

The Character and Improvement of the Financial Management for China Middle and Small Private Enterprises

Tao Gong

College of Economic Management, Southwest University of Science and Technology

Mianyang 621010, China

E-mail: jingcaiyun@swust.edu.cn

Abstract

The actuality of middle and small private enterprises is that “slow birth, little growth, quick death and short life”. As viewed from the character of the financial management, they usually have the financial objective with short views and low effectiveness, which is represented from ten aspects. To improve the problems existing in the financial management of middle and small private enterprises, the following aspects including scientific and normative management thinking and management mode, the regulation and system of the financial management, the corporate governance structure and owner structure, the accounting system and professional team, the objective and guarantee model and operation mechanism of the financial management should be strengthened.

Keywords: Middle and small private enterprises, Financial character, Management mode, Management regulation

1. Actuality and financial character of middle and small private enterprises

The actuality of most middle and small private enterprises can be generalized by one word, i.e. “slow birth, little growth, quick death and short life” (Gu, 2006). According to relative data, the alteration of the private enterprises registered in 1989-2006 in Zhejiang shown that their average life was only 7 years (Zhao, 2006). In 1999, China had 31.6 millions individual industrial and commercial households, but up to 2004, this number declined to 23.5 millions, and 1.35 millions households were reduced every year (Zhu, 2006).

This actuality is generally induced by two problems including revenue and financing. Some analysis thought that in the aspect of financing, the financing of middle and small enterprises is less than 10% of the total social level, and in the aspect of revenue, differing with the “super national treatment” of foreign enterprises and the “national treatment” of state-owned enterprises, the private enterprise can only enjoy “inferior national treatment” (Gu, 2006). According to author’s observation and researches about middle and small enterprises, the author thought that reasons inducing the actuality of middle and small enterprises mainly include two aspects, one is the factors of exterior environment (including national industrial economic policies, financial policies and market actuality) (Wei, 2006), and the other is the interior factors in the enterprise which can be divided into two situations, i.e. the originality of the enterprise and the non-systematization of the enterprise financial management. This article mainly analyzes form the later situation.

The originality or system character of middle and small enterprises means the enterprise has not a perfect system layout when it is established, which is mainly represents in that the organizational character includes that the management and administration right of the enterprise is highly centralized, the management character includes that the capital is hard up and the financial layout is lacked, the administration includes the non-systematization and the absence of management objective and concept, the operation character includes that overfull dependent on family management and short-term behavior, the accounting character includes the emphasis of cash income and expenses and bad basic work, and in this aspect, three problems mainly exist, i.e. simple accounting, false information and rough regulations.

The non-systematization of financial management of middle and small enterprises means that the financial managements of most middle and small enterprises are not engaged according to the basic regulation of enterprise finance, and they have strong characters of spontaneity and individuation. For example, family financing mode, family financial management mode, centralized management mode, the management mode taking cashier as the center, the financial management and control mode taking the tax reducing as the objective, the financial classification management mode according to different information (reports) objective and so on. This non-systematization state of the financial management is decided by the character of the private enterprise.

The private character decides that the production and management mode of general middle and small private enterprises is to take the profit as the only start. And when it is reflected on the enterprise objective, it is the maximum of the profit, and when it is reflected on the financial objective, it emphasizes that the absolute income of

the enterprise exceeds the relative income, emphasizes the actual income exceeds the account income, and emphasizes the absolute charge control exceeds the relative charge control. That is to say, middle and small enterprises emphasize the short-term income and actual profit on the management mode, and mainly control the charge payout which mainly includes the direct relation between payout and earning. Based on that, enterprise emphasizes the corresponding relation of simpleness and income and expenses on the accounting, emphasizes the realism and secret on the financial management, and emphasizes the short-term behavior and “interior control” on the enterprise operation. Therefore, the hoggish financial objective with short view is the financial character of middle and small private enterprises.

This character induces the interior limited factor of “slow birth” and the self reason of “little growth” for middle and small enterprises. The short-viewed financial object and low effective financial behavior certainly induce that enterprise can not implement corresponding investments and investment programming, but the capital investment is just to pursue long-term income, so this short-viewed financial behavior can not make the fund favorably translate into the capital (even if this sort of translation is actualized, there still exist many non-financial operational factors), and naturally induce most payout of the enterprise can not be transformed to the purposeful and long-term investment payout emphasizing future profit, and make middle and small enterprises can not become more large enterprise though the mode of capital accumulation, and can not obtain exterior strong support through normal mode of capital accumulation, which is “slow birth”. In the same way, just because common middle and small enterprises are difficult to succeed in the capital investment or capital payout, they can not grow up quickly and even can not enter into the layer of technical innovation and independent innovation, which is “little growth”.

In most situations, this character is one of main reasons of “quick death” for middle and small enterprises, and it is the inevitable result of “short life”. The short-viewed and low effective finance management makes enterprise can not easily face or avoid the risk of management. And the management mode of “cash (capital) taking out” makes the financial information inordinate, and makes the enterprise performance operate in the low level, which can not form the ability to oppugn risk, face transformation, assume responsibility and independent innovation, and the result is that the enterprise is thinner and thinner, weaker and weaker, and forms the bad circulation process of “feebleness accumulation and weakness collection”, and encounters “sudden death” as “a last straw” because of outside forces or interior factors or other unanticipated reasons at many moments.

To sum up, many problems exist in the financial management of middle and small enterprises, which have been the bottleneck of the normal and quick development for middle and small enterprises.

2. Ten specific representations of the financial character of middle and small private enterprises

According to the observation and research to middle and small enterprises, the characters of main problems existing in the finance of these enterprises can be briefly generalized as the following aspects.

(1) Emphasize income and ignore responsibility. To obtain income leave no stone unturned is the objective of every enterprise, which is gives no cause for more criticism. But the problem is that under many situations, middle and small enterprises have not associated the income obtainment with corresponding responsibilities, and have not associated the income obtainment with corresponding method, which induces the problems of the income without responsibilities and the income rationality. The result is that enterprises will always get into the trust crisis and the management crisis.

(2) Emphasize payout management and ignore accounting treatment. Because of the actuality of difficult management income source, enterprises especially emphasize the management to the payout. It should be admitted that middle and small enterprises create or derive many payout management method with classic meanings, and the payout efficiency is higher. But on the other hand, considering the environment of management and survival and the bad self management concept, enterprises always don't care about the accounting treatment of the payout, which accordingly induces the distemperedness, faultiness and asymmetry of the financial information and management content, and disturbs the normal development of the enterprise.

(3) Emphasize management and ignore financial accounting. Because the financial management is restricted by the ownership structure, enterprises have specific idea taking the profit as the objective management. But just because of that, the financial management of the enterprise becomes the tool of planning and making profits, and the emphasis how to achieve the management rationalization by the accounting method and system. One simple example is that in many middle and small enterprises, the treatment of charge and cost can not be implemented according to the regulation, but adopt the principle of “demand”, and the result is one word, i.e. chaos.

(4) Emphasize circulation and ignore deposit. If only the enterprise gets the cash income, it is the maximum object of the management. And if only the enterprise can reduce the money payout, even can delay the time of the payout, it is regarded as a sort of strategy or successes. Under the direction of this sort of management idea, the formed

capitals of the enterprise are always not emphasized or utilized enough, accordingly the concept of capital management is weakened, and the recognition of the cash circulation to the enterprise can not be well realized.

(5) Emphasize cashier and ignore accountant. Because of the special attention to the cash income and expenses and the unilateral understand to the income, owners generally don't set up financial post according to the normal financial regulations, but deploy employees according to the advantaged mode convenient for them. Under this mode, the cash becomes the key in the financial management, and the accountant is only the set, explanation, or complement of the cashier, so there is no cashier's function and responsibility and the financial management and supervision. It can be understood that common individual managers adopt this sort of mode, but if the enterprise operating in the corporate mode also adopt this sort of mode, it is the actual state of "abnormal management" or "abnormal survival", so it is natural that enterprises are difficult to be managed and operated normally.

(6) Emphasize loan and ignore return. The so-called "loan" is to try for and obtain the loan leave no stone unturned. But after obtaining or occupying the capital, some enterprises delay to return the loan leave no stone unturned. Though the policy doorsill and procedure of the loan are excessive, but more reasons come from the managers' qualities and concepts. Because the management can not be obviously improved or managers think about other things, they have no choice but to try to delay the loan when the loan is at term, which induces the deficiency and crisis of the enterprise credit.

(7) Emphasize present and ignore middle and long term. The management mode existing in the middle and small enterprises which takes the empirical decision and temporary treatment as the priority makes the behavior of the enterprise always stay in the present, which has bad information degree and weak conduction ability, ignores the developmental rule and trend of things, induces enterprises live up to scientific decision and exact judgment, and easily induce the financial short-viewed behavior and low effective operation. So the deficiency of financial programming and objective is the chronic illness of the enterprise financial management all along.

(8) Emphasize output and ignore investment. To operate, enterprises must invest large of capitals, but they always ignore the efficiency of the output. They only emphasize relative policy supports, exterior supports and corporate cooperation, but ignore the technical alteration and investment of enterprises themselves. To the operation of the assets, some enterprises rather repair the equipment every day than consider the technical alteration and the increase of investment, so the efficiency of the output can be imaged.

(9) Emphasize obedience and ignore honesty. The owner makes the decision, and the function of the financial personnel is only use of an emperor and demonstration, which is the first requirement that many enterprises select financial accountant. Because the occupation and income is the problem that almost every enterprise financial personnel can not avoid, so his "honest words" to the owner is few, even he would work against the regulation but only obey the owner of the enterprise. The accountant's honesty has been evolved to the loyalty of the accountant.

(10) Emphasize use and ignore cultivation. It mainly aims at the use of enterprise financial personnel. Emphasizing the construction of the management and marketing team and ignoring the function and cultivation of financial personnel is another prominent phenomenon in the management of middle and small enterprises.

3. Improvement of financial management for middle and small private enterprises

There are many discussions about the enhancement and improvement of financial management for middle and small enterprises, so this article will not give unnecessary details. This article thought that for the enterprise mechanism and the financial mechanism, the improvements of following five aspects should be strengthened.

(1) The science and standard of enterprise financial management are decided by the governance structure, owner composing and management thinking of the enterprise. So the key problems to improve the financial management for middle and small enterprise include three aspects. First, the setup of the enterprise should be rebuilt, and the "one boss" should be changed to "numerous bosses", and the "one's management" should be changed to "managing together". Second, the thinking of financial management should jump out the concept of "mine", and gradually evolve from small private enterprise to big private enterprise, especially when the enterprise acquire advancement, the owner or boss of the enterprise should change his concept that the finance is not the safe-deposit box or the income and expenses valve, but the transmission shaft and driver of the operation and development for the enterprise, and in this way, the financial management of middle and small enterprises can be changed and gradually enhanced and perfected. Third, the level and efficiency of enterprise financial management lie on the character and objective of the enterprise. Generally speaking, the private degree (socialization degree) decides the management mode and management performance of the enterprise. The enterprise objective directly decides the enterprise financial objective, financial mode and financial mechanism. From that meaning, the governance structure of middle and small enterprises is the very urgent problem.

(2) The security and reliability of enterprise financial management lie on the standard of corporate system and the mechanism design of the enterprise. The management of system and regulation is more scientific and effective than the management of individual purpose, and the operation according to the corporate design is more reasonable and safe than few people's charge. The problem of executive force is the serious problem existing in middle and small enterprises, but in fact, the problem of executive force is just the problem whether the regulation can be executed or whether the mechanism can be operated. The management according to individual purpose may be efficient in short-term or in the local place, but at more moments, it is the root of various problems. Therefore, to regulate the corporate behavior and management, and strengthen the mechanism function decides whether the financial management function of middle and small enterprises can be perfected and whether the corporate value can be maximized. The security and reliability of financial management don't lie on the degree of boss direct control, but on whether the system is be standardized and strictly implemented.

(3) The success and failure of corporate financial management lie on whether the corporate owner can jump out original "corporate character", especially whether the corporate owner can change the private degree of the enterprise. The life and death of middle and small enterprises is the problem people always talks about. But there is an exception, i.e. the puzzle of "Refining Individual Households" In Guangdong. Up to the late of 2006, there were almost 2.46 millions individual industrial and commercial households, which was in the first place in China. Since 1999, the quantity of individual industrial and commercial households increased 0.86 millions households in seven years, but at the same term, the quantity of individual commercial household reduced 6 millions households (Wei, 2007). Where is the answer? The answer is the difference of private degree. Complete individual private ownership is the lowest private ownership, which is represented as the individual or family management. But the social private ownership is the corporate regulation and mechanism design of private enterprise, i.e. the enterprise goes the road of social and modern management, and adopts the actual corporate management mode to replace the individual or family corporate management mode. The corporate financial management is just the management based on the corporate character in a larger range. Excessive private ownership is the reason to block the enterprise advancement and the optimization and efficiency of corporate financial management.

(4) The basic work of corporate financial management rests with healthy accounting system of middle and small enterprises and the financial management team with occupational spirit. First, in middle and small enterprises, the adoptive principle part of corporate system should be confirmed. Second, the content of middle and small enterprises should be simple, easily understandable and conveniently operational. And the accounting subject and the accounting report should be set up according to the character of the accounting business for middle and small enterprises. Third, the accounting system of middle and small enterprises should accord with the principle of wariness to avoid the false profit and actual loss. Fourth, the enterprise system of middle and small enterprises should try to keep consistent with the tax law to reduce the ratepaying adjustment at the end of accounting and enhance the work quality of accounting. Fifth, the corporate supervising system of middle and small enterprises should be perfected. Sixth, the arrangement and design of the accounting system for middle and small enterprises should accord with the principle of cost efficiency, and select the scheme with maximum system profits. In fact, all above aspects are a team problem of corporate accounting management and personnel. So to emphasize the team construction and personnel management of financial accounting is the key to help middle and small enterprises walk out the financial corner.

(5) The optimization of corporate financial management lies on the constitution and normal operation of financial management objective mode, which is mainly represented in "four realizations". The first one is to realize the concept update of corporate financial management behavior, i.e. modern financing concept, which should change traditional concepts of keeping accounts, casting accounts and reporting accounts, canonize the concepts of financing, making wealth, using wealth and assembling wealth, establish the financial management thinking mode of cost efficiency, risk income, input and output, and value system, and actualize the new concept of people-oriented financing, diversiform capital financing and risk management financing. The second one is to realize the scientific objective of corporate financial management behavior, i.e. the sustainable objective, which takes the normal development of corporate finance as the basic objective, takes the optimization of yield as the first object and takes the maximization of economic benefit as the permanent objective. The third one is to realize the modernization of corporate management method, which takes the cost benefit as the core, takes the scale control and risk prevention as the rule, takes the advanced management method such as "zero base budget" as the priority, and implement the scientific financial management method combining with financial accounting, cost accounting and management accounting. The fourth one is to realize the system systematization of corporate financial management behavior, i.e. strengthening the construction of financial regulation according to actual situation and management demand, and utilizing the system to regulate and supervise the individual or organizational financial accounting behaviors.

References

- Gu, Shengzu. (2006). Objectively Looking on the Life and Death of Private Enterprise. *China Business Times*. 22 September, 2006.
- Wei, Liming. (2007). The Puzzle of “Refining Individual Households” in Guangdong. *The Economic Observer*. 22 January, 2007.
- Wei, Xianzhong. (2006). The Financial Management of Middle and Small Enterprises Should Be Urgently Improved. *China Business Times*. 23 October, 2006.
- Zhao, Zhijiang. (2006). Why Private Enterprise can not live long? *China Business News*. 7 November, 2006.
- Zhujian. (2006). Why Private Enterprise can not live long? *People's Daily*. 21 August, 2006.