Risks and Transmission Mechanism of Entrepreneurship in One-Person Companies—Based on Risk Management and Internal Control Theory

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Abstract. Based on risk management and internal control theories, combined with the latest institutional and policy environment, this paper systematically identifies five core risk dimensions of one-person companies: legal compliance, financial cash flow, operational decision-making, human resources, and credit reputation. It deconstructs the risk transmission mechanism with single shareholders as nodes and public-private property confusion as the path and proposes a risk prevention closed-loop path aligned with new policies. This research enriches the application of the two theories in single-subject entrepreneurship and provides practical guidance for one-person entrepreneurs' risk control.

Keywords: One-person company; Risk management theory; Internal control theory

1 Introduction

The 2024 Revised Company Law of the People's Republic of China abolished the special chapter on one-person limited liability companies, lifted the single one-person company restriction for natural persons, and exempted small one-person companies from supervisors, lowering individual entrepreneurship thresholds[1]. Shenzhen, Wuhan and other cities have rolled out supporting policies covering registration, finance, computing power and compliance, making one-person companies a key startup form for AI developers, freelancers and asset-light entrepreneurs.

In practice, low thresholds have brought entrepreneurs with weak compliance and risk awareness into the market. Most only focus on operational losses, ignoring corporate risk transmission to shareholders and internal control construction, leading to potential unlimited joint liability under the disregard of corporate personality doctrine, and turning entrepreneurial risks into personal/family property risks.

Against this background, this paper sort out entrepreneurial risks and deconstructs transmission mechanisms based on risk management, internal control, new legislation and local policies, providing theoretical support for entrepreneurs' whole-process risk

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management systems and references for market supervision and entrepreneurship policy optimization.

2 Theoretical Basis and Concept Definition

2.1 Theory of Risk Management

Risk management is a systematic activity that measures, assesses risks and formulates emergency strategies to minimize negative impacts, following the priority principle of controlling high-loss and high-probability risks first[2].

Corporate risks contain both losses and profit opportunities. Managers need comprehensive risk cognition to resolve crises via risk identification, assessment and prevention. For one-person companies with weak risk resistance, scientific risk management is critical for survival and avoiding operational crises.

2.2 Theory of Internal Control

Internal control is a full-staff systematic management activity to achieve long-term goals, ensure financial stability and operational compliance, realizing whole-process control through institutional, constraint and evaluation mechanisms[2]. It has formed a complete system covering risk management, performance evaluation and operating environmen.

Risk management relies on internal control: define risk objectives, identify factors, assess risk levels, formulate control procedures with internal control methods, and ensure system implementation via information transmission and whole-process supervision.

2.3 One-Person Company (OPC)

The one-person company discussed in this paper refers to the one-person limited liability company solely invested by a natural person as defined in the Company Law[1]. Following the 2024 revision of the Company Law and the implementation of local supporting policies, its legal and operational characteristics have taken on new features, and its risk logic has become more explicit when analyzed through the lens of risk management and internal control theories.

3 Risk Identification of Entrepreneurship in OPC

Based on the new institutional environment, local policy orientations and the particularities of one-person companies, combined with risk management and internal control theories, this paper divides their core entrepreneurial risks into five dimensions from the whole business operation process.

3.1 Legal Compliance and Subject Qualification Risks

Legal compliance risks are OPCs' most distinctive risk, directly determining the effectiveness of the limited liability firewall and triggering risk transmission, due to insufficient internal compliance control. The disregard of corporate personality is the fatal risk: the Company Law applies reverse burden of proof, and shareholders failing to prove asset independence will bear unlimited joint liability for corporate debts[3]. Meanwhile, non-compliance in establishment and operation brings risks: the 2024 Company Law sets a five-year paid-in capital requirement, and Shenzhen, Wuhan require capital contribution deadline adjustment by June 30, 2027. Delayed/false capital contribution and neglected annual financial audits will lead to liability acceleration and loss of litigation evidence.

3.2 Financial and Cash Flow Risks

Financial risks are the primary source of risk transmission and outbreak, caused by weak financial internal control and risk management[4]. Asset commingling is the core financial risk, linking operation and legal risks; mixing corporate and personal assets triggers personality disregard, tax violations and even criminal liability, and under utilization of free financial hosting services in pilot cities amplifies such risks. In addition, most OPCs lack professional financial staff and standardized supervision, leading to account inconsistencies, cost overruns, tax irregularities and false invoicing, resulting in tax inspections, fines and higher operational costs.

3.3 Operational and Decision-Making Risks

Operational and decision-making risks are the root of all subsequent risks, arising from the absence of decision-making checks and operational risk management systems. Single-shareholder decisions without external checks easily lead to blind expansion, track misjudgment and over-investment due to cognitive biases[5]; the policy allowing multiple OPCs further raises this risk, and a single error may collapse the enterprise. Moreover, over-concentration of key customers, channels, technologies and supply chains in the sole shareholder leaves no risk diversification. Once the shareholder faces health issues or resource loss, the enterprise will suffer operational paralysis immediately.

3.4 Human Resource and Operational Risks

Human resource risks exacerbate operational instability, due to incomplete HR and operational internal control. OPCs lack post separation and checks and balances; core links (procurement, payment, sales, collection) handled by one person without supervision cause embezzlement, fraud and contract losses[6]. Meanwhile, OPC operations rely entirely on the shareholder, with no backup decision-makers or emergency mechanisms. The shareholder's inability to perform duties will lead to decision stagnation and operational shutdown, with no emergency response capacity.

3.5 Credit and Reputation Risks

Credit and reputation risks form a two-way transmission between the enterprise and the shareholder, caused by inadequate credit and reputation internal control. Shareholders usually provide unlimited guarantees for financing; corporate defaults damage personal credit and vice versa, forming a vicious circle without credit isolation mechanisms. Furthermore, OPC brands are highly tied to shareholders' personal reputation, especially in AI and cultural & creative sectors. Shareholders' negative records or illegal behaviors will directly collapse the corporate brand, causing customer churn and operational crises.

4 Paths of Risk Transmission in OPC

Based on the logic of risk management and internal control theories, combined with the latest institutional and policy environment of one-person companies, this paper sorts out three main transmission paths. Among them, the main path is the most common and fatal transmission chain in practice, and each path reflects the role of the lack of internal control in promoting risk transmission.

4.1 Main Transmission Path: Decision-Making Risk → Operational Risk → Financial Risk → Compliance Risk → Personal Unlimited Liability

This is the main chain of risk transmission in one-person companies (as shown in Fig. 1), covering the whole process from the source of entrepreneurship to the final outbreak of risks. The transmission logic is closely related to the lack of internal control and inadequate risk management:

Fig. 1. Main Risk Transmission Path in OPC

1. Starting point: Shareholders' cognitive limitations cause decision-making errors (blind cross-track expansion, irregular guarantees) due to lack of internal control and risk assessment.
2. First-order transmission: Decision-making errors lead to order loss and revenue decline, turning into operational risks that expand without timely correction.
3. Second-order transmission: Operational losses cause cash flow tightness; illegal fund transfers and personal card collection lead to asset mixing, forming financial risks.

4. Third-order transmission: Asset mixing and financial irregularities trigger tax and debt compliance risks, accumulating into crises without early warning.
5. End point: Courts apply disregard of corporate personality as shareholders fail to prove asset independence, making shareholders bear unlimited joint liability and completing risk transmission to individuals.

4.2 Branch Path 1: Compliance Risk → Financial Risk → Operational Risk → Personal Credit Risk

Fig. 2. Branch Risk Path 1 in OPC

A reverse transmission path (as shown in Fig.2) triggered by tax inspections and capital contribution penalties: Financial irregularities and delayed capital contribution lead to regulatory penalties; fines and back taxes exacerbate cash flow risks; cash flow disruption causes operational stagnation; corporate dishonesty transmits to personal credit, losing entrepreneurial policy eligibility and forming a vicious circle.

4.3 Branch Path 2: Human Resource Risk → Operational Risk → Financial Risk → Compliance Risk

Fig. 3. Branch Risk Path 2 in OPC

An operation-end transmission path(as shown in Fig.3) triggered by human resource internal control deficiency: Lack of professional talents reduces product/service quality and causes operational loopholes, forming operational risks; revenue decline leads to financial losses and cash flow tightness; financial fraud and tax violations are adopted to relieve pressure, finally triggering compliance risks.

5 Conclusion

Based on risk management and internal control theories, combined with the 2024 Company Law and local policy orientations, this paper identifies five core risk dimensions of OPC entrepreneurship[7]: legal compliance, financial cash flow, operational decision-making, human resources, and credit reputation. It deconstructs the risk transmission mechanism with single shareholders as key nodes, asset mixing as the main path and internal control deficiency as an important inducement, revealing risk superimposition, cross-entity transmission and critical points.

The study finds that the root cause of OPC entrepreneurial risks is the failure of limited liability firewall and internal control system hollowing. The core risk logic is the penetration from corporate operational risks to shareholders' personal unlimited liability, with asset mixing as the key bridge. This conclusion echoes international research on single-member company risks across institutional backgrounds.

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