Mechanism and Methods of Enterprise Financing System Flexibility

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Abstract: Enterprise financing system flexibility is constituted by buffering capacity, adaptability and innovation ability. If the size, extent or level of the ability is quantified, flexibility of the enterprise financing system and its sub-system and sub-sub-system can be compared, and the method of improving the flexibility can be judged. Based on the analysis of buffering capacity, adaptability and innovation ability of enterprise financing system flexibility, this paper find out the factors affecting these capacity and generate specific strategy to these factors in order to achieve enterprise finance target.
Keywords: Finance；Flexibility; System flexibility; Financing

1Introduction

Enterprise financing, also known as enterprise financial management, is the integrated management activity that enterprise in accordance with national laws and regulations, following the objective law of fund movement, effectively organize enterprise funds movement to achieve the goal of enterprise financing. The main contents of Enterprise financing are funding, investing, capital operating and profits distributing. Typically, enterprise financing is only known as absolutely rigid which follows and obeys the legal norms and the financial system, but in fact, enterprise financing is also flexible. Flexible financing is one of the new field of enterprise financial management[1].

2 Enterprises Financing Flexibility

Nowadays, with the global market competition and the rapid development of technology, business survival environment has undergone great changes. Adapting to environmental change, changing the environment and improving the sustainable development capacity, have become the basic task of enterprise management. Thus, enterprises flexible management emerged. Typically, enterprises flexible management can be divided into manufacturing flexibility, designing flexibility, marketing flexibility, researching and developing flexibility, organizing flexibility and finance flexibility and so on[2]. At present, there are many theorists on the enterprises flexible management, but they main focus on manufacturing flexibility. The other function flexibility is still in the initial stage, as well as the enterprise financing flexibility.

The purpose of enterprise flexible financing is to improve enterprise ability of facing uncertainties in financial activities, to make the financial system flexible to adapting to external environment changes.

3 The Connotation of Enterprise Financing System Flexibility

Uncertainty which enterprises face in financing is the premise of financing system flexibility [3]. Flexibility is relative to the rigidity. Enterprise Financing System Flexibility is the ability of enterprises fast and economical disposes the uncertainty caused by the external environment changes in financing activities. This capacity generally formed by buffering capacity, adaptability and innovation ability.

(1) Buffering capacity. Buffer capacity is one kind of flexibility, is a function of withstanding environmental changes. Buffer can be divided into physical buffer, capacity buffer and time buffer. Physical buffer is physical reserves of enterprises when their financial system handles external uncertainty. Capacity buffer is spare capacity of enterprise financing system to prepare for an external uncertainty. This ability appears as skills and financial resources. For example, excellent selection of funding sources, financing modes, investment projects and investment programs is comprehensive use of way, methods and techniques, is a skills reserve; the excess reserve, such as financing amount, investment amount, cash holding amount, total profit and distribution amount performs as a kind of financial reserves. When improve the system's buffer capacity by reserving resources, not only the amount of reserves should be considered but also the size range of reserves which is an indicator of flexibility. Buffer is the ability of "counter changes with consistency" by increasing its inventory with the cost of wastage, which is a passive method of dealing with uncertainty. Buffer is a form of flexibility, but not the main one.

(2) Adaptability. Adaptability is the ability of “counter changes with change”. When the environment changes, enterprises financing system makes the adjustment to adapt to the change without changing its basic characteristics. The ability depends on the speed and scope of the “change” in “counter changes with change”. The speed of “change” depends on the time needed in changing "uncertainty" into the financial management orders and issuing implementing this orders. The scope of “change” depends on the equilibrium of capital supplement and capital requirement in financing, investment, fund operation, profit distribution and other links. Enterprises financing system also face the problem of adapting to changes in external and internal environment, making a good use of funds to develop enterprises.

(3) Innovation. Innovation ability is the ability of system adopts new behavior and new measures to affect the external environment and to change the internal conditions. Enterprise financing system flexibility is fast and economical disposal of the uncertainty caused by environmental change in financial activities. To achieve "rapid and economy", enterprise financing system should not only make a quick response, but take the initiative to change to actively influence on the environment and make the environment change conducive to their own side. Enterprise financing system should scientifically predict environmental changes, and make optimal use of enterprise resources, develop the system potential, lead by "sustainable development" so that the enterprises financing system enterprises can adapt to not only the current changes of internal and external environment, but also to the longer-term changes. Enterprise financing system flexibility is reflecting from lower to higher are: buffer capacity, adaptability, innovation ability. Buffer capacity is capacity of the enterprise financing system to absorb or reduce the impact of environmental changes on the system. Adaptability is the ability of that enterprise financial management system quickly adapt to the environment change. Innovation is the ability of the enterprise financing system positively impacts on the internal and external environment [4].

4 The Process Cycle of Enterprise Financing System

The specific links of enterprises financing process and the relationship between them are decided by the scientificity, continuity and integrity of financial management. Ordinarily, it is formed by financial forecast, financial decision-making, financial budget, financial control, financial analysis five specific links in turn.

4.1 Financial forecast

Financial forecast is the process of financial officers from the viewpoint of historical materialism, according to historical and other relevant information of enterprise financial activities, combined with practical conditions and future conditions may have, adopting a certain method, make the judgments and estimates of the enterprises finance activities future trends and status. In the whole financial activities, financial forecast assumes responsibility of proposing financial program. Financial forecast, as the first part of the entire financial process, is closely linked with other parts. It is the basis for financial decision-making, the prerequisite for the preparation of financial budget, the basis for the implementation of financial control and the conditions for conducting financial analysis. Financial forecast is the whole process of enterprises activities and in different links of the enterprise financial management cycle, its contents are different. In the fund-raising stage, financial forecast has mainly two contents. One is the required amount of fund-raising forecast; the other is the capital cost of a variety of financing forecast. In the stage of funds investment, financial forecast mainly forecasts the cash flow of investment projects on the cash basis. In the capital operation stage, of the financial forecast includes: ① the utilization of enterprise assets forecasts; ② enterprises operating costs forecast; ③ enterprise revenue forecast. In the stage of distribution of profits, financial forecast are mainly profit forecasts based on accrual-based, and the amount of internal funds rising forecasts in order to maintain a reasonable capital structure and so on.

4.2 Financial decision making

Financial decision making is the process of making a feasibility study on the financial programs proposed in financial forecast report to select the best one. In the financing process, financial decision-making takes responsibility to choose the financial program. Financial decision-making is an important part of enterprise production and management decision making. it take the optimal allocation of resources as the goal, and mainly research on time, direction, quantity and other issues of financing, funds invested, operation, distribution of profits in enterprise production and management decision-making. The decision-making in enterprise production and management which has nothing to do with the money issue is almost non-existent, that is, the vast majority of enterprises decision makings are involved in financial problems. Therefore, though financial decision-making is an integral part of production and management decision-making, it is not the other production and business financial decision-making trend and regression, but is the core and integrated to reflect of it.

In theory, financial decision-making and financial forecast are the same. It a specific work of financial officers and the content of enterprises financing cycle. In the stage of funds raising , enterprises need financing decision-making, in the capital investing stage, needs investment decision-making, in the capital operating stages, needs operating capital management decision-making, in the distribution of profits stage, needs profit distribution decision-making. Funding decision-making is to make the choice that when, how to obtain capital needed in production and operation to make the cost lowest. While, investment decision-making is to make the choice when, how, how much of the funds need to be invested to make the yield greatest. The financial operations management decision-making and investment decisions are similar; both of them carry out around the funds and are continuation of funding decision-making.

Financial decision-making select optimum financial programs based on the comparison between the costs and benefits, that is, financial decision-making mainly the method of cost-effective comparison to achieve financial program optimization. Generally, comparison of costs and benefits includes total quantity comparison and increments comparison. For different financial decision-making problems, the content of costs and benefits in financial programs are also different. In fund raising decision-making, cost in financial programs mainly refers to the capital cost and the benefit is investment returns. In investment decision-making, the financial cost is often represented by cash outflows of the investment projects, while the benefit represented by cash inflow of the investment projects. Financial decision-making is a very important part of the enterprises financial management. Although it is on the base of financial forecast, the scientific financial decision-making directly determines the accurate financial budget, effective financial control and useful financial analysis. It is the core of financial management, if there were no financial decision-making, financial budget, financial control, financial analysis or even financial forecasts will be meaningless.

4.3 Financial budget

Financial budget is an important part of enterprises comprehensive budget, and this relationship is determined by the relationship between production and management decision-making and financial decision-making. In general, the financial budget is the centralized and systematic reflection of the data of optimum program selected by the production and management decision-making. And it is also the quantitative, specific and systematic reflection optimum program selected by financial decision-making program. Financial budgets establish specific goals and tasks for all aspects of production and management and provide the fundamental basis and scale for production and management control and performance valuing. Similarly, financial budgets establish goals and tasks for the various enterprises financial activities, not only to provide the basis for financial control, but also the scales for financial analysis and performance valuing. , In the course of the entire financial management, financial budgets take the function of clearing financial analysis.

As a part of enterprises financial budget, financial budget is the basis of operational budget and capital expenditure budget, and also is the integration of them. Financial budget should include the expected balance sheet, the expected income statement, the expected cash flow statement, the cash budget and the cost budget. The budgets of financing are interdependent and interrelated, to form a budget network which covers enterprises financing processes and involve capital, costs, revenues, profits and other financial matters. This budget network not only provides a clear and specific goal for the enterprise financing, but also pointes out the direction and means for the financing achieving its goals.

Financial budget, as a part of the process of enterprise financial activities, it plays the role of forming a link between the preceding and the following to make corporate financial management in order. It takes financial forecast and the financial decisions as premise, and it is the basis of financial control and financial analysis. If there is no scientific reliable financial budget, financial control will be no standard to follow, and financial analysis will be no scale to measure. With the continued scientific theory and method of financial forecast and financial decision-making, and emergence and application of modern budget forms including flexible budget, zero-based budget, rolling budget and probability budget, it is more realistic of that financial budget provide standard for financial control and provide the scale for the financial analysis. Thus, the dependency of links in financing is stronger and the relationship is closer.

The financial budget as a specific work for Financial Planning Personnel, it plays an important role on each link of enterprise financing contents circulation. In order to guarantee the financing and capital investment activities can be executed orderly and effectively, Enterprise Financing should make an expected prepare balance sheet; in order to guarantee the capital operation activities can be executed orderly and effectively, expected cash flow statement, the cash budget and cost budget need to be prepared; in order to guarantee the profit distribution activities orderly and reasonably, expected profit need to be prepared. If the enterprise's financial activities can be executed orderly and effectively in accordance with the relevant budget, enterprise financial achieving the goal smoothly becomes reasonable.

4.4 Financial controls

Financial control is defined such a process that according to certain standards, using the relevant financial information to adjust the enterprise's financial behavior and make it operates according to the expected objectives. Financial control is a segment of financial management, as well as the basic goals of enterprise financial. Financial controls shoulder the duty of realizing the optimal financial plan in the process of enterprise financial activities.

According to the direct consequence of financial activities, the content of financial control includes the profit control, cost control, and capital operation control. The above three contents of enterprise financial control should be carried out in accordance with such order that profit control——cost control——the money scheduling control. The order takes profit as bibcock, which shows that in order to realize the expected goal. Enterprise must consider the problems of how to raise funds and how to arrange existing funds. According to this order, the start point of enterprise financial control is profit, and the key point is the cost control, and the core point is capital transfer control. This sequence reflects not only the basic requirements of market economic system on enterprises financial, but also reflects the inner requirement of the goal of enterprise and enterprise financial management goal on enterprises financial. It is clear that this order is the order of science, and with the irreversibility and no replacement.

4.5 financial analyses

Financial analysis is a process which is based on financial budget, financial statements, and other relevant data, using specific methods and relevant index to understand and evaluate enterprises and financial capacity, the results of financial assessment, so getting feedback information for other management link. In the process of financial activities, financial analysis duties on checking the implementation of financial budget (the optimal financial plan implementation). In most cases, the financial statements are the direct objects of financial analysis; financial budget is the basic scale to evaluate the enterprise financial status, and to assess the effect of enterprise financial, and relevant data is the indispensable basis to know the enterprise financial ability. No double evaluation and assessment are the direct purposes for financial analysis, but the basic purpose of financial analysis is getting feedback information to other links for making the next cycle of financial management process can be done on a higher levels. Because, according to the financial analysis, we can reveal the essential relation of the data listed in statements to ensure the financial prediction result more accurate, make the financial decision-making more scientific, and enhance the overall level of financial management.

As the last link of the whole process, financial analysis, it marks the accomplishment of last financial circulation, also means that the next financial cycle begins, and it is the transition point of the two financial circulations. Whether the next financial cycle can proceed on a higher level or not, the key lies in that whether financial analysis can fully reveals the essential relation between data listed in statements, and whether can provide real, useful information to other management links. It is visible that financial analysis level is one of the most important factors to decide the overall level of financial management.

The financial analysis is a specific work for Financial Planning Personnel. For four links of financial management content cycle, in financing and allocation stage, enterprise need make solvency analysis and capital structure rationality analysis, so as to provide the information about solvency ability and capital structure, so as to ensure the financial forecast can accurately estimates the amount of money from some relevant channels and use relevant ways to get financial data such as costs money, also ensure that financial data obtained by mistakes can not reduce solvency and make the capital structure of enterprise improper. On the capital investment and operation stage, enterprises need make profitability analysis, operation ability analysis and cash flow analysis, in order to provide relevant information on about profitability, operation ability and cash flow changes, to ensure financial forecast can predicate financial data correctly on financial capital requirements, investment profits and operational cost , also guarantee that using fund improperly does not affect profitability and operation ability and cash flow deterioration.

Anyhow, finance forecast, financial decisions, financial budget, financial control, financial analysis， the respective characteristics of these five financial concrete management work decide that they will bear different duty, complete different tasks, play different roles in the overall process. The relationship and the inherent relationship between them determine that as the five specific link of financial process, they make a complete management cycle, and run through fund raising, capital investment, capital operation and profit distribution. In the process circulation of enterprise financial management，as long as financing person can guarantee the feasibility of financial projections, the scientificity of financial decision-making, the accuracy of the financial budget, the effectiveness of financial control and the usefulness of financial analysis, the level of financial management will present a "spiral" rise standard. Thus, the enterprise financial system will be with high flexibility, namely, the enterprise financial system has buffering capacity, adapting ability and innovation ability to face environmental changes or the uncertainty caused by the environment.

5 Conclusion

In order to make rapid response in the constantly changing environment to effectively resist all sorts of risks caused by the external environment changes, enterprises (especially large amounts of small and medium enterprises) must implement flexible financing to make enterprise system has the corresponding flexible. The method of enterprise flexible financing basically has the following several aspects.

(1) Implement network financial. Network financial is a kind of brand-new financial model which is based on the internet technology and takes financial management as the core, integrates financial management, supports e-commerce, can realize all kinds of remote operation and dynamic accounting and on-line financial management, can deal with electronic documents and electronic currency settlement[5]. Network financial accounting has characteristics: dynamic accounting, remote processing and centralized dealing with financial and business synergy, integration and intellectualization, diversified office mode, electronic documents and electronic currency, etc. Network electronic documents use network marketing, electronic payment, which can save marketing expenses and transaction cost for the enterprise, this saved costs become the accumulate funds of enterprises. When the macro environment or micro environmental changes, such as economic depression, enterprise's financing will tend to become more difficult, now this part accumulation fund can be used to cushion enterprise financing difficulties, it reflects the buffer capacity of enterprise financing management system to adapt environmental changes. Financial network make full use of internet with real-time and dynamic characteristics, enterprise can through the network respond quickly to the uncertainty caused by environmental changes, deploy enterprise operation and make every kind of financial arrangements, adapt change quickly with the environment change, it reflects the adaptability of enterprise financial management system to environmental changes. As a kind of new financial management mode, network financing has many innovation aspects on ideas, ways and technical of financial management, such as office manner is not limited to office, electronic payment etc., it also has the ability of guiding and learning the environment change initiatively. Of course, it needs the enterprise has a certain strength and scale to implement network financial. Generally, large-scale enterprises can try to implement the network financial and flexible financing; for small and medium-sized enterprises, maybe it is not too easy to implement financial network.

（2）Prepare a flexible budget. In the situation that enterprise can not predict the amount of business accurately, and according to the regular amount relationships among cost-volume-profit and the amount of business level, flexible budget is compiled with flexibility. In fact, the flexible budget can be used in all budget fields of enterprise financial management activities, such as it can be compiled income elasticity budget, profit flexible budget and cost flexible budget, etc. Flexible budget can adapt to the constantly changing environment, thus, in different business volume, it can get an effectively plan and coordinate various production and business activities and financial activities. This is because the flexible budget is compiled by a series of possible business volume level to expand the using scope of the budget. So, regardless of the change of external environment, the enterprise can quickly find a set of applicable data in flexible budget to play a role. This reflects the adaptability of flexible budget to environmental uncertainty, namely, flexible budget makes the financial management system flexible.

(3) Prepare rolling budget. Scroll budget is the budget that budget preparation time is continuous,

and always keeps a deadline. Rolling budget according to the plan implementation and environmental changes of enterprise to adjust and revised future plan and move forward period to period to combine the recent plan with long-term planning. Prepare rolling budget is usually compiled by month in the first quarter; the budget of the after two quarters is compiled quarterly. The advantages of rolling budget lie in: firstly, it can maintain the continuity and integrity of budget, and make relevant personnel understand both the short-term goal of the enterprise and the overall planning of enterprise; Secondly, it reflects the elasticity of plan, especially in the dramatic changing environment, it improves the ability of enterprises financial management system to resist change. The essence of rolling budget is adapting to the "change" of enterprises financial management environment with "change" of budget adjustments, namely, "changing with change", this is a kind of flexible budget and rolling budget prepared with flexible financing, and it is feasible for any scale enterprise, because the cost is not too high, and it is easy to operate on the technology. For small and medium-sized enterprises, in the conditions of not too easy to implement the network financial, the first selection should be the two kinds of flexible management methods.

Finally, the design and implementation of flexible management should be in charge of by financial executive who has skilled financial skill, and a certain experience in financial integration, with the progress of financial integration to execute flexible construction of financial system. Here, it should be pointed out that the quality of financial executive is the key for flexible construction work. Because the matching construction of flexible subsystem needs high specialized knowledge, but also needs finance executive can also include the target enterprise management personnel, technical personnel and related external personnel, also including responding the positive communication of various personnel to enterprise, in-depth understanding of the actual situation to look for the optimal ideal scheme of system flexible construction under the constraints of specific flexible cost.

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