Advances in Social Science, Education and Humanities Research, volume 554
Proceedings of the 7th International Conference on Humanities and Social Science Research (ICHSSR 2021)

The View of Enterprise Financial Risk from the Perspective of Stakeholders

Yang Hua[1,a]

[1]*ZiBo Vocational Institute, Accounting College, Zi Bo, Shandong 255314，China*
[a]*Email: yangh218@163.com*

ABSTRACT
This paper holds that the financial risk originates from the uncertainty of guarantee ability caused by the influence of stakeholders on the enterprise's capital supply or working capital demand; the financial risk is a dependent variable, which has the characteristics of uncertainty, reversibility and recurrence, economic consequences, etc.; the financial risk should be classified according to the degree of enterprise's financial risk under the influence of internal and external stakeholders Risk classification.

Keywords: *Stakeholders, Financial risk, Capital supply, Working capital demand*

1. INTRODUCTION

As for what is financial risk, there are several different views, such as financial risk is the uncertainty of enterprise's repayment of due debts, financial risk is the risk related to enterprise's financing, financial risk is the uncertainty of enterprise's financial status, financial risk is the uncertainty of enterprise's financing activities to ensure the demand ability of working capital in business activities. The first view focuses on monetary capital and binds financial risk to solvency, but the enterprises with low solvency can use non monetary capital to repay debts without endangering their survival and development ability; the second view regards financial risk as financing risk, but debt capital is the necessary condition to ensure the normal development of business activities, thus generalizing the financial risk of enterprises; The third view only pays attention to the financial activities and financial relations led by internal stakeholders, ignoring the financial risks brought by the changes of external stakeholders and enterprise financial activities and financial relations, which is a qualitative description of financial risks and lack of practical operation value; the fourth view, based on the process of enterprise economic activities, reveals the essence of financial risks while also providing financial services The quantitative assessment of business risk lays the foundation. Based on the fourth point of view, this paper further refines it from the perspective of stakeholders [1].

2. THE DEFINITION OF FINANCIAL RISK FROM THE PERSPECTIVE OF STAKEHOLDERS

The economic activities of an enterprise are divided into business activities, investment activities and financing activities, which are collectively referred to as business activities. The development of business activities of enterprises needs funds, which produces the total demand for funds; financing activities provide funds for the development of business activities, forming the total supply of funds. Since capital is the monetary expression of enterprise's economic activities, and the core of enterprise's economic activities is capital turnover, the total supply of capital (s) and the total demand of capital (d) of enterprise's financing activities constitute the whole of enterprise's economic activities. The working capital demand (d_{wc}) of business activities is a part of the total capital demand of business activities. It is not only the working capital supply but also the total capital supply that meets the working capital demand of business activities [2].

When the total supply of funds for enterprise financing activities can meet the total demand for funds for business activities, the enterprise has abundant funds and business activities can be carried out smoothly. At this time, the enterprise is in a state of financial security, that is, the region 1 in Figure 1. When the total fund supply of financing activities can not meet the total fund demand of business activities, but can still meet the working capital demand of business activities, the daily business activities of the enterprise can be carried out smoothly, and the total fund supply can be increased by means of asset disposal and asset restructuring. At this time, the financial security status of the enterprise can still be maintained (region 2 in Figure 1). However, if the total capital supply of enterprise financing activities can not meet the working capital demand of business activities, it will naturally be unable to meet the total capital demand of enterprise business activities. The enterprise's daily business activities stop, the capital chain breaks, and the enterprise falls into financial risk (region 3 in Figure 1). Therefore, the financial risk of an enterprise is more affected by the total supply of funds and the demand for working capital in business activities than by the total supply of funds and the demand for working capital in business activities, that is, it is more accurate to measure the financial risk of an enterprise by the total supply of funds in financing activities and the demand for working capital in business activities.

Based on the above analysis, this paper defines the financial security of enterprises, including two states: one is that the total supply of funds (s) of enterprise financing activities can meet the total demand for funds of business activities (d); the other is that the total supply of funds (s) of enterprise financing activities can not meet the total demand for funds of business activities (d), but can meet the demand for working capital of business activities (d_{wc}). Correspondingly, the financial risk can be described as the total fund supply (s) of enterprise financing activities can not meet the working capital demand (d_{wc}) of business activities. The larger the gap between the two, the higher the degree of enterprise financial risk. It is expressed by formula.

$$f_s=\begin{cases} s \geqslant d \\ d > s \geqslant d_{wc} \end{cases} = s \geqslant d_{wc}, \quad f_r = s < d_{wc} \tag{1}$$

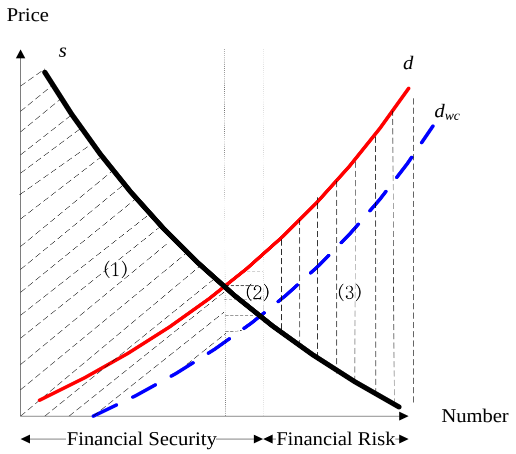

Figure 1 Financial Security and Financial Risk

Among the stakeholders of an enterprise, the shareholder, as an internal stakeholder, provides its own capital for the initial operation of the enterprise, which is one of the capital suppliers; the creditor, as an external stakeholder, provides the financing current liabilities and long-term liabilities for the business activities after the establishment of the enterprise, which is also the capital supplier of the enterprise. Therefore, the capital supply of enterprises mainly comes from shareholders and creditors, which affect the quantity and quality of capital supply. If the capital supply capacity of an enterprise can meet the demand for working capital, its business activities will be carried out smoothly, and it will successfully deal with the financial uncertainty caused by internal and external uncertain factors, and solve the debt crisis through debt restructuring, non monetary asset exchange and other means. It can be seen that in the case of a certain demand for working capital, the guarantee ability of shareholders and creditors to provide funds is very important. If the capital supply of the enterprise under the influence of shareholders and creditors can not meet the demand for working capital, the business activities of the enterprise will be difficult to carry out smoothly, leading to the fracture of the capital chain, and then causing financial risks [3].

It is not only the supply of funds that can trigger the financial risk of enterprises, because the factors leading to the financial risk of enterprises are the supply of funds and the demand for working capital. In the case of a certain capital supply, the demand for working capital will also endanger the financial security of enterprises. Of course, the demand for working capital of an enterprise is diverse and complex. In the business activities of an enterprise, working capital is used to produce goods, sell goods, pay salaries, pay taxes, and make short-term investments. The different transaction contracts between an enterprise and its internal and external stakeholders will have a crucial impact on the demand for working capital, such as the agreement on the terms of the transaction contract Advance payment, customer collection, etc. These transaction contracts in the supply chain affect the working capital demand of enterprises, but they do not belong to financing. After all, enterprises will not pay for the use of these funds. In the case of a certain enterprise capital supply, if the demand for working capital is higher than the enterprise capital supply, it will also cause the normal business activities of the enterprise, which will lead to the rupture of the capital chain and lead to financial risk. Therefore, financial risk is not only the financing risk. The existence of financing activities does not necessarily lead to financial risk, which is the risk that enterprises must bear when they carry out business activities.

Stakeholders affect the capital supply and working capital demand of enterprises, which may cause financing activities difficult to guarantee the working capital demand of business activities, resulting in financial risks.

Financial risk shows that the financing activities of enterprises can not guarantee the working capital demand of business activities, which leads to the fracture of capital chain. However, the deep root of financial risk lies in the fact that the capital supply of enterprises under the influence of stakeholders can not meet the working capital demand of business activities. If the enterprise capital supply under the influence of stakeholders meets the working capital demand, that is, when the working capital demand is fixed, the enterprise capital supply is greater than or equal to the working capital demand, or when the enterprise capital supply is fixed, the working capital demand is less than or equal to the enterprise capital supply, the enterprise has stable financing activities to guarantee the working capital demand of business activities On the contrary, if the shareholders are not willing to continue to inject capital, the creditors demand to repay the debts in advance, the suppliers demand to pay in advance, the customers demand to pay cash on delivery, the operators or employees ask for a raise, and the government as a tax collector increases taxes, etc., it will lead to the loss of enterprise capital The fluctuation of fund supply or working capital demand leads to the uncertainty of financing activities on the guarantee ability of working capital demand of business activities, which leads to financial risk [4].

According to the above analysis, this paper defines the essence of financial risk from the perspective of stakeholders, and defines financial risk as In order to maximize the common interests of internal stakeholders in business activities and financing activities, stakeholders affect the total supply of funds or the demand for working capital of business activities, which leads to the uncertainty of the ability of financing activities to guarantee the demand for working capital of business activities.

3. ANALYSIS ON THE CHARACTERISTICS OF ENTERPRISE FINANCIAL RISK FROM THE PERSPECTIVE OF STAKEHOLDERS

3.1. *Financial risk is an objective uncertainty*

Enterprises are the collective choice of stakeholders. Market transactions of enterprises include related party transactions with internal stakeholders and general market transactions with external stakeholders. Enterprises can compare and choose the appropriate stakeholders to trade, so as to ensure less working capital demand or more capital supply when the enterprise capital supply is certain. As long as the enterprise funds meet the demand for working capital supply, the enterprise is in the financial security period. However, since it is a risk, uncertain factors may appear at any time, such as natural disasters, bankruptcy of important suppliers, and default of creditors, which cannot be avoided by enterprises. These factors may suddenly lead to the financial risk that the enterprise's capital supply can not meet the demand of working capital. Therefore, enterprises should not treat financial risks passively, admit the uncertainty of financial risks, and establish the awareness of financial risk prevention, which is the perfect strategy to ensure the financial health of enterprises and realize the goal of maximizing the common interests of (internal) stakeholders.

3.2. *Financial risk is a dependent variable*

Whether the financial risk occurs depends on the fluctuation between the capital supply and working capital demand under the influence of stakeholders. In the market economy, if an enterprise wants to survive and develop, it must carry out business activities. It not only needs to use the funds originally provided by shareholders and creditors, but also needs to continue to raise funds to ensure the normal operation of business activities. The fund raising and use of enterprises, especially the use of enterprise funds, are carried out at any time according to the needs of business activities of enterprises, that is, they are changing. Then, the financial risks generated on the basis of changes are not necessarily fixed.

3.3. *Financial risk is reversible and recurrent*

The arrival of financial risk does not necessarily mean the end of the enterprise. As long as the internal stakeholders are willing to continue to maintain the survival of the enterprise, they can obtain additional investment through collective selection again to help the enterprise tide over the financial crisis, therefore, the financial risk is reversible.

It is not that the enterprise can rest easy after avoiding the financial risk once, and there will be no financial risk again, and the financial risk has recurrence. Under the influence of stakeholders, the capital supply and working capital demand of enterprises are dynamic, so the financial risk as a dependent variable is also dynamic. As long as the capital supply of the enterprise under the influence of stakeholders cannot meet the demand of working capital at a certain point, the enterprise may fall into financial risk.

3.4. *Financial risk has economic consequences*

After the occurrence of financial risk, the capital chain of the enterprise is broken, and it cannot continue to create value, and it cannot achieve the goal of internal stakeholders when they make collective choice, that is, to maximize the common interests of internal stakeholders. In addition, it will also produce further chain reaction, which will affect the external stakeholders, such as the reduction of tax revenue obtained by the government as a tax collector, operators and employees Pay reduction or even unemployment, suppliers' income reduction, customers' loss of supply channels, creditors' inability to recover funds, etc. The financial risk has economic consequences, which makes the stakeholders have the psychology of rejecting the enterprise financial risk and the desire to actively participate in the identification and evaluation of the enterprise financial risk.

4. CLASSIFICATION OF ENTERPRISE FINANCIAL RISK FROM THE PERSPECTIVE OF STAKEHOLDERS

In the daily business activities of enterprises, financing activities occur at the time points of initial investment and additional investment, long-term or short-term loans from banks or other financial institutions, issuance of bonds, etc. But the enterprise's fund utilization is developing all the time. When the capital supply under the influence of stakeholders can meet the demand of working capital, the enterprise has no financial risk. However, under the influence of stakeholders, if the enterprise's capital supply is certain, if the working capital demand increases and the capital supply cannot meet the working capital demand, or under the influence of stakeholders, if the enterprise's working capital demand is certain, if the capital supply decreases and the working capital demand cannot be met, the enterprise has the possibility of financial risk.

If the fund supply of enterprises under the influence of stakeholders cannot meet the demand of working capital, the gap is small. Enterprises can make up for this gap by signing contracts with suppliers to postpone the payment of funds or with customers to collect money in advance, and signing more convenient loan contracts with private guarantee companies. This kind of financial risk is called mild financial risk. However, if the enterprise's capital supply under the influence of stakeholders cannot meet the demand for working capital, the gap is too large, and the enterprise cannot realize the guarantee of financing activities on the demand for working capital through various ways, then the occurrence of enterprise financial risk is difficult to escape, which is called severe financial risk or enterprise capital chain fracture. The situation between mild financial risk and severe financial risk is called moderate financial risk. For the mild financial risk, the enterprise can resolve it in time, which does not endanger the survival and development of the enterprise; for the moderate financial risk, the enterprise can alleviate it to mild financial risk, or cannot control it to develop to severe financial risk; for the severe financial risk, it will cause the loss of the guarantee ability of the enterprise financing activities to the working capital demand of business activities, and then the capital chain fracture It is difficult to maintain sustainable operation, so bankruptcy is the final result of severe financial risk.

Therefore, according to the existence of financial risk, enterprises can be divided into financial security enterprises and financial risk enterprises. Under the influence of stakeholders, the capital supply of financial security enterprises is greater than or equal to the working capital demand; under the influence of stakeholders, the capital supply of financial risk enterprises is less than the working capital demand. According to the severity of financial risk, financial risk can be further divided into mild financial risk, moderate financial risk and severe financial risk. Mild financial risk can be resolved, moderate financial risk has two sides (or resolve or worsen), severe financial risk will cause the enterprise capital chain fracture and eventually bankruptcy.

5. CONCLUSION

In a word, financial risk is the most common risk of an enterprise. Financial risk makes it difficult for an enterprise to carry out its business activities continuously, and even leads to the rupture of capital chain, resulting in bankruptcy and bankruptcy. Financial risk originates from the transaction activities between an enterprise and its stakeholders, and the total supply of enterprise capital provided by the stakeholders in the transaction relationship is not enough to support the demand for working capital of the enterprise's business activities The guarantee ability of financing activities to the working capital demand of business activities is the best strategy for enterprises to deal with and prevent financial risks.

REFERENCES

[1] Z. Q. Wang, Stakeholder accounting and externality of accounting information disclosure, Modern accounting and auditing, vol.1, 2006, pp. 1-8.

[2] J. Haynes, Risk as an Economic Factor, The Quarterly Journal of Economics, vol.9, 1895, pp. 409-449.

[3] J. W. Pratt, Risk Aversion in the Small and in the Large, Econometrica, vol 32, 1964, pp. 122-136.

[4] G. H. Jiang, H. Yue, A study on the relationship between the capital occupied by large shareholders and the stock returns of listed companies, Management World, vol.21, 2005, pp. 119-126.