

# Financial Management Optimization and Risk Control of Logistics Enterprises

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**Abstract:** With the development of economic globalization, China's logistics industry is thriving. While compared with mature logistics system in developed country, a large number of problems including financial risk existing in our logistics enterprises. Through the analysis of China's logistics industry business characteristics, this paper analyzed financial decision-making process of logistics enterprises and the possible financial risks. Finally, a perfect financial warning index system is established to help logistics enterprises effectively control financial risks, and relevant suggestions are put forward to optimize the control of financial management of logistics enterprises.

## 1. Introduction

Financial management not only runs through the management of logistics enterprises, but also directly affects the healthy development of logistics enterprises. [1] The financial management of enterprises must be a systematic project under the complex and competitive market environment. [2] For an excellent logistics enterprise, establishing a perfect financial system with efficient financial management ability is an essential component of the core competitiveness of the enterprise.

## 2. Financial management and risk

### 2.1 The definition of risk

Existing objectively and universally, risk is not transferred by people's will. It can only be avoided and reduced by various technical means. [3] Its definition can be divided into narrow sense and broad sense. This paper adopts a broad definition, that is, similar to risk management, which is to weigh the benefits and costs of reducing risk, and make reasonable decisions to avoid and lower risk.

### 2.2 Financial risks of logistics enterprises

The financial decision-making process of logistics enterprises mainly includes investment, financing, capital recovery and other links. [4] The financial risk of logistics enterprises can be classified into investment risk, capital structure misallocation risk, financing risk, operation risk and liquidity risk if in accordance with the characteristics of the logistics industry capital circulation and turnover process, as shown in Figure 1.

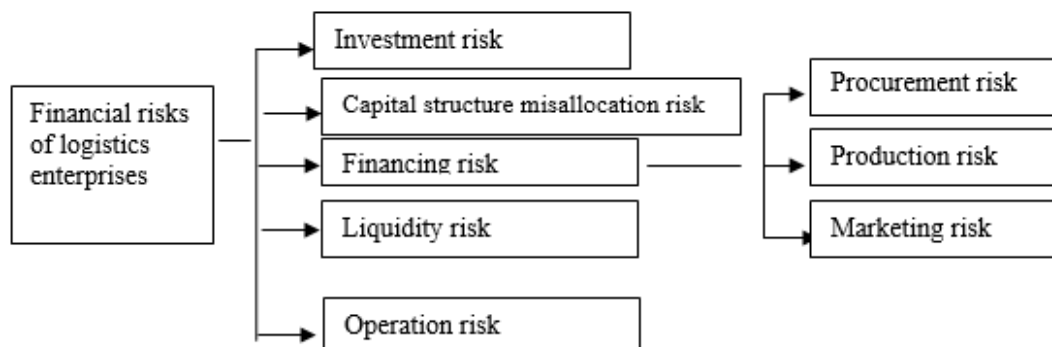


Figure1. Major financial risks of logistics enterprises

### **3. Problems existing in financial management of logistics enterprises in China**

#### **3.1 Not adapted to the sharing economy requirements**

Most logistics enterprises in our country lag behind in logistics development, generally lack the advanced logistics model in the sense of informatization and scale, and also their information sharing is inadequate. [5] First of all, enterprises are in a low level in the field of financial management, lacking scientific and reasonable institutional guarantees. Secondly, a considerable number of enterprises are not developing enough resources and facilities, prone to a lot of waste. Thirdly, the logistics scale is generally too small to reach a certain degree of integration, and its application of advanced technology is relatively low, which makes it difficult to build a relatively large-scale distribution system.

#### **3.2 Difficulties in external financing**

Abundant financial resources as the backing are required to improve from traditional logistics to modern logistics as soon as possible. However, most logistics enterprises in our country are faced with financing shortcomings such as insufficient asset credit, and difficult to carry out financing smoothly especially in the relatively tight financial environment, which need relevant departments to create an appropriate financing environment for logistics enterprises and promote the transformation of enterprises.

#### **3.3 Low efficiency in capital use**

Problems like external circulation of funds, optional investment, and low efficiency exist in logistics enterprises since most existing logistics companies often lack effective fund management methods. [6] For instance, the financial department usually tends to recover the enterprise funds as soon as possible to form short-term investment, which is difficult to consider the long-term interests of the company's development.

#### **3.4 Insufficiency in financial supervision**

Many logistics companies adopt cross-regional management methods, resulting in a relatively large organization and complex organizational structure. Thus it is difficult for enterprises to supervise lower-level departments and peripheral institutions.

#### **3.5 In authenticity if financial information**

Most logistics companies collect financial information traditionally, the disadvantage if which is that it is difficult to update the data in real time. Due to the single-faceted relevant information from the reports of relevant financial personnel, the report may be affected by such factors as personal business level, interest association and so on, resulting in distortion of financial information, and even some cases of false accounts.

### **4. Risk control strategy of financial management in logistics enterprises**

#### **4.1 Establishing an early warning system for operational risks**

From the perspective of time, a risk warning system combining short-term and long-term is established on the basis of internal capital flow according to the actual situation of logistics enterprises. Risk early warning can be realized and prevented in the future through the supervision of sensitive index. In the short run, cash flow is of crucial importance in logistics enterprises. It requires not only efficient operation management but also the forecast and monitoring of regular cash flow cannot be loosen. In the long run, the future development of the company and the realization of its strategic vision are inseparable from strong financial support.

#### **4.2 Improving the financial management system for logistics companies**

Logistics enterprises should establish a comprehensive budget management system within their own departments, and supervise and inspect the budget execution and implementation of various

departments by means of budget planning or other means. The restraint mechanism and incentive mechanism are combined by means of performance appraisal to control potential risks. At the same time, the inner control system of logistics enterprises should be gradually improved, and the internal control mechanism through the rotation system of financial departments and the isolation of incompatible positions should be strengthened so as to reduce financial risks.

#### **4.2.1 Strengthening financial planning and cost control**

Logistics companies have to introduce experienced financial personnel with financial planning knowledge to scientifically plan and control the company's overall funds and realize the preservation and appreciation of the company's assets. The problem of funding needs can be solved by ensuring that the largest amount of funds can be obtained at the minimum cost in specific financing through professional financial planning. On the other hand, management talent with professional experience should also be brought in. Excellent managers can make reasonable resource allocation for the existing employees, mobilize their working enthusiasm, improve their overall quality, give full play to their potential, realize the overall planning of talent resources as well as improve their financial management ability.

#### **4.2.2 Enhancing credit accumulation and improving social image**

China's logistics enterprises are mostly small and medium-sized enterprises. At present, the bank's credit support has become the main channel of SMEs' external financing. However, these enterprises are difficult to obtain loans from banks due to information asymmetry and their low credit rating. Therefore, logistics enterprises should focus on the improvement of their own credit level, actively engage with banks, and maintain a benign cooperative relationship with banks. Favorable credit level can reduce bank capital risk as well as the cost for banks to obtain information about the financial status of logistics enterprises. It is no longer difficult for logistics enterprises to apply for a loan and even possible to apply for a higher loan amount, which exerts great influence for the scale expansion of logistics enterprises and their sustainable development.

#### **4.2.3 Taking appropriate financial leverage**

Financial leverage is a common financial strategy adopted by modern enterprises. Fixed assets account for a considerable proportion in logistics enterprises, making their own capital very limited. Therefore, logistics companies should make use of financial leverage to obtain more funds through appropriate debt collection to develop new businesses and broaden service areas. From the perspective of short-term debt, the interest rate is relatively low, the repayment time is short, and the required capital cost is small. From the perspective of long-term debt, the loan interest rate is high, the repayment time is long, and the required funds are more. Therefore, logistics enterprises should reasonably allocate short-term and long-term debt according to their own business operation and debt paying ability, so as to achieve "moderate" debt and promote their healthy and sustainable development.

#### **4.2.4 Strengthening the recovery of accounts receivable**

In the process of managing the operation of logistics enterprises, there are a large number of accounts receivable not recovered in time, resulting in insufficient liquidity for enterprises to develop new businesses in time. Therefore, logistics enterprises must strengthen the recovery of accounts management. On one hand, a capital recovery plan with high income and low risk should be chosen according to their own profitability and operational capacity. On the other hand, credit rating system should be established when developing business. That is to say, the credit of service objects and partners should be objectively rated first, and different settlement methods should be adopted according to the rating in order to ensure the rapid return of funds. At the same time, it is necessary to strengthen the management of the links related to accounts. A written agreement must be signed and properly kept in the case of sales.

#### **4.2.5 Enhancing the collaboration with external organizations and broaden financing channels**

Logistics enterprises are not only affected by internal factors but also by national macro-control, international environment and other factors during the process of operation. They have to improve their correlation with relevant government departments to gain relevant support while expand financial channels and enhance collaboration with financial organizations like banks to obtain capital support. In addition, in the context of international competition, they can enhance cooperation with leading enterprises in international logistics industry and introduce foreign capital to alleviate the plight of insufficient funds. At the same time, cooperation in technology and management should be reinforced, especially in learning advanced financial management ideas.

### **5. Conclusion**

In order to become a modern logistics enterprise with scientific management, an enterprise first has to own a complete management system and a high level of management capability in financial field so as to accurately understand the performance of the financial department during company's operation. With the help of excellent financial management, on the one hand, the companies can fully understand the related financial situation of logistics business, on the other hand, the financial activities of the company can be accurately controlled. Not only can they be familiar with the basic situation of the company's financial aspects, but also can greatly improve the related management efficiency and obtain better economic and social benefits.

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