

# A Study of Risk Management Issues in Jingdong Based on the New COSO-ERM Framework

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**Abstract:** As society becomes increasingly competitive and business risks increase, many companies recognize the need to strengthen internal control and risk management to cope with the increasingly competitive market. Based on COSO-ERM, the article elaborates on the risk management of Jingdong Company, including five major areas of governance and culture, strategy and objectives, performance, review and revision, information, communication and reporting, and analyzes the current risk management status of Jingdong and gives corresponding suggestions for improvement.

**Keywords:** Coso-Erm (2017); Internal Control; Comprehensive Risk Management

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## Introduction

With the rapid global economic development, the external competitive environment for companies has become more and more intense, and market-oriented reforms have increased the operational risks of companies. In September 2017, the COSO committee released the Enterprise Risk Management - Integration with Strategy and Performance (COSO-ERM(2017)), a new version based on the company's mission, vision, and core values, which brings risk management to all stages of its management decisions to increase enterprise value.

## 1. Definition of Risk Management

COSO-ERM (2017) argues that "risk management is the culture, capabilities, and practices by which organizations manage risk in the context of creating, preserving, and realizing value in the context of strategy formulation and implementation.

## 2. Key elements of the COSO-ERM (2017) framework

### 2.1 Risk governance and culture

Risk governance explains the importance of organizational risk management and affirms the supervisory role of business managers and the foundation of organizational governance; culture influences business decisions by affecting ethical values, contemplative behavior, and understanding of risk. Also, risk governance is the basis for several other components <sup>[1]</sup>.

### 2.2 Strategy and goal setting

Throughout the strategy planning process, risk management, strategy and objectives are closely linked. The company should develop a risk orientation equivalent to the strategy and set goals to ensure its implementation as a basis for identifying, assessing and responding to risks. Also the company should determine the risk appetite in the process of specifying the strategy and then set business objectives to ensure the company's proper operation.

### 2.3 Performance

The company must identify and assess the risks that may affect the company's strategic decisions and the achievement of key operational objectives, as well as the perspective of risk assessment and the impact of these risks, evaluate the overall risk assessment and appropriate strategies, and report the results to key risk parties.

### 2.4 Review and revision

The Company evaluates performance and assesses the various factors of risk management, including significant operational changes resulting from the internal and external environment, risk management and operational performance, and carries out risk

management to enhance risk management when appropriate.

## **2.5 Information, Communication and Reporting**

The organization's risk management needs to make greater use of information by facilitating the process of obtaining information from outside and inside the organization and distributing it effectively at all levels.

## **3. Current status of Jingdong's comprehensive risk management**

Jingdong was established in June 1998 and mainly deals with digital electronic products, home appliances, and home department stores. In May 2014, it was listed on NASDAQ with the stock code: JD, the first large integrated e-commerce platform listed in the United States, following Ali and Baidu on NASDAQ.

### **3.1 Governance and Culture**

#### **3.1.1 Governance Structure**

The highest authority of Jingdong is the General Meeting of Shareholders, which has voting rights on the development and important affairs of the company. After Jingdong's second listing in Hong Kong, Liu Qiangdong owns 15.1% of the shares and 78.5% of the voting rights, and the actual control of Jingdong remains under Liu's control.

#### **3.1.2 Corporate Culture**

Jingdong's Internet corporate culture and values are customer first, teamwork, integrity, passion and innovation. Nowadays, Jingdong always adheres to the business philosophy of "people-oriented, enterprise-first and people-oriented" in its development, and has gradually established long-term cooperative investment relationships with Jingdong users and suppliers.

### **3.2 Strategy and Goals**

Jingdong's strategic vision is "to be the most trusted company in the world", and Jingdong Mall is its main energy provider, pursuing the strategic goal of "continuously competing with consumers".

### **3.3 Performance aspects**

Jingdong in the founding of the e-commerce platform in a period of intense competition, Jingdong want to be bigger and stronger in this situation, must have excellent strategy as a support, express business in that period became a very good breakthrough. Jingdong Express is fast and low price, once widely praised by customers. However, now Jingdong logistics because it is difficult to bear the huge losses, up the price of free shipping fees, causing consumer dissatisfaction [2].

### **3.4 Review and revision aspects**

In order to protect the normal operation of Jingdong Mall, as well as to protect the interests of consumers, according to the Food Safety Law of the People's Republic of China, the Measures for Investigating and Dealing with Illegal Acts of Network Food Safety and other laws and regulations, the rules of Jingdong Open Platform and the relevant contents of the agreement signed by merchants stationed in Jingdong, the Jingdong Platform Network Food Transaction Management System is combed and formed.

## **3.5 Information, Communication and Reporting**

Jingdong's information transmission process is passed from the top to the middle level and finally to the grassroots, with an emphasis on efficiency, with the aim of achieving efficient information transmission. In addition , Jingdong also enhances internal communication through daily regular meetings and quarterly meetings, and also enhances the accuracy of information delivery by standardizing requirements such as the rationality of internal information communication [3].

## **4. Analysis of the main problems of risk management in Jingdong**

### **4.1 Imperfect governance structure and culture construction**

Jingdong's stock is divided into Class A and Class B shares, where Class A shares have the same voting system as ordinary shares, but each Class B share has 20 super votes. Jingdong has also made provisions that Class B shares cannot be converted at will, and Class B shares have 83.7% of the voting seats in the company's equity structure. After Jingdong goes public, these shares will be owned by Liu Qiangdong, which means the actual control will remain in his hands [4].

## **4.2 Strategy and goal setting is not reasonable**

Goals and strategies determine the long-term development direction of the enterprise. "Cost-effectiveness" is the positioning of Jingdong's products, and the target customers of "cost-effectiveness" are price-sensitive, which is a short-term target positioning. However, as the economy continues to move forward, customers are paying more and more attention to quality, a trend that is contrary to Jingdong's current strategic positioning.

## **4.3 Inadequate risk identification, assessment and response**

Jingdong company claims to prohibit the act of upselling, and in the face of the employees involved Jingdong's attitude is zero tolerance. But in practice, Henan Industrial and Commercial Bureau investigated and dealt with a column of mega-brush single incident, the gang involved in the fictitious number of 500 single transactions, the amount of up to 1.7 billion yuan, and the main service object of this gang is Jingdong.

## **4.4 Insufficient effectiveness of internal supervision**

According to external information, Jingdong side and the third-party merchants book an agreement to keep the quality, but in reality only the third-party merchants are fully responsible for their quality and problems. In the case of counterfeit goods, Jingdong only punishes the merchant after the consumer provides evidence, and only punishes the disclosing store, and has no other impact on other merchants of similar goods.

## **4.5 Information construction level still needs to be improved**

Most of Jingdong's information is transmitted from top to bottom, and there is no corresponding system for information to be conveyed from bottom to top. In terms of information feedback, since Jingdong lacks a good communication platform, it is difficult for management to understand the behavior and thoughts of subordinates.

# **5. Countermeasures to improve risk management at Jingdong**

## **5.1 Strengthen corporate governance and culture**

First, establish an independent board selection mechanism. In order to ensure the fairness and independence of the election process, the election can be appropriately diversified. Secondly, establish a mechanism for rewarding and punishing the independent board of directors. Finally, the qualifications of independent directors, such as academic background and work experience, should be checked from time to time to improve the reward and punishment mechanism.

## **5.2 Reasonable positioning of corporate strategies and goals**

In terms of technical capabilities, continuously improve the technical research and development capabilities and as well as security in the operation of the station information system, electronic payment system, etc., so as to enhance the user experience; in the management of the platform itself, better perceive the needs of users and adjust the management direction of the platform according to the different characteristics of users, so as to improve the conversion rate of consumer orders.

## **5.3 Enhanced risk identification assessment and response**

Since all kinds of risks faced by enterprises in daily operation are uncertain, Jingdong needs to establish a new risk evaluation mechanism to reduce risks. First, the enterprise should develop a business process system, which should be established separately according to the general business and project group business. Secondly, risk checks should be increased in project operations, and a corresponding visual monitoring system and risk control system should be established, focusing on the top ten sales, conversion rate and other important indicators, and an early warning mechanism should be set up.

## **5.4 Improve the review and revision system**

Optimize and improve the company's internal control, according to the principle of functional participation, sort out the control matters in the process, improve the company's workflow and various management systems based on reducing costs and improving efficiency, and set up supervisory positions such as auditing information disclosure.

## **5.5 Strengthening internal information communication efforts**

Jingdong is currently in the early stage of development, the staff must work together, so we must establish a good information management system, in the internal environment, to achieve timely communication, timely communication, and to broaden the information feedback channels.

## 6. Conclusion

In this paper, we analyze five aspects of COSO-ERM (2017) for Jingdong Company, and make recommendations related to improving the governance structure and culture, and strengthening risk identification assessment and response to existing issues such as governance structure. In addition, it is important to grasp opportunities and avoid risks in order to achieve sustainable development and profit maximization of the company.

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