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The Analysis of Supply Chain Financial Risk and Control Measures

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Abstract: Under the intensely competitive market environment, the trouble of difficulty in financing for small and medium-sized enterprises is increasingly prominent. In order to solve this problem, the supply chain financial services has appeared at the proper time. The emergence of supply chain finance enriches the financing methods and brings advantages to the financing of small and medium-sized enterprises. Supply chain finance is a new financing pattern, linking supply chain with financial services, relying on strong enterprises in the supply chain and providing financial products and services based on actual transactions. Although supply chain finance is an innovative mode in the new economy, it still exists numerous risks. From the meanings of supply chain finance, this article analyzes the risk problems faced by supply chain finance, and offers some reasonable methods and measures to ensure the supply chain run stably and smoothly and advance sustainable development of supply chain finance.

1. Introduction

Supply chain finance is a financing model based on banks' grasp of the whole information of the supply chain, regarding big business in the supply chain as the core enterprises, accelerating the flow of capital circulation in the supply chain through transactions between enterprises, and providing financial products and services for core enterprises and upstream and downstream enterprises. It spreads the risks from a single enterprise to the whole supply chain, turns uncontrollable risks into controllable risks, and combines industrial resources and finance to maximize effectiveness.

Compared with conventional financing, supply chain finance lays more stress on the stakeholders in the chain as well as the close relationship between enterprises. Moreover, supply chain finance strictly controls the use of funds through coordination with third-party supervision, and adopts self-liquidating financing. In order to ensure the smooth operation of the whole chain, supply chain finance takes advantage of supply chain resources, effectively controls and manages supply chain, and then achieving the situation of mutually beneficial coexistence and harmonious development of enterprises and financial institutions.

As the progress of science and technology, the extent of country's opening-up to is continuously improved, and transnational trading has become a common phenomenon. Global trade will further boost the development of the international market. Under such a background, it is difficult for small and medium-sized enterprises to enter the international market due to capital constraints. The imperfect financial management system, poor credit status and lack of credit guarantee of small and medium-sized enterprises make the commercial banks' willingness of lending to them weaker and weaker. As a new business model, supply chain finance provides products and services for upstream and downstream enterprises, and achieves the unity of capital flow, information flow and logistics, widens financing channels, reduces financing costs. Finally, it achieves capital appreciation. And it also brings new opportunities to small and medium-sized enterprises.

2. Analysis of Supply Chain Finance Risk

(1)External Risks

Policy Supervision and Laws Risk.National policies will certainly cause changes of the financial environment. The improvement of national policies on the supervision of supply chain finance and trade or the expansion of the scope of constraints will have an impact on the operation of enterprises. Enterprises require to adjust their operation plans timely and reformulate their development plans, which will affect supply chain finance activities and possibly lead to economic losses.

Most of the relevant legal documents issued in China are about property rights, contracts, accounts receivable and securities[1], and there are relatively few laws and regulations for supply chain finance. Therefore, legal documents play little role in risk control for the development of supply chain finance business. Imperfect laws and unclear institutional constraints make some specific transactions have no rules to follow. Hence, business services are prone to have a great uncertainty and even trigger rights and interests disputes.

Economic Environment.Supply chain finance operates in a certain economic environment and involves a wide range of financial activities, including different industries, financing platforms and liquid enterprises. Once the economy fluctuates, the subjects in each link of the supply chain financial model will face risks, resulting in the aggravation of the overall supply chain risk. Especially in the economic downturn or recession, the market demand declines, the debtor may not be able to repay the debt as agreed, and the interests of creditors will be affected. If the economic impact can not be eliminated in time, enterprises in the supply chain may face operational difficulties, or even go bankrupt, which ultimately affect the credit guarantee ability in financial activities. In addition, changes in market interest rates and exchange rates may lead to higher financing costs for enterprises[2].

(2)Internal Risks

Enterprise Credit Risk.With the increase of enterprises in the supply chain, the sources of risk become more and more. First, the core enterprise is the core of supply chain finance, once occurring credit risk, it will have an effect on the whole supply chain. Second, small and medium-sized enterprises do not have a perfect financial management mechanism, their credit is poor, and the probability of repayment on time is low, which will increase the credit risk. Besides, the low transparency of information will also raise credit risk.

Supply Chain Risk.The supply chain has integrity and coordination, and the enterprises in the supply chain are linked together. Due to the features of the supply chain itself, if risks occur, they will inevitably stretch upstream and downstream along the supply chain and spread spontaneously[3]. Therefore, no matter which enterprise go wrong, it will affect the whole supply chain and even bring about tremendous losses. In addition, the enterprises in the supply chain are affected by external factors such as natural disasters and internal factors such as strategic adjustment, which will also increase the risk of the supply chain itself.

Personnel Operation Risk.In recent years, due to the rapid development of supply chain financial services, many financial institutions strive to expand supply chain financial business, but they lack specialists. Many relevant personnel have weak awareness of risk prevention and control in supply chain finance and low level of technical mastery, which is prone to operational errors. On the one hand, employees cannot accurately identify and judge financial risks, which may lead to non-standard operation or fault and damage the interests of financial institutions. On the other hand, the moral quality of internal personnel will also have a certain impact on the operation. Therefore, it is very important to pay attention to training the comprehensive skills and professional quality of talents in the field of supply chain finance.

3. Supply Chain Financial Risk Control Measures

(1)Sound the Policy System, Improve Laws and Regulations

Supply chain finance has maintained a good development status, but the relevant laws and regulations are not perfect. Due to the narrow coverage of laws and policies, it can not satisfied the needs of the overall supply chain, so supply chain finance is easy to produce the problem of no standard reference. Therefore, in order to guarantee the sustainable development of supply chain financial services, it is the primary task to sound the policy system and improve the laws related to supply chain finance.

When formulating policies, the relevant personnel should strictly depend on the present development status of China's supply chain finance, constantly add the laws and regulations related to supply chain finance according to the specific situation, and clarify the rights and duties of all parties involved in supply chain financing. Therefore, in the process of business development, all parties should also perfect legal contracts and clear rights and obligations to reduce legal risks. Strengthen supervision to ensure financial organizations and participating enterprises can carry out supply chain financial services strictly based on the requirements of laws and regulations, and realize that there are rules and evidence to follow. In addition, in order to do a good job in risk prevention and avoid losses, enterprises should timely pay attention to the alteration of national policies.

(2)Reasonable Arrangement of Credit, Strengthen Cash Flow Management

Supply chain finance is based on core enterprises, which credit covers the whole upstream and downstream enterprises. Relying on the credit of core enterprises, supply chain finance provides guarantee for the whole supply chain. Therefore, it is significant to carefully selected credit groups. Firstly, banks need to investigate and evaluate supply chain enterprises, clarify supply chain processes and correctly understand transaction requirements. Secondly, understand the actual situation of the enterprise, evaluate the applicants applying for credit, reasonably arrange the credit, control the credit line, and realize the management control of capital return. Finally, making terms or contracts to restrict responsibilities ensures there is evidence to rely.

The cash control of supply chain finance is that financial institutions manage the funds entering the supply chain, and finally realize the appreciation and return of fund[4]. There are no relevant systems and standards for cash flow management. In order to coordinate the interests of relevant subjects, and optimize industrial processes, establishing an effective cash flow management system is necessary. To strengthen cash flow management, banks should master information and control the capital flow direction firstly. Second, use the contract or terms to ensure the return of funds. In addition, banks should also analyze the operating conditions of enterprises, master the dynamics of enterprises, and then control cash flow.

(3)Strengthen Credit Integration, Establish a Risk Management System

Banks require to timely collect and monitor information and establish credit evaluation system[5], grasp the authentic situation of enterprises, reduce costs of risk and improve information transparency. For controlling credit risk, first of all, we should create a strict punishment mechanism and strengthen the punishment for enterprises that violate credit, so as to reduce credit risk. Secondly, carrying out credit management for enterprises and customers by establishing file containing customer information and credit to improve the quality of customer management. In addition, banks can realize information sharing under the condition of ensuring information security by improving the technical level, making information transmission smooth and timely, and avoiding information asymmetry.

(4)Cultivate Professional Talents, Strengthen Internal Control

With the rapid development of supply chain finance, the role of employees has become more and more important. Therefore, enterprises should introduce employees with professional skills and quality, train employees' ability in specialized knowledge and management, improve employees' own quality and professional ability to reduce operational errors. In addition, enterprises need to improve the moral quality of employees and assure employees strictly observe discipline and rules. No one can exceed the moral baseline.

4. Conclusion

The development of supply chain financial services has broadened financing channels and effectively solved the financing difficulties of small and medium-size enterprises. Although the development of supply chain finance has brought many advantages and opportunities, there are still some risk problems. It is helpful to development of supply chain financial by analyzing risks and taking effective control measures. The risks of supply chain finance include external risks and internal risks. The external risks mainly come from the policy, laws and economic environment. The internal risks mainly include credit risk, operational risk and potential risks from the supply chain itself. In view of above risks, we could takes some measures, such as perfecting the system of laws and regulations, improving policy guarantee, establishing cash flow management and credit management system, strengthening internal control. Through the above measures, regulate the financial environment, then promote the healthy and sustainable development of supply chain finance.

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