Problems and Countermeasures in Financial Analysis of SMEs

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Abstract. The financial management of a company is an important part of the management of a company. Research shows that the main factors in business failure include lack of financial planning, limited access to capital, lack of capital, unplanned growth, inaccurate strategic and financial forecasts, excessive fixed asset investment and lack of capital management. These reasons come down to one thing, all related to the company's financial management. Some enterprise managers may not know where the problem is and how to solve it. Therefore, this article will focus on looking for some problems of some SMEs and put forward relevant countermeasures to solve this problem by determining which financial management skills. Therefore, this paper will be completed mainly through the indirect method, most of which come from some official websites. Then analyze these data to understand the current business situation and business model of SMEs. Finally, these problems are analysed, and countermeasures are put forward.

Keywords: SMEs; financial statements; cash; managers.

1. Introduction

SMEs are an important part of any country, and they are seen globally as crucial to the income, growth and prosperity of individuals, communities and economies. The backbone of the global economy is the more than 400 million small and medium-sized enterprises, which are the main source of global job creation, accounting for more than 95% of the number of global companies and can provide 60%-70% of the jobs [1]. SMEs create a large share of new jobs in OECD economies. But many of these managers don't know how to manage a business, leading to the failure of SMEs. However, the lack of financial management skills and application of financial management practices are some of the major factors that contribute to the failure of SMEs. The object of financial management is the overall process of enterprise production and operation. It can also be said that financial management has strong comprehensiveness. Financial management plays a vital role in the daily operation of enterprises. Enterprises pay more and more attention to the functions of financial accounting work in the process of carrying out business operations. Enterprises can achieve sustainable development only based on doing a good job in various management work, especially in the process of implementing financial work. In the process of vigorous social and economic development, SMEs have made great contributions, and it is necessary to take the current market economy as the basic premise to continuously improve the financial management of SMEs. The results of this study provide suggestions and Countermeasures for the financial management practice of SMEs. This will enable managers to better understand these issues and develop more effective strategies to help enterprises operate effectively.

2. The Concept and Importance of SMEs

2.1 Concept of SMEs

The definition of SMEs is not the same in different regions. According to EU regulations, a business with less than 10 employees and a turnover or total assets of less than 2 million euros is a micro-enterprise. Small businesses with less than 50 employees and a turnover or total assets of less than 10 million euros, medium-sized enterprises with more than 250 employees, a turnover of less than 50 million euros or total assets of less than 43 million euros [2]. In China, SMEs account for more than 99% of the total number of enterprises, provide more than 75% of urban employment opportunities, and provide more than 60% of China's export volume. SMEs have become the main force of China's economic development. SMEs are considered SMEs only if two of the three conditions are met, and: do not raise funds from abroad. That is, not to issue stocks and bonds publicly; small-scale enterprises, that is, small and medium-sized enterprises determined in accordance with the notice of the "Interim Provisions on Printing and Distributing Standards for Small and Medium-sized Enterprises" jointly issued by the former State Economic and Trade Commission, the State Planning Commission, the Ministry of Finance, and the National Bureau of Statistics; For the classification standards of SMEs in 16 industries, please refer to the “Notice on Printing and Distributing the Provisions on the Classification Standards of SMEs” on the central portal website. To become a South African SME, a company must have no more than 50 employees and a turnover of no more than 64 million South African Rand. However, corporate tax for SMEs applies to all companies with an annual turnover of less than 14 million rands [3]. In the broader Asia Pacific Economic Cooperation Organization, a small and medium-sized enterprise usually has no more than 100 employees in APEC participating countries. In the United States, the classification of SMEs is established by a government department called the small business administration. It uses specific "size criteria" to show how big a company can be considered a small and medium-sized enterprise.

2.2 The Importance of SMEs

In today's era, SMEs are still regarded as the main economic participants in a country or region. According to data, there are 125 million SMEs in 132 major economies, of which 89 million are in developing countries[4]. Almost all of these countries or regions have laws to focus on protecting or supporting these SMEs. SMEs have given a huge boost to economies to achieve their development goals, such as exports, output and support for the development of some backward areas. According to research, SMEs contribute more than 55% of GDP in high-income countries and account for more than 65% of total employment. SMEs and informal enterprises account for more than 60% of GDP and more than 70% of total employment in low-income countries, while they account for more than 95% of total employment and about 70% of GDP in middle-income countries[5]. And globally, according to the organization for cooperation and development (OECD), SMEs account for 95-99% of all companies and guarantee 60-70% of global jobs. In addition, the jobs proposed by SMEs can greatly promote a country's socioeconomic goals. Some researchers have put forward the concept that SMEs are a key priority area for achieving sustainable development goals (SDG). The researchers propose that the development of SMEs has a broad impact on the global SDGs, including SDG 1 (zero poverty), SDG 2 (end hunger), SDG 3 (health and well-being), SDG 5 (gender equality), SDG 8 (promoting Inclusive and sustainable economic growth, employment and decent work), SDG 9 (Promote sustainable industrialization and foster innovation) [6]. According to the steady state equilibrium model proposed by Solow, SMEs are more suitable for investment.

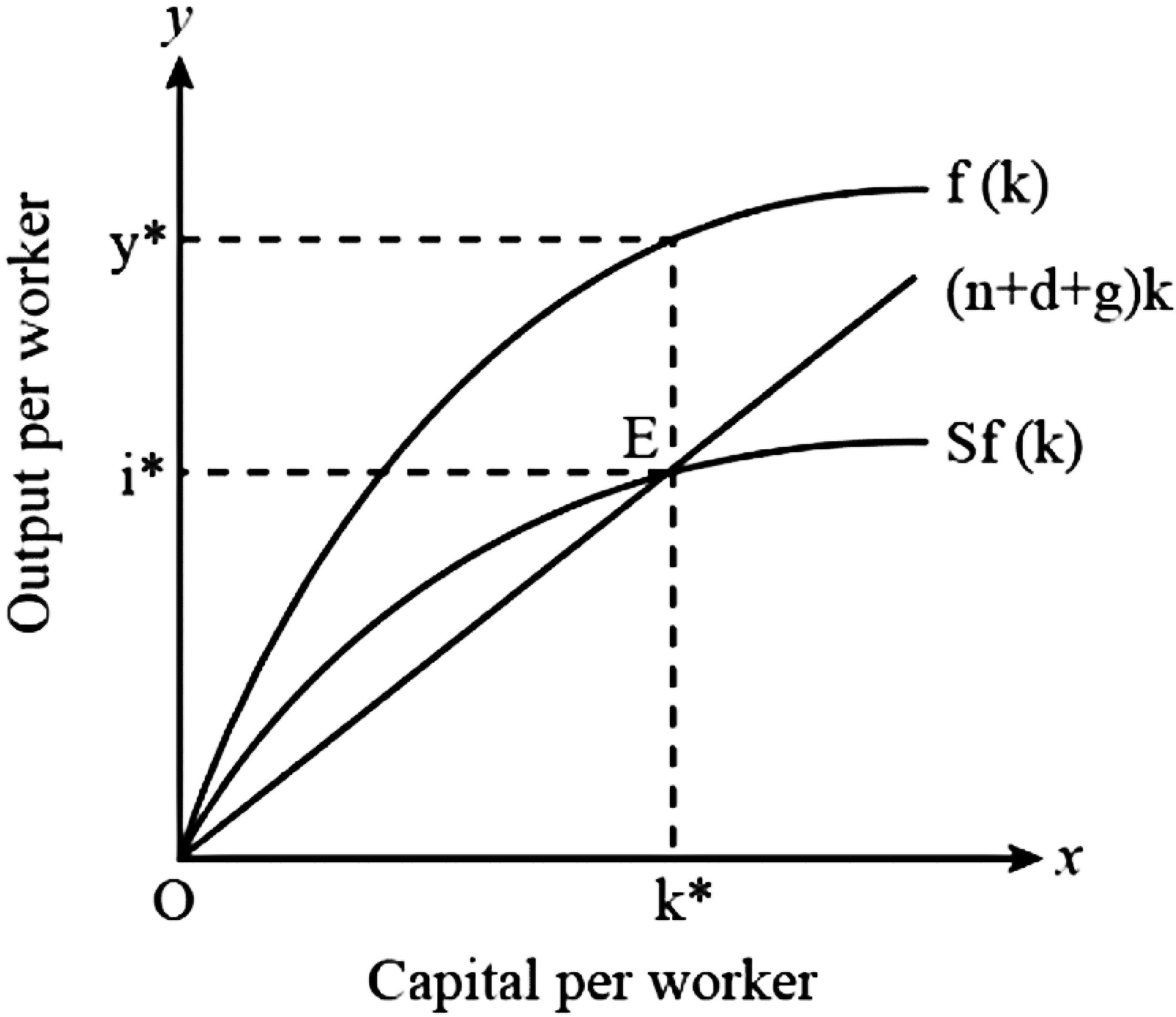

Fig. 1 Solow model

See the Figure 1, increasing investment in SMEs can quickly improve the production rate of enterprises, enhance the professional knowledge of employees, and increase the utilization rate of natural resources, to ensure the competitiveness of a country as a whole.

3. Problems Encountered in the Financial Analysis of SMEs and Solutions

3.1 Unable to Standardize the Use of Financial Statements

Half of the SMEs are small, most managers will pay more attention to the company's productivity and revenue benefits, do not understand the financial language, and cannot obtain useful information for decision-making according to the financial analysis report, resulting in financial analysis is not valued and utilized, in the long run, forming a vicious circle, financial analysis has lost its due role. Because of their small scale, SMEs may not be able to afford high financial analysis fees. Most of the financial analysts invited are part-time personnel, who do not know much about the company's operation. They only use the three main tables in the company's internal financial statements to start analyzing and discussing numbers on numbers, which can not be combined with the actual business, Mining the problems behind the numbers and their real drivers. As a result, the company's financial statements are not comprehensive enough, such as some non-financial indicators that have a significant impact on Enterprises: market share, product quality, etc., followed by the uncertainty of the reliability of the financial figures they get, it is easy to have problems such as effectiveness or integrity. It is difficult to be nuanced, which leads to the failure to put forward some constructive suggestions and fully reflect the value of financial statements. These may lead to the correct decisions of information users and cause significant losses to the company or investors. Research shows that only 53% of companies have prepared cash flow forecasts, and 63% have indicated cash budgets. However, only 52 per cent of the reports prepared formal financial accounts, and only 49 per cent used financial ratios. About 80 per cent of companies reported systematic monitoring of cash flow, and 64 per cent said they used a systematic approach to controlling cash flow. Overall, the study found more than 42 percent of companies surveyed did not formally forecast future cash flows, and 20 percent of companies did not monitor cash flows [7].

3.2 Operational Capital and Cashflow Management

Many of the failures of companies are attributed to the failure to control their cash flow. Cash accounts receivable and inventory management should all belong to important areas of financial management. The management of SMEs should spend more time adjusting to the company's operation because this is strategic. Cash and accounts receivable should be more tightly managed.

But around the world, many companies do not attach great importance to cash flow, and managers lack scientific understanding of cash management. These companies are generally very inefficient cash flow management, most management may know that there are cash flow problems, but there will be no actual activities to solve these problems. The management of some enterprises believes that the more cash, the better, resulting in a large amount of capital hoarded and unused. Some managers believe that the greater the profit, the better, ignore cash flow, do not have a reasonable plan for cash flow, and buy a lot of materials to make a lot of inventory, resulting in an inventory backlog. Then these companies may face risks because of insufficient cash or too much cash.

And some managers lack strategic thinking in fund management when conducting business activities, do not formulate clear credit policies, and do not investigate the credit level of customers. This could result in a large amount of bad and bad debt in the company's accounts receivable. Therefore, it can be said that the key to distinguishing the success or failure of SMEs lies in whether the managers of SMEs have formulated an efficient strategic management process of funds.

4. Discussion

4.1 Countermeasures for Failing to Standardize the Use of Financial Statements

When a manager wants to solve this related problem. The following points should be done well.

First, managers of enterprises need to have a correct understanding of financial management. Only when the leadership of enterprises raises financial analysis to a higher level, will anyone pay attention to this work and play the role of financial analysis. Then, as far as possible, companies should find the same accountants in the same accounting firm, so that outside accountants can better understand the company and make more practical suggestions. If an enterprise has enough strength, it should improve the organizational structure and reasonably match human resources according to the development needs of the enterprise, establish a perfect human resources management system, introduce senior financial talents, and preferably form senior accountants to assist new accountants, strengthen the professional knowledge learning of existing financial personnel, and pay attention to improving their teamwork ability.

4.2 Reasonably Control the Cash Flow of Enterprises

For the management of cash flow, some researchers pointed out that SMEs should formulate their financial management concepts. And formulate relevant processes, including strengthening budget preparation, implementation, analysis and evaluation management, clarifying cash budget projects, building a standard budget system, and standardizing budget, approval and implementation [8]. In this way, enterprises can better control cash flow and ensure the maximization of production profits.

In addition, when an enterprise carries out business activities, it should take the initiative to understand the credit level of its customers and the financial situation of its corresponding enterprises, to minimize bad debts and bad debts.

When operating, enterprises should also pay more attention to their business cycle and cash cycle. Some researchers have shown that it is important for company executives to understand working capital management, and executives can use trade credit to extend credit maturities and make decisions [9]. This will undoubtedly increase the cash holdings of enterprises, thus extending the business cycle of enterprises. To shorten the cash cycle of enterprises, we can also minimize the amount of excess cash or reduce the number of days of the cash payback period. For example, when a customer is pressed for the final payment, it can be given a discount of 2% to pay the final payment within the time limit, which can improve the profitability of the enterprise.

In addition, empirical research shows that the efficiency and effectiveness of inventory management are the final key factors for the management of the working capital of SMEs [10]. Because inventory is generally the largest item on a company's balance sheet. To address this problem, managers can make three suggestions. First, strengthen the management of purchasing personnel, solve some inventory backlog problems, increase the linkage between purchasing personnel and sales personnel, and strive to achieve a balance of efficiency. Second, improve the accuracy of warehouse management data. Warehouse data must be recorded in detail and accurately, and no part of the data should be lost or missed. Third, reasonably evaluate sales expectations. The management of the company shall reasonably judge the number of orders and sales volume in the future quarter through the financial statements and the current market conditions.

Of course, to help a company, shorten its cash cycle, it also needs the support of the government. As mentioned above, SMEs play a pivotal role in any economy in the world. Similarly, the equilibrium model proposed by Solow, shows that if the government wants to rapidly develop the economic strength of a country or region, investing in SMEs is a perfect plan. A country can relax the loan restrictions on SMEs by controlling its national banks, which can make it easier for SMEs to get capital for turnover, shorten the cash cycle, increase cash flow, and improve corporate profits. Secondly, the local government can combine with local universities to train and coach the management of some mismanaged SMEs, so that they can understand how to use enterprise funds reasonably and maximize the utilization rate of funds.

5. Conclusion

In the process of rapid development in today's era, SMEs have played a role that can not be ignored. Financial management is an important part of running a good enterprise and runs through the whole process of company operation. Good financial management can control operating costs and strengthen the management of funds. In this context, it is necessary to establish a financial supervision system and effectively supervise it, to improve the economic benefits of enterprises in this way. This paper focuses on SMEs. Firstly, it puts forward the definition of SMEs and the importance of SMEs in the world, to attract the attention of enterprise managers and have a reasonable evaluation of their enterprises. Then, around the financial management of SMEs, this paper puts forward problems and corresponding countermeasures. For example, the company's management should pay attention to the financial management of enterprises, standardize the use of financial statements, reasonably employ accountants and reasonably manage the company's cash flow and the business cycle. As mentioned in this article, managers of SMEs should strengthen the financial management of enterprises and reduce errors in this regard to make enterprises develop better.

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