



Research on financial investment risk in enterprise financial management

Jiyao Yan ^{1*}, Hao Zhang ²

^{1,2}Geely University of China, Sichuan Chengdu, China

Article Information

Received: 21-11-2024

Revised: 28-11-2024

Published: 5-12-2024

Keywords

financial management ;

financial investment

*Correspondence Email:

2037423502@qq.com

Abstract

This paper focuses on the financial investment risk in the financial management of enterprises, analyzes its causes, types and potential threats to the financial security of enterprises. It is pointed out that the main causes of financial investment risk are the lack of perfect risk management system, the insufficient ability of financial managers and the change of external environment. To deal with these risks, this paper puts forward a series of strategies, including building a comprehensive financial risk investment system, improving the professional quality of financial management team, balancing returns and risks, and strengthening internal control. The effectiveness of the proposed strategy is verified by case analysis. The research results of this paper not only enrich the theoretical system of financial investment risk management, but also provide practical guidance for enterprises, which is helpful to improve the level of financial security of enterprises and ensure steady development.

1. Introduction

Under the background of global economy, enterprises are facing an increasingly complex and changeable financial environment, and financial investment risk has become an indispensable part of enterprise financial management. With the deepening and innovation of the financial market, enterprises should not only pursue the income maximization, but also pay attention to the effective risk management when making financial investment. Financial investment risk is not only related to the financial security of enterprises, but also directly affects the strategic decision and long-term development of enterprises. Therefore, enterprises must attach great importance to investment activities, and conduct in-depth analysis of the uncertain factors existing in financial investment. At the same time, they should also fully understand the types of risks, take financial management as the premise, and scientifically and effectively improve the ability to avoid risks, so as to promote the sustainable development of enterprises(Li, 2019).

Domestic and foreign scholars have conducted extensive and in-depth research on the financial investment risk in corporate financial management. Foreign research started earlier and formed more systematic risk management theories and methods, such as capital asset pricing model, value at risk model, etc. These theories provide strong support for the quantification and management of financial investment risks. Although the domestic research started late, it has also made remarkable progress in recent years, especially in the aspects of risk identification, assessment, prevention and control, and put forward a series of risk management strategies in line with China's national conditions. However, with the continuous innovation and complexity of the financial market, the existing risk management theories and methods are still facing many challenges and need to be continuously developed and improved.

The purpose of this study is to deeply analyze the financial investment risk in the financial management of enterprises, and put forward a set of scientific and effective risk management framework and strategy combining the research results and practical experience at home and abroad. The research will adopt the method of combining case analysis and empirical research to comprehensively sort out the relevant theories and methods of financial investment risk, and analyze the causes and influencing factors of financial investment risk and its potential threats to the financial security of enterprises. At the same time, through case analysis, the successful experience and failure lessons of different enterprises in financial investment risk management are discussed, so as to provide useful reference and enlightenment for other enterprises. Finally, the validity and feasibility of the proposed risk management framework and strategy are verified by empirical research, which provides scientific basis for enterprise risk management practice.

2. Research Methods

2.1 Definition of financial investment risk

Financial investment risk refers to the risk that when an enterprise makes a series of financial investments in the financial market, many uncertain factors may lead to investment failure, so that the expected return and principal cannot be recovered. This risk will run through the whole investment process, and affected by a variety of factors, including but not limited to the volatility of financial market, market structure, the change of financial policy, the risk of capital flow, and the enterprise's own investment system, the operation of investment personnel, financial investment risk analysis system is sound, etc. This risk is an inevitable part of financial investment activities, which requires investors to conduct sufficient risk assessment and management while pursuing returns, so as to ensure the robustness and sustainability of investment. Financial investment risks not only affect the financial security of investors, but also have an important impact on the stability and development of the financial market (Li. 2024)

2.2 Types of financial investment risk

Investment risk: Investment risk refers to the risk that the final return deviates from the expected return due to the change of market demand or other factors due to a certain amount of capital. This risk may result from changes in interest rates, fluctuations in exchange rates, the effects of inflation, or the risks of financial derivatives. The existence of investment risk makes enterprises need to consider carefully when making investment decisions to avoid potential losses. When carrying out financial investment decisions, many enterprises often ignore the detailed analysis of investment risks, unilaterally pursue the high returns brought by some investment projects, and blindly invest without realizing the high risks behind the high returns (Wu. 2017).

Financing risk: Financing risk refers to the risk that an enterprise may face in the process of raising funds. This includes interest rate risk, refinancing risk, financial leverage effect and so on. Due to the uncertainty of

the financial market and the diversity of financial instruments, enterprises may face problems such as rising financing costs and refinancing difficulties, which will further affect their financial robustness.

Business risk: business risk, also known as business risk, mainly stems from the uncertain factors in the production and operation process of enterprises. These factors may include supply chain disruptions, rising production costs, market demand changes, etc., which may lead to the delay of enterprise capital movement, and then produce the change of enterprise value. Operating risk is one of the challenges that an enterprise must face in its daily operation.

Market risk: The volatility of financial markets will inevitably lead to sharp exchange rate fluctuations, and this uncertainty will have a direct impact on the cost and return of trade and investment. If enterprises fail to fully evaluate the market environment and determine the investment risk through accurate market analysis, they may step into the misunderstanding of investment decision, thus aggravating the investment risk (Zhang, 2024)

2.3 Characteristics of financial investment risk

Objectivity: Objectivity means that financial investment risks exist objectively, and they do not depend on people's subjective will. Whether it is market risk, credit risk, liquidity risk, operational risk, policy risk, they are an inevitable part of financial investment activities. The existence of these risks is objective and will not change because of the subjective wishes or expectations of investors. The objectivity of financial investment risk requires that we must face up and accept the existence of these risks when making investment decisions. The fluctuation of the market leads to the collapse of financial economy in some regions, which has unpredictable impact on financial investment products. Therefore, when carrying out financial investment, enterprises should first do a good job of market evaluation to ensure the good development of the follow-up risk management work (Lio, 2022).

Uncertainty: the occurrence of financial investment risk and its impact degree is often difficult to accurately predict in advance. Investors cannot accurately predict and quantify the probability and impact degree of risk occurrence. This is due to the complexity and variability of financial markets, as well as the numerous influencing factors of external environment, it is difficult to fully grasp and accurately predict. External factors such as market fluctuations, policy changes and natural disasters, as well as internal factors such as internal decision-making mistakes and mismanagement of enterprises, may all lead to investment risks, and the mode of action and influence degree of these factors are often uncertain (Feng, 2024)

Coexistence of risk and return: Coexistence of financial investment risk means that there is a positive correlation between risk and return. High risk is often accompanied by high returns, while low risk corresponds to low returns. Investors often demand higher returns as compensation when taking on higher risks. This extra gain is called a risk premium. As a result, risky projects tend to attract investors who are willing to take on higher risks and provide them with higher returns. In financial markets, there is a dynamic balance between risks and returns. When the risk of a project increases, its expected earnings will increase accordingly to attract more investors. This balancing mechanism ensures the effectiveness and stability of the market.

3. Result and Discussion

3.1 Lack of a sound financial venture capital investment system

In the process of financial investment, without a perfect risk investment system, it will be difficult to make a comprehensive and systematic assessment and control of investment risks. This may lead to the lack of scientific basis in making investment decisions, blindly following the trend or overconfidence, thus increasing the investment risk. A perfect financial venture capital investment system should include risk identification,

assessment, monitoring and response, so as to ensure that enterprises can scientifically and reasonably manage investment risks.

3.2 Lack of professional quality of financial management personnel

The professional quality of financial management personnel directly affects the quality and effect of financial management of enterprises. If financial managers lack the necessary knowledhow and skills of financial investment, or lack sensitivity and insight into external factors such as market changes and policy adjustments, it may lead to mistakes in investment decisions and increased risks. Therefore, improving the professional quality of financial management personnel and strengthening the training and education of financial investment is an important way to reduce investment risks.

3.3 Enterprises blindly pursue high returns and ignore risk management

In the process of financial investment, some enterprises often pursue high returns too much and ignore the importance of risk management. Such short-sighted behavior may lead companies to overinvest in high-risk projects, thus increasing the investment risk. Enterprises should establish a correct investment concept, balance the relationship between income and risk, and ensure that the investment risk can be effectively controlled while pursuing income.

3.4 The impact of external environment changes on corporate finance

Changes in the external environment, such as market fluctuations, policy adjustments, legal changes, etc., all have a significant impact on the financial investment of enterprises. These external factors are often difficult to foresee and control, but they have a direct or indirect impact on the investment income and financing costs of enterprises. Therefore, enterprises should strengthen the monitoring and analysis of the external environment, and adjust the investment strategy in time to reduce the investment risk.

3.5 Preventive measures for financial investment risks in enterprise financial management

3.5.1 Establish a sound financial venture capital system

3.5.1.1 Develop scientific investment strategies

Scientific investment strategy is the key to the success of financial investment. Enterprises should develop investment strategies in line with their own characteristics based on their own financial conditions, risk tolerance and market environment. Clear investment objectives, choose appropriate investment instruments, and determine a reasonable investment scale and period.

3.5.1.2 Strengthen the risk early-warning mechanism

Strengthening the risk early warning mechanism is an important means to find out and deal with the investment risks in time. Enterprises should establish a risk early warning system to timely find out potential investment risks through collecting and analyzing market data, financial data and other information. Enterprise managers and decision-makers should have a deep understanding of the possible negative impact of financial investment risks on the development of enterprises, establish and improve the risk control mechanism, improve the financial approval process and procedures, and constantly improve the risk control ability, prevention and transfer ability.

3.5.1.3 Improve the risk monitoring and response mechanism after investment

Enterprises should conduct continuous risk monitoring of investment projects, and timely find and deal with the problems in the investment process. At the same time, enterprises should also establish risk response plans, clear risk response measures and responsible persons, to ensure that the investment risks can take rapid and effective actions to reduce losses.

3.5.2 Improve the professional quality of financial managers

3.5.2.1 Strengthen training and education

Enterprises should regularly organize financial management personnel to participate in professional training and educational activities to constantly improve their financial investment knowledge and skills. The training content can cover financial market analysis, investment strategy formulation, risk management and other aspects, to help financial managers to better understand and deal with financial investment risks.

3.5.2.2 Introduce professional talents

Enterprises should actively introduce external talents with rich financial investment experience and professional knowledge. These talents can bring new investment ideas and risk management methods to enterprises, and help to improve the overall risk management level of enterprises.

3.5.2.3 Establish incentive mechanisms to encourage learning and innovation

Enterprises should establish an effective incentive mechanism to encourage financial managers to learn and innovate constantly. Through the establishment of incentive funds, promotion opportunities and other ways to stimulate the learning enthusiasm and innovation ability of financial management personnel, and promote the improvement of enterprise financial management level.

3.5.3 Balance the returns and risks, and make sound investment plans

3.5.3.1 Diversified investment portfolio

Diversified investment portfolio is an effective means to reduce the investment risk. By dispersing funds into different types of assets (such as stocks, bonds, real estate, etc.), companies can reduce the impact of a single asset volatility on the overall portfolio.

3.5.3.2 Reasonable arrangement of the investment period

Reasonable arrangement of the investment period is also the key to make a sound investment plan. Enterprises should choose an appropriate investment period according to their own capital needs and risk tolerance. Long-term investment facilitates capital appreciation, but may also face high uncertainty, while short-term investment pays more attention to the liquidity and safety of capital.

3.5.3.3 Carefully select investment projects

Careful selection of investment projects is an important link to prevent financial investment risks. Enterprises should conduct in-depth research and analysis of investment projects to evaluate the feasibility, profitability and risk level of the projects. By selecting investment projects with stable returns and low risks, enterprises can reduce investment risks and improve investment benefits.

3.5.4 Strengthen internal control and audit supervision

3.5.4.1 Improve the internal management system

Enterprises should establish a sound internal audit system, including the internal audit department, audit system and audit process. Through regular or irregular internal audit, supervise and evaluate the investment decision, investment process and investment results of the enterprise, so as to ensure the compliance and efficiency of investment activities.

3.5.4.2 Strengthen the audit supervision function

The audit department should strengthen the audit and supervision of the investment projects, and conduct a comprehensive review of the feasibility study reports, investment contracts, and the use of funds of the

investment projects. At the same time, the process of investment in the major decisions, capital allocation and other links of the key supervision, to ensure the scientific investment decisions and the safety of the use of funds.

3.5.4.3 Timely find and correct the problems in the investment process

In the audit process, once the problems or irregularities in the investment process are found, the audit department should timely report to the senior management of the enterprise and put forward rectification suggestions. Enterprises should, according to the audit results, take timely measures to correct the problems, to prevent the expansion of the problems or cause greater investment risks.

4. Conclusion

To sum up, financial investment plays a vital role in the financial management of enterprises. Financial investment risk plays a vital role in enterprise financial management. Due to the complexity and uncertainty of the market environment, enterprises are faced with various risks in the process of financial investment, which may come from various factors such as market fluctuations, interest rate changes, credit deterioration and so on. Therefore, enterprises must fully realize the existence of these risks and take corresponding risk management measures when making financial investment.

5. References

- Feng, Y. (2024). Research on financial investment risks and coping strategies in enterprise financial management. *Modern Business Research*, (06), 125–127.
- Li, C. (2019). Measures to deal with financial investment risks in enterprise financial management. *Tax Payment*, 13(15), 144.
- Li, W. (2024). Financial investment risks and their measures in the financial management of enterprises. *China Science and Technology Investment*, (23), 35–37.
- Liao, S., & Jin, M. (2022). Analysis and risk countermeasures of financial investment in enterprise financial management. *Accounting Study*, (17), 139–141.
- Wu, J. (2017). Research on the countermeasures of financial investment risk in enterprise financial management. *Chinese and Foreign Entrepreneurs*, (19), 136–137.
- Zhang, J. (2024). Discussion on the risk analysis and countermeasures of financial investment in enterprise financial management. *Financial Guest*, (08), 10–12.