

# The Optimization Path of Internal Control of Modern Agricultural Industrialization Consortium

## ——Based On the Perspective of Risk Management

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### Abstract

In recent years, the Jiangxi Modern Agricultural Industrialization Consortium has developed rapidly, but due to its short development time and imperfect related laws and regulations, enterprises have many risk points in the process of connection and industrial upgrading. Based on the risk management theory, this paper conducts a field investigation of Jiangxi Chongren Maji Industrialization Consortium, and analyzes the internal control problems in its operation. Based on the risk management theory, the five elements of corporate internal control are internal environment, risk assessment, control activities, information and communication, and internal The supervision started, and an internal control system including five aspects of target setting, risk identification, risk assessment, risk response and control activities was built, and from strengthening the concept of element connection, improving the benefit connection mechanism, innovating the industrial upgrading mechanism, and encouraging technology. Two aspects of innovation have put forward safeguard measures for the smooth operation of the modern agricultural industrialization complex.

### Keywords

Modern Agricultural Industrialization Consortium, Internal Control, Risk Management, Industrial Upgrade.

### 1. Introduction

The agricultural industrialization consortium is a new model of agricultural industry that started in Anhui, Jiangxi and other places in recent years. It is the inevitable product of the development of agricultural industrialization to a new stage. The development of the agricultural industrialization consortium is one of the important measures to promote the rural revitalization strategy. It is an important carrier for building a modern agricultural management system and promoting the prosperity of rural industries. Since the 19th National Congress of the Communist Party of China, the Party and the government have issued "Opinions on Promoting the Development of Agricultural Industrialization Consortium", "Opinions of the General Office of the Central Committee of the Communist Party of China and the State Council on Accelerating the Establishment of a Policy System and Cultivating New Types of Agricultural Business Entities", and "About Doing a Good Job in 2019 " Announcement on the Implementation of Agricultural Production and Development and Other Projects" and other policies to encourage and support the development of agricultural industrialization consortiums, with the goal of helping farmers get rid of poverty and becoming rich, and with innovative agricultural management systems and mechanisms as the driving force, fostering and developing a group of outstanding farmers, The agricultural industrialization consortium with strong comprehensive competitiveness and stable and sustainable development has become an important force leading the integration of the primary, secondary and tertiary

industries in China's rural areas and the construction of modern agriculture, injecting new momentum into agricultural and rural development.

The modern industrialization complex has added a lot of vitality to economic development, but there are many risks in the development process. On the basis of field research, this article starts with risk management, and analyzes the current situation of internal control of Chongren Maji Industrialization Consortium, and builds an internal control system for it, contributing to the improvement of the internal management level of modern agricultural industrialization consortium.

## **2. Current status of internal control and existing problems**

### **2.1. Basic situation of Chongren Maji Industrialization Consortium**

Chongren Maji is an excellent local chicken breed in my country and has the honorary title of "One of the Three Famous Chickens in Jiangxi". The Chongren Maji industry is a pillar industry with agricultural characteristics in Chongren County and has formed an agricultural industrial cluster. At present, Chongren County focuses on optimizing and upgrading the characteristic industry of Chongren Maji. The consortium is "leading enterprise + cooperative + family farm", which has opened up production, processing, and sales links, effectively extending the industrial chain, and enabling each subject to interact with each other. Learn from each other. Therefore, the Chongren Maji Industrialization Consortium was established in March 2018, which advantageously promoted the optimization and upgrading of the Chongren Maji Industry. The consortium is led by the provincial leading enterprise Chongren County Guopin Maji Development Co.Ltd. Since its establishment, the consortium has a total of 3 maji industry enterprises, 18 professional cooperatives, 32 family farms (including large breeding households), and professional socialization. There are 2 service organizations, and more than 2,600 specialized households in hemp chicken breeding. The extension of the consortium to the front end led farmers to establish production bases, established 35 standard demonstration breeding bases, breeding more than 50 million Chongren chickens, realized the matching connection between upstream and downstream industries, lengthened the industrial chain, and gradually formed production and processing, The upstream and downstream industrial structure of enterprises and farmers, scientific research and industry.

### **2.2. Problems in the internal control of the Chongren Maji Industrialization Consortium**

With the continuous development and growth of the Chongren Maji Industrialization Consortium, its internal control problems are constantly emerging. The following is an analysis of the current situation and existing problems of the internal control of the Chongren Maji Industrialization Consortium based on the five elements of internal control.

#### **2.2.1. Imperfect internal environment**

The internal environment is the soil for the effective operation of enterprise internal control. As a modern agricultural industrialization consortium, the internal environment of the Chongren Maji Industrialization Consortium in actual operation is not perfect. In terms of organizational structure, its internal control mechanism has not received sufficient attention from the management, no independent risk management department or institution has been set up, and the lack of subordinate departments in line with the characteristics of the consortium has made the internal control activities of the enterprise merged in the actual implementation process. It has not been effectively implemented; in terms of human resources, the agricultural industrialization consortium generally lacks technical, management, and risk analysis talents, and most of them are not aware of the importance of internal control; at the

level of corporate culture, management's understanding of corporate culture Insufficient, which also creates a certain obstacle to the effective operation of the internal environment.

### **2.2.2. Risk assessment is flawed**

The modern agricultural industrialization consortium has only developed in recent years. Due to its short development time, imperfect risk management system, and low risk awareness of managers, it has not established a risk assessment and control mechanism. Without a professional risk assessment mechanism to identify and evaluate the risks of the consortium, it will further increase the operational risks of the agricultural industrialization consortium. The deficiencies of professional risk analysts and risk management departments have been discussed above. The deficiencies of the two will also have a greater impact on risk assessment and weaken the company's internal control.

### **2.2.3. The implementation effect of control activities is not ideal**

The control activity is that the enterprise adopts corresponding control measures based on the results of the risk assessment to control the risk within the tolerance. However, in the Chongren Maji Industrialization Consortium, the implementation effects of various control activities are not satisfactory, and the control activities have problems such as insufficient design and insufficient implementation. Among them, the leading enterprises are unable to strictly implement the internal control system, which makes the relevant control activities unable to play their role well.

### **2.2.4. There are barriers to information and communication between various business entities**

Effective internal control of an enterprise is inseparable from the transmission of information and the communication between internal and external parties. Through investigations, it is found that the Chongren Maji Industrialization Consortium lacks an effective information sharing and communication platform, and there are obstacles to the sharing and exchange of personnel information among leading enterprises, cooperatives, and family farms. The main reason is: Chongren Maji Industrialization Union Most of them are large-scale breeding households, most of which are distributed in a wide range of areas, and information transmission is difficult. The large-scale breeding households and family farm members are generally low-educated, older, and unskilled in modern information communication and Internet tools.

### **2.2.5. Internal supervision needs to be strengthened**

Whether internal control is reasonable, legal, and effective can be achieved through internal supervision mechanisms, mainly through the board of supervisors and internal audit institutions. The investigation found that the Chongren Maji Industrialization Consortium has established a board of supervisors, but considering the cost-effectiveness and the size of the company, it is useless and does not play a significant role in supervision. Coupled with the inadequate implementation of related supervision work and rules and regulations, the supervision work cannot give full play to its independence, objectivity, and impartiality.

## **3. Construction of the internal control system of the modern agricultural industrialization consortium based on the perspective of risk management**

Through the analysis of the internal control of the Chongren Maji Industrialization Consortium, it can be seen that its internal control system and mechanism are flawed, which leads to a series of problems in the development process, such as difficulty in industrial upgrading and weak competitiveness. In order to optimize the quality of its internal control, the following starts

from the perspective of risk management to construct the internal control system of the agricultural industrialization consortium.

### 3.1. Goal setting

Goal setting is one of the eight elements of risk management, and it is also the first step in risk assessment in internal control. Therefore, it is first necessary to clarify the goals of the industrialization consortium. The compositional nature of the industrialized consortium determines that it is a community that shares benefits and risks. Market competition will force them to carry out technological innovation, the specialized division of labor among various business entities, and the acceleration of industrial upgrading.

This article sets the overall goal of the Chongren Maji Industrialization Consortium as "industrialization union" and further decomposes it into two levels of goals, namely, the goal of joint and mutual assistance and the goal of industrial upgrading. While focusing on these two goals, the Chongren Maji Industrialization Consortium must also support the support of governments and financial institutions at all levels to jointly promote the realization of the goal of industrialization. The specific division of the two targets is shown in Table 1.

**Table 1** :Chongren Maji Industrialization Consortium Target Setting

Overall goal	Primary goal	Secondary goal
Industrialization alliance	Industrial upgrading	Technological innovation
		Specialization
	Joint mutual assistance funds flow	Effective allocation of human resources
		Effective allocation of human resources
		Land mobility
		profit distribution

### 3.2. Risk identification

After clarifying the goals, enterprise risk management needs to identify the risks faced by its goals. After subdividing the goals of the Chongren Maji Industrialization Consortium and guided by the overall goals, this article identifies the following risk points for the above goals:

#### 3.2.1. Industrial upgrade risk

(1) Technical risk.

Science and technology play a role in promoting agricultural development. Research and development of new technologies can enhance the market competitiveness of consortiums. However, industrial consortiums are generally small and medium-sized enterprises with low innovation enthusiasm, relying solely on market operations and technology borrowing, and lack of scientific research talents. Insufficient innovation capabilities have caused the consortium to face technological risks. Low innovation ability, low innovation enthusiasm, and lack of talents will directly affect the technical risks of the agricultural industrialization consortium.

(2) Risk of specialized division of labor.

Since the agricultural industrialization consortium involves a wide range of areas, it requires a relatively complete management rules and regulations and laws and regulations to coordinate the rights and obligations of various subjects. Since its establishment, although the Chongren Maji Industrialization Consortium has good economic benefits, its related encouragement system is not perfect. On the one hand, the Chongren Maji Industrialization Consortium has completed the division of labor and coordination among the main members of the consortium through five unified groups, namely "unified breeding planning, unified supply of improved

varieties, unified technical guidance, unified input supply, and unified price purchase", but This unification cannot stimulate the enthusiasm of family farms, and family farms are scattered everywhere, making direct management of enterprises difficult.

### 3.2.2. Joint and mutual assistance risks

#### (1) Capital risk.

Capital risk includes two aspects: financing risk and capital flow risk. Financing difficulties are a major "bottleneck" in the development of the Chongren Maji Industrialization Consortium. Poultry breeding is a typical representative of relatively large investment in agriculture. Jiangxi Modern Agricultural Industrialization Consortium is mostly small and medium-sized enterprises, with limited self-owned funds.

Since there is no reliable property as collateral, the credit rating is difficult to assess, and it is impossible to obtain loans from financial institutions. In addition, the current "government subsidies" and "premium return" policies have provided great help in solving the financing problems of the consortium, but the problems of natural disasters and base construction still make it have certain financial risks. The risk of capital flow comes from companies lending funds to family farms, cooperatives and other members of the consortium. However, some family farms cannot repay the loans in time. There is a risk of default, which may cause leading companies to face financial difficulties.

#### (2) Human resources risks.

The human resource factor is the key to the connection, and good policies can attract a large number of outstanding talents to the industrialization consortium. However, the current agricultural industrialization consortium is not sufficiently attractive for talents, encouragement and incentive policies for in-service talents are still lacking, and management talents and scientific research talents are relatively lacking. At the same time, Jiangxi Province is still an underdeveloped region, and many outstanding talents will choose developed provinces and cities with greater development space. This is a big challenge for the Jiangxi Agricultural Industrialization Consortium.

#### (3) Land transfer risks.

The development of a modern agricultural industrialization complex is inseparable from the large-scale operation of land. The large-scale transfer of land actually contains many risks. The aquaculture industry has a large demand for land, and it is necessary to rent land to build a breeding base. However, some farmers are unclear about the nature of the land and often step into the red line of the policy. For example, the Mingliang Moji Cooperative, an internal member of the Chongren Moji Industrialization Consortium, invested 1 million yuan to build a breeding base, but due to policy changes, the construction of the base was stopped, resulting in huge losses.

#### (4) Benefit distribution risk.

The benefit distribution of each stakeholder in the industrialized consortium is a key element that needs to be overcome in the linkage goal. However, the existing benefit distribution is mostly one-time distribution of benefits according to the process sequence of the industrial chain. The benefit distribution method of secondary distribution and share dividends is There is less promotion in the consortium, and the unreasonable benefit distribution method will directly affect the enthusiasm of all parties. Farmer cooperatives established for the purpose of resource sharing and risk aversion are responsible for coordinating the interests of family farms and need to solve many derivative problems brought about by small-scale farmland. Therefore, operating costs are high and cooperation performance is limited. At the same time, since the leading enterprises are in a dominant position, they often tilt themselves in the disposal of interest distribution relations, while family farms are at the end of the industry chain. When the restraint mechanism is difficult to function, it is difficult to adjust the interests of all

parties. How to deal with each It is difficult to reach a unified opinion on the distribution of interests between the parties, which will cause the production, processing, and sales links to be disconnected, and it will be difficult to bring the due benefits to all stakeholders.

### 3.3. Risk assessment

The above has carried out specific classification and cause analysis of the risks faced by the Chongren Maji Industrialization Consortium. The economic impact of these existing or potential risks needs to be further evaluated. The specific evaluation methods that companies can use include: qualitative evaluation, knowledge evaluation, model evaluation, quantitative methods, etc.

### 3.4. Risk response

Risk response is a series of risk control plans and procedures implemented by the consortium after identifying the above risk items. For different risk items, different risk response measures can be taken according to their different degree of influence on the "industrial upgrading" and "joint mutual assistance" goals of the modern agricultural industrialization consortium. For specific risks, the main response strategies are: risk avoidance, risk reduction, risk sharing, and risk tolerance.

After conducting a risk assessment on the identified risks, the Chongren Maji Industrialization Consortium should select the best response to this risk based on the management's comprehensive analysis of the risk capacity of the risk and related costs. There are many uncertain factors in the industrialization consortium. The more uncertain factors, the greater the risk. This requires comprehensive consideration of the possibility of various factors and the risk tolerance of the industrialization consortium to choose risk response measures. Compared with technical risks, human resource risks and capital risks are largely controllable. As long as the management of leading companies formulates appropriate systems and policies and fully considers risk factors when making financing decisions To a certain extent, avoid the impact of human resource risks and capital risks on the goals of the consortium.

### 3.5. Control activities

Control activities are the adoption of policies and procedures to ensure effective implementation of risk response measures. A single control activity can handle multiple risks at the same time, and a risk may require multiple control activities. Control activities run through the entire consortium, manifested in every functional department and every member. The consortium needs to perform related control activities based on the risks it faces and the risk response measures it takes.

Technical risk is the focus of industrialization consortium, which is related to its development. A series of control activities can be designed from the concept of risk control to the degree of wind control to reduce technical risks. Regarding capital risks, the financial department of leading companies should design a complete set of budget control, and make reasonable plans for the capital requirements during the entire project implementation process from both the operating budget and the capital budget. At the same time, establish risk mutual aid funds to reduce the risk of capital flow. Performance appraisal control and innovative talent incentive mechanism are an important measure for the consortium to reduce human resource risks. The current consortium lacks a complete reward and punishment system, and even if it does, it has not been fully implemented. The agricultural industrialization consortium can design performance control activities from four links: performance planning, performance implementation, performance evaluation and performance feedback. For land transfer risks, control activities can be designed from the perspective of job setting and risk management concepts. For the risk of benefit distribution, control activities can be designed from the perspective of benefit linkage mechanism.

Control activities are closely related to the company's organizational structure, corporate culture, and internal environment. Therefore, the implementation of control activities needs to consider the policies faced by the company and the procedures that enable the policies to be implemented.

## 4. Conclusion

Through field investigations, this article found that there are many imperfections in the internal control of the Chongren Maji Industrialization Consortium: First, because of the involvement of enterprises, cooperatives and family farms, the communication channels between multiple parties are narrow and the distribution of benefits is different; second, As the agricultural industrialization consortium is an emerging entity, leading enterprises are mostly small and medium-sized enterprises, and their driving ability is weak. The linkage mechanism still needs to be improved. In order to make the constructed system run smoothly, this article proposes the following safeguards:

### 4.1. Strengthen the concept of element connection and improve the benefit connection mechanism

As far as the modern agricultural industrialization consortium in Jiangxi Province is concerned, the leading enterprises are mainly small and medium-sized enterprises. The concept of element connection between enterprises, specialized cooperatives and family farms needs to be further strengthened. Government departments should take the lead. Small and medium-sized enterprises should be encouraged to gather together to keep warm Gather their own advantages. Establish a fair and reasonable contractual contract mechanism, a factor equality quantitative mechanism, and a guaranteed minimum dividend benefit distribution mechanism.

### 4.2. Innovating industrial upgrading mechanism and encouraging technological innovation

Most agricultural industrialization consortiums are mainly extensive and labor-intensive industries, with weak technological innovation capabilities and lack of sufficient capital, which often leads to a weak market position. Therefore, first, small and medium-sized enterprises should set up their own R&D departments to strengthen technological innovation, increase capital investment, and improve the market competitiveness of products; finally, they should establish an incentive system for innovative talents to provide a better platform for innovative talents.

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