

Analysis of Flexible Financial Management of Innovative Enterprises under the Background of Environmental Uncertainty

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ABSTRACT

Financial flexibility means that enterprises can offset their business risks through scientific fund management when facing the impact of uncertain risks. In recent years, due to the uncertainty of the external macro environment, international trade conflicts and corporate financing constraints, it is more difficult for enterprises to obtain resources from the outside, which puts higher requirements on the daily financial management of enterprises. More and more enterprises realize that cash flow plays an important role in mitigating risks and maintaining operation, which requires active financial flexible management. By combing the relevant literature at home and abroad, this paper systematically analyzes the concept and composition of the flexible financial management of enterprises, describes the existing problems in the flexible management of innovative enterprises, and puts forward the corresponding solutions.

KEYWORDS

Environmental uncertainty; Innovative enterprises; Flexible financial management

1. INTRODUCTION

At present, China is in the intersection of a complex and changeable international and domestic environment and a new round of industrial revolution and scientific and technological revolution, where opportunities and challenges coexist [1-2]. In this context, the Proposal of the Central Committee of the Communist Party of China on Formulating the 14th Five-Year Plan for National Economic and Social Development and the Long-term Goals for 2035 [3] defines the development theme of "integrated innovation" and "building industrial chains and industrial clusters" for innovation-oriented enterprises and the strategic layout of strengthening the main body of enterprise innovation. In an uncertain environment, if enterprises can seize the opportunity, use flexible management ideas, especially flexible financial management, and rationally use cash flow to invest in appropriate projects, it will help to maximize the value of enterprises. Financial flexibility is reflected in changing cash flow in response to changing circumstances and looking for investment opportunities. The relevant research pays more attention to the stable environment, and the research on financial flexibility and firm value within an uncertain environment is insufficient. Innovative enterprises rely on technological innovation and R&D investment, but with the increase of external environment uncertainty, financial management challenges are intensified. This paper will discuss how innovative enterprises can use flexible financial management strategies to cope with risks, enhance competitiveness and achieve sustainable development under environmental uncertainty.

2. THE CONCEPT AND CONSTITUTION OF FLEXIBLE FINANCIAL MANAGEMENT

2.1. The Concept of Flexible Financial Management

Financial flexibility refers to the ability of a firm to respond in a timely and value-maximizing manner to unexpected changes in the firm's cash flows or investment opportunities. The background of financial flexibility is the system risk and non-system risk encountered in the operation of enterprises. Therefore, the purpose of maintaining financial flexibility is to prevent business risks arising from changes in the internal and external environment. From the perspective of the origin of financial flexibility, the earliest definition of financial flexibility in the academic world is mainly from the perspective of cash flow: Financial Accounting Standards Board (FASB) defines financial flexibility as the ability of an organization to take actions to change the quantity and time distribution of future cash flows in response to unexpected needs. [4] Financial flexibility is defined from the perspective of the source: financial flexibility refers to the ability of an enterprise to use financial resources to deal with risks in operation or seize favorable opportunities to achieve maximum enterprise value. When future profits decline or new investment opportunities appear, enterprises with higher financial flexibility can more easily obtain the required funds. Enterprises must retain a certain degree of financial flexibility in order to use equity financing and debt financing to quickly obtain the needed cash flow when uncertainty occurs. At the same time, compared with financial rigidity, financial flexibility is a more rapid response to changes in the external environment, and financial flexibility has both the ability to deal with risks and seize opportunities. In essence, financial flexibility reflects a kind of financial thinking, financial adaptability and financial decision-making ability. Financial flexibility is a kind of strategic behavior adapted to the changes of the macro environment of the enterprise, which ultimately promotes the improvement of the competitiveness and developmental ability of the enterprise.

2.2. The Constitution of Flexible Financial Management

According to the content of financial management activities, financial flexibility can be divided into four aspects: financing flexibility, investment flexibility, operational flexibility, and income distribution flexibility.

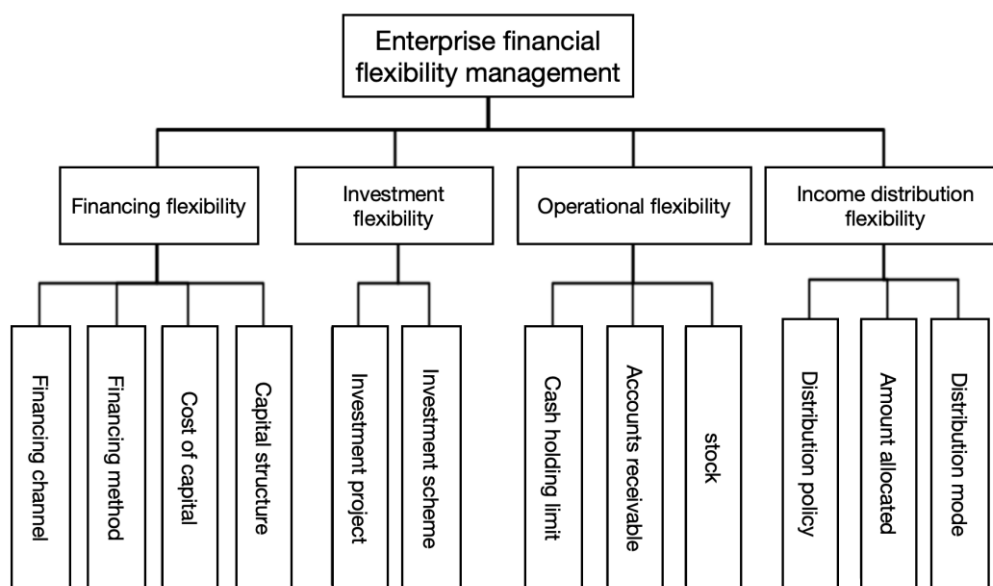


Figure 1. The content of enterprise financial flexible management [5]

2.2.1. Financing flexibility

Financing flexibility is mainly manifested by the number of financing channels and the scale of funds that can be used at any time by enterprises. From the perspective of capital sources of enterprises, enterprises generally adopt a combination of internal and external financing methods. Internal financing relies on the company's own cash reserves. Sufficient cash flow can not only help enterprises improve the level of operation, but also directly affect the solvency of enterprises. If the solvency of the enterprise is high, the amount of external financing available to the enterprise can be correspondingly increased, which naturally improves the financing flexibility. External financing is mainly through debt and equity financing. Due to the large difference in the cost of different external financing methods, it is necessary to flexibly adjust the combination of financing methods, so the number of financing channels determines the size of the financing flexibility of enterprises [6].

2.2.2. Investment flexibility

Usually, enterprises will carry out both internal and external investment activities. Internal investment activities are mainly the product updating and iteration or R&D innovation activities carried out by enterprises to improve production efficiency or expand market share. At this time, the flexibility of internal investment is mainly reflected in the choice of products and the transformation ability of R&D results. External investment usually refers to the investment in other enterprises at home and abroad or to deepen the investment layout of the industrial chain, and the rapid expansion of enterprises often leads to the cost surge of enterprises, so how to choose high-quality investment projects and how to further reduce the cost in the project has become an important factor affecting the flexibility of investment [7].

2.2.3. Operational flexibility

Operating flexibility means that enterprises reserve certain space for changing operating policies in advance for possible changes in the market operating environment. The operation and sales activities of enterprises are a continuous and dynamic process, which requires a relatively stable market environment. However, the budgetary control activities of enterprises in advance cannot fully anticipate the sudden international situation and market environment. Therefore, enterprises need to maintain certain flexibility in the operation and sales process, in order to timely and actively change the operation of enterprises to reduce the additional economic losses caused by environmental changes [8].

2.2.4. Income distribution flexibility

The flexibility of profit distribution is mainly reflected in the diversification of profit distribution ratio, amount, and dividend payment methods. The greater the variable space in these four aspects, the greater the flexibility of profit distribution. The ultimate goal of enterprise operation is to make profit. Excessive dividend payment will reduce the daily operation of enterprises, which is contrary to the purpose of profit. Too little in the way of dividend payments will lead to the loss of shareholders' interests and hit the enthusiasm of shareholders' investments, so it is necessary to use the flexibility of profit distribution to balance the interests of shareholders and the retained funds of enterprises.

3. PROBLEMS EXISTING IN FINANCIAL MANAGEMENT OF INNOVATIVE ENTERPRISES

3.1. The Financial Management Ability of Innovative Enterprises is Insufficient

Most innovative enterprises pay more attention to the research and development of new technologies and ignore financial management. Although the business projects of innovative enterprises are different from those of other enterprises, the financial personnel of some enterprises still adopt traditional financial management methods, which produces less efficient results. Therefore,

innovative enterprises need to update the management concept of financial personnel, do a good job in their own financial management, and ensure their own stable development.[9]

Although innovative enterprises will apply the flexible concept to the work of financial management, results are still not great. This is mainly because enterprises do not fully grasp the content of flexible financial management, resulting in their own financial management efficiency to be relatively low.

3.2. Traditional Financial Management Model Affects the Progress of Research and Development

Although the high-tech industry has set up a financial management department, the working efficiency of the financial management department is relatively low. The main reason for this being that the staff of the financial department is relatively redundant, resulting in a relatively long time for the transmission of financial information. At the same time, the financial management department of innovative enterprises has relatively many leadership levels, which affects the work efficiency of financial employees. In short, the flexibility of the financial management department of innovative enterprises is relatively poor. For example, in order to achieve better development, the science and technology research and development department of innovative enterprises require funds as research and development support. However, the financial management department often approves the application for funds by the science and technology research and development department at various levels, which affects the implementation time of funds, resulting in some scientific research projects being shelved.

3.3. Lack of Flexible Monitoring and Measurement

The flexible financial management of innovative enterprises has some problems in the actual process. For example, the financial management department has not mastered the application of flexibility in financial management, which makes the financial department compromise excessively, resulting in trouble for the financial management department.

Although some innovative enterprises have applied a flexible financial management system, the results are often unsatisfactory. This is because of a lack of understanding by enterprises about flexibility in management. For example, fewer enterprises can set up corresponding financial management projects according to their own business, which leads to a relatively low level of financial management, thus affecting their own healthy development. In short, innovative enterprises need to focus on solving these problems and improving the efficiency of financial management departments.

4. SUGGESTIONS FOR INNOVATIVE ENTERPRISES TO ENHANCE FLEXIBLE FINANCIAL MANAGEMENT

The existing research on financial flexibility is more focused on financial flexibility so as to both to deal with risks and grasp the dual attributes of financial flexibility. Financial flexibility can not only predict the risks faced by enterprises, so that they can calmly face emergency situations and maintain normal operations, but also enable enterprises to respond in time when facing new investment opportunities, so that the goal of enterprise value management can be realized. The implementation plan of flexible financial management can be seen in figure 2.

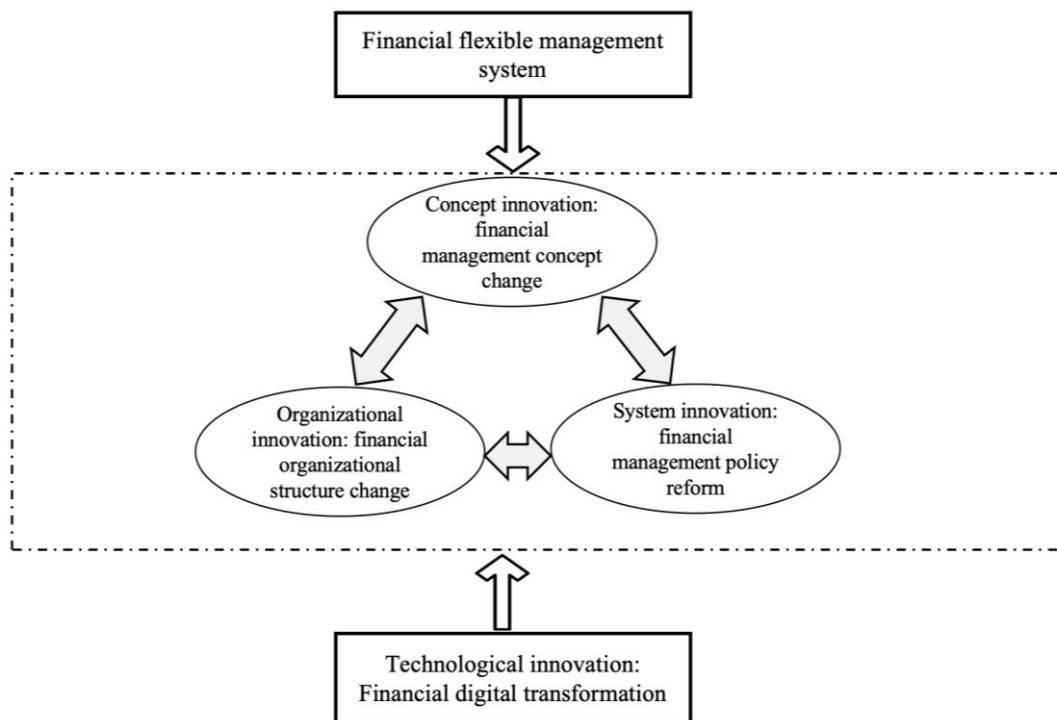


Figure 2. Implementation of flexible financial management [8]

4.1. Establish Flexible Financial Management Concept

In actual work, high-tech enterprises need to help the staff of the financial department to establish a flexible financial management concept, which influence the behavior of the financial staff, so as to improve the work efficiency of the financial department. Enterprises need to allocate financial work scientifically and stimulate employees' enthusiasm for work. To be specific, on the one hand, as the head of finance of high-tech enterprises is the leader of the department, the ideas of the head of finance will also affect the consciousness of financial employees to a certain extent. Therefore, if high-tech enterprises want financial employees to fully understand the flexible management system, they need to improve the financial person's ability to understand the flexible management system, and then help the department employees establish the flexible management concept. On the other hand, in order to enhance the influence of a flexible management system, high-tech enterprises need to strengthen the concept of flexible financial management of internal employees. This requires enterprises to publicize the concept of flexible management not only to the financial department, but also to other departments. When all employees have established the concept of flexible financial management, the enthusiasm of employees will be correspondingly improved, and then enhance their own competitiveness, so as to improve their own development level.

4.2. Combine Various Financial Strategies to Obtain Financial Flexibility

R&D projects of innovative enterprises have the characteristics of a long R&D cycle, sufficient capital investment and uncertain R&D results, which means that R&D activities have a high dependence on stable, continuous and sufficient capital flow provided by enterprises. Financial flexibility policy can provide stable cash flow for enterprises and provide strong financial support for technological innovation. Therefore, enterprises can obtain financial flexibility in the daily operation process and provide a guarantee for technological innovation. Enterprises should not only implement a single financial flexibility strategy to obtain financial flexibility, but should use a variety of policies and combine various strategies to obtain financial flexibility. For example, the improvement of financial flexibility can be promoted by keeping sufficient disposable funds in the enterprise,

increasing the control of debt risk, maintaining reasonable dividend payments and carrying out appropriate equity incentives.

4.3. Evaluation Methods of Innovative Operation Indicators

In the development process of innovative enterprises, the traditional evaluation method of operation indicators should be updated, and the financial indicators and non-financial indicators (customers, suppliers, employees, technology and innovation, etc.) should be combined to comprehensively consider the value of enterprises. If high-tech enterprises want to develop better and faster, it is very necessary for the reasonable allocation of resources, to have a positive effect on the improvement of enterprise value. First of all, an enterprise should build a resource management system, integrate resources before resource use, formulate a reasonable and complete plan for resource allocation, implement it in accordance with the plan, and formulate a resource management system. Secondly, the assets should be adjusted accordingly and intangible assets should be added. Intangible assets are crucial to the development of enterprises. Therefore, expanding the scope of application of intangible assets can increase the economic benefits of enterprises and enhance their competitiveness. At the same time, through the creation of an operational index evaluation system, the development of enterprises is a comprehensive and diversified forecast and guidance, to help enterprises to mitigate risks, but also have the basis for long-term development.

4.4. Improve Flexible Financial Management Supervision

On the one hand, because high-tech enterprises are easily affected by an external environment, enterprises need to explore the balance point of flexible management and coordinate various financial management work in order to improve the efficiency of financial work. On the other hand, due to the relatively long research and development cycle of high-tech enterprises, there is a specific need to correctly analyze these interfering factors when carrying out flexible financial management, so as to improve efficiency. At the same time, enterprises need to consider the content of flexible management in an all-round way, pay attention to the measurement and monitoring of financial flexibility, and then enforce flexible management. The innovative flexible management concept is people-oriented, divides the rights and responsibilities, and stimulates the value creativity of the staff. Enterprises can innovate flexible management concepts from the following aspects. First of all, to deal with the financial relationship enterprises can establish the decentralized responsibility behavior, divide the workload of workers and promote the optimization of financial behavior. Secondly, to deepen the understanding of all staff for the concept of flexible management and implement the concept of flexible financial management, it is not only necessary for the financial department to learn, but also for other departments of the enterprise to understand the concept of flexible financial management. Only when all employees have the recognition of the concept of flexible management, then the enthusiasm and efficiency of staff for work will be improved. Finally, it is important to improve flexible financial management supervision, and improve the corresponding supervision system in order to ensure the implementation of flexible financial management to reduce errors and negligence.

4.5. Strengthen the Management of Flexible Investment

In the development process of enterprises, in addition to relying on their own efforts to create economic value, they also need to obtain economic benefits through reasonable investment to maximize economic benefits and provide financial security for sustainable development. Therefore, before making investment decisions, enterprises must conduct an in-depth preliminary investigation and prediction of investment projects to avoid blind investment. To ensure good economic performance, innovative enterprises must ensure the robustness of their operations. At the same time, enterprises should also actively explore diversified profit channels, such as the implementation of investment management. With the continuous development of the social economy, the complexity

and challenges of investment management are increasing day by day. In view of this, innovative enterprises should actively explore and adopt advanced investment management methods. For example, enterprises can try to introduce flexible management concepts into investment management. Specifically speaking, on the one hand, enterprises should conduct a comprehensive analysis of the investment environment according to their own technology research and development strength and market demand, and then make scientific investment decisions to determine a reasonable investment scale; On the other hand, enterprises also need to scientifically forecast and evaluate the investment prospects, so as to determine the appropriate investment period to improve investment efficiency.

5. CONCLUSION

To sum up, although innovative enterprises show comparative advantages in development prospects, the risks and competitive pressures they face cannot be ignored. At the same time, the challenges in the financial management of enterprises lead to the stagnation of the economic development level of enterprises themselves. However, as an effective management method, flexible financial management can significantly improve the quality of enterprise financial management and further promote the healthy and stable development of enterprises. Therefore, innovative enterprises should actively adopt flexible financial management methods to enhance their competitiveness and development level.

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