and never use cash exceed the limit. Private enterprises must also pay attention to decentralized fund investment, and reduce the risk of investment, strengthen budget management and control. At the beginning of the year, the financial sectors should prepare the annual financial budget. About the capital investment risk and auditing risk, private enterprises should strengthen investigation of the feasibility of re-investment. The project review should be scientific and professional, to minimize the probability of risk occurrence. The funds can be rationally used from several parts as follow: the management of bad loans, the management of inventory capital and the management of updating and modifying of fixed capital. In the case that bad debts are huge, to reduce loss, the way of cash discount could be considered. Enterprises should fully understand the potential risks of receivable accounts. About the inventory, measure the quantity of main material, and modify it based on the actual situation, then draw up purchasing mechanism to reduce inventory capital costs and speed up business turnover. About fixed assets, enterprises should adhere to the system of strict examination and rapid implement, produce as soon as possible, gain profits, recover investment, and provide funding for the next round updating of assets.

D Strengthen the control of financial management and establish a sound system

Sound financial control system can improve efficiency and reduce cost control. Private enterprises in Dongguan should establish a good system of internal auditing, enforce financial discipline, initiate financial systems, strengthen financial management, and strive to improve efficiency in the use of funds and make money produce the best results. For example, short-term loans must not be used to purchase fixed assets, so as not to cause cash flow problems. Secondly, predict the time of recovery of funds and payment. For example, enterprises must be aware of when the recoverable accounts can be receivable and when can purchase. Otherwise, it could easily lead to imbalances between capitals and payments. Finally, have a reasonable allocation of the capital. The occupation between working capital and fixed capital should be coordinated effectively. In addition, strengthen the management of inventory and receivable accounts. Strengthen the management of inventory, compress obsolete inventory and materials to avoid financial slack, and with the scientific method ensure the best structure of stock and funds. Strengthen the management of receivable accounts, evaluate credit of customers, regularly check receivable accounts, develop a sound approach for management of receivables, and strictly control age of account. For dead accounts, bad debts, after obtaining conclusive evidences, deal with them properly. Private enterprises should establish the perspective of financial value chain, closely integrating the financial control process with the financial processes, enable finance staff to participate in business activities. Private enterprises also need to establish a full range of financial control system and an internal joint system. On financial recovery, settlement and registration of any work, each financial operation must deal with two or more division of labor and must be in accordance with the provisions for approval. Strengthen monitoring before and after operational activities. Establish multi-channel financial defense, and provide security for the strong, effective and efficient operation of financial activities. Focus on financial control innovation of the key points, regularly inspect property and urge personnel of management and recording to keep guard. Establish a sound internal control, and improve financial management.

V. CONCLUSIONS

Private enterprises play an important role in the economy development, and financial management is the key factor for them to survive and develop. Under the background of financial crisis, private enterprises are also under attack. In Dongguan, a famous manufacture city, private enterprises account for an important proportion, so it is of great significance for them to improve their financial management. In market economy, to make them develop means make them obtain a significant market share; to get market share means they must do well in the financial management. Financial management is very important. With the further development of private enterprises in Dongguan, the government should gradually increase the support for them, put a lot of money and introduce the relevant favorable policies to establish information system, improve the internal control system, improve their management and help them solve financing problems. Of course, to develop private enterprises, it needs efforts from different areas, from external and internal. The private enterprises themselves should also make efforts. Only in this way, they can continue to improve themselves, so that they can occupy the domestic and foreign markets and gain a firm foot in competition.

REFERENCES