

# Analysis and Countermeasures of Financial Investment Risks in Enterprise Financial Management

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**Abstract:** This article focuses on the issue of financial investment risks in enterprise financial management. Firstly, it expounds the important position of financial investment in enterprise financial management. Then, it deeply analyzes various risks faced by enterprise financial investment, including market risk, credit risk, liquidity risk, etc. Through a detailed analysis of these risks, the causes and influencing factors of their occurrence are revealed. Finally, corresponding countermeasures were proposed for different types of risks, aiming to help enterprises effectively identify, assess and manage financial investment risks, improve the level and stability of enterprise financial management, and achieve sustainable development of enterprises.

**Keywords:** Enterprise Financial Management; Financial Investment Risk; Risk Analysis; Countermeasures

## 1. Introduction

In today's globalized and market-oriented economic environment, enterprises are confronted with increasingly fierce market competition and a complex and ever-changing business environment. Enterprise financial management, as the core link of enterprise operation, plays a crucial role in the survival and development of enterprises. Financial investment, as an important component of enterprise financial management, has become a significant means for enterprises to achieve capital appreciation, optimize resource allocation and enhance competitiveness [1].

With the continuous development and innovation of the financial market, the types of financial products are becoming increasingly rich, and investment channels are also becoming more diversified. Enterprises can choose a variety of financial products such as stocks, bonds, funds and financial derivatives for investment based on

their own risk tolerance and investment goals [2]. However, while financial investment brings potential returns, it is also accompanied by various risks. Fluctuations in the financial market, changes in the macroeconomic environment, adjustments in policies and regulations, and other factors may all cause losses to enterprises' financial investments, and even endanger the financial security and stability of enterprises [3].

In recent years, there have been many cases at home and abroad where enterprises have fallen into difficulties or even gone bankrupt due to financial investment risks. For instance, during the 2008 financial crisis, Lehman Brothers in the United States went bankrupt due to excessive investment in financial products related to subprime mortgages and was unable to bear the huge losses [4]. This incident not only brought a huge shock to the global financial market, but also drew high attention from the business and academic circles to the risks of financial investment.

In China, many enterprises have also suffered losses due to wrong financial investment decisions or poor risk management. For instance, during the period when the stock market rose sharply in 2015, a certain listed company blindly followed the trend and invested in stocks, pouring a large amount of funds into the stock market. However, with the adjustment of the stock market, the stocks invested by the company dropped significantly, resulting in a substantial shrinkage of the company's assets and a deterioration of its financial situation [5]. These cases fully demonstrate that when enterprises make financial investments, they must fully recognize the existence of financial investment risks and take effective measures to manage and control them.

Therefore, conducting in-depth research on financial investment risks in enterprise financial management, analyzing their causes and influencing factors, and proposing corresponding

countermeasures are of great theoretical and practical significance for enterprises to improve their financial management level, enhance their risk prevention capabilities, and achieve sustainable development [6].

## **2. The Significant Position of Financial Investment in Enterprise Financial Management**

### **2.1 Optimize Capital Allocation**

Funds are the lifeblood of an enterprise's production and operation. Reasonable allocation of funds is the key for an enterprise to achieve sustainable development. In enterprise financial management, the goal of fund allocation is to distribute the limited funds to different business areas and projects to achieve the maximum benefit of funds [7]. Financial investment provides enterprises with an effective way to allocate funds.

When enterprises are engaged in production and business operations, they often have some idle funds. If these idle funds are merely deposited in the bank, they can only earn relatively low interest income and cannot achieve the appreciation of the funds. Through financial investment, enterprises can put their idle funds into financial products such as stocks, bonds and funds, enabling the funds to be utilized more effectively in the financial market [8]. For instance, enterprises can invest a portion of their funds in the bond market to obtain stable interest income. Invest another portion of the funds in the stock market to share the capital appreciation brought about by the growth of the enterprise. Financial investment offers enterprises an effective way to allocate funds. Based on their own risk tolerance and investment goals, enterprises can choose appropriate financial products for investment, converting idle funds into assets with appreciation potential and improving the efficiency of fund utilization.

### **2.2 Enhance Profitability**

Financial investment has a relatively high potential for returns. By participating in financial market transactions, enterprises can obtain investment returns and increase their sources of profit. Compared with traditional production and operation activities, the returns on financial investment may be more substantial, especially when the market conditions are favorable. A reasonable financial investment strategy can help

enterprises preserve and increase the value of their assets, enhance their profitability and market value.

### **2.3 Diversify Business Risks**

Enterprises are confronted with various risks during their operation, such as market risks, credit risks, and operational risks. By making financial investments, enterprises can diversify their funds across different financial products and markets, reduce the impact of a single business or project on the overall operation of the enterprise, and achieve the dispersion and transfer of risks. For instance, enterprises can invest in multiple markets such as the stock market, bond market, and foreign exchange market. When an adverse change occurs in one market, the investment returns in other markets can offset the losses, thereby reducing the overall risk level of the enterprise.

## **3. Analysis of the Main Risks Faced by Enterprise Financial Investment**

### **3.1 Market Risk**

Market risk stems from changes in financial market factors such as interest rates, exchange rates, stock prices, and commodity prices, which can alter the value of a company's financial investment and bring about potential losses. It is one of the most significant risks faced by a company's financial investment and is characterized by systematicness and non-dispersibility. In terms of interest rate risk, fluctuations in market interest rates affect the value of fixed-income financial assets such as bonds and loans held by enterprises. When interest rates rise, bond prices fall, reducing the value of bonds held by enterprises. Conversely, a decline in interest rates is the opposite. Moreover, interest rate fluctuations also impact the financing costs of enterprises, thereby affecting their profitability and financial conditions. Exchange rate risk has a prominent impact on enterprises with import and export business or overseas investment. When the domestic currency appreciates, the prices of enterprises' export products rise relatively, their competitiveness declines, export income decreases, the value of foreign currency liabilities drops, and the cost of debt repayment increases. When the domestic currency depreciates, the import costs for enterprises increase and the returns on overseas investment

may decrease. In stock price risks, the stock market is influenced by various factors such as macroeconomic conditions, company performance, and industry competition, with frequent and intense price fluctuations. A decline in the stock prices invested by enterprises can lead to investment losses, affecting their financial conditions and operating performance.

### 3.2 Credit Risk

Credit risk refers to the situation where a counterparty fails to fulfill its contractual obligations, causing losses to an enterprise. In corporate financial investment, it mainly manifests as follows. In terms of bond investment, if a company purchases bonds and the bond issuer defaults and fails to pay the interest or repay the principal on time, the company will suffer investment losses. Bond credit risk is closely related to the credit status of the issuer. Bonds with low credit ratings have relatively higher default risks. When making loan investments, if an enterprise lends money to other enterprises or individuals and the borrower defaults and fails to repay on time, the enterprise will face loan losses. Loan credit risk is influenced by factors such as the borrower's repayment ability and willingness. Enterprises need to fully assess and monitor the borrower's credit status. Financial derivatives trading also involves credit risks. When conducting forward, futures, options and other contract transactions, the counterparty may be unable to fulfill the contractual obligations for various reasons, causing losses to the enterprise. This type of credit risk is rather complex and closely related to factors such as the credit status of the counterparty and the terms of the contract.

### 3.3 Liquidity Risk

Liquidity risk refers to the loss incurred by an enterprise when it fails to liquidate financial assets at a reasonable price in a timely manner. It depends on the liquidity of the financial asset market and the enterprise's own capital demand. The liquidity of different financial asset markets varies. Standardized assets such as stocks and bonds have strong liquidity and are easier for enterprises to liquidate. Non-standardized assets such as private equity investment and real estate investment have poor liquidity and may face difficulties and losses in liquidation. In the course of business operations, there may be sudden capital demands, such as debt repayment

and payment for goods. If financial assets cannot be liquidated in a timely manner or the cost is too high, it will affect normal business operations. Operational risks stem from poor internal management of enterprises, human errors, system failures, etc., and run through the entire process of financial investment, covering investment decision-making, transaction execution, risk management and other links. Investment decision-making mistakes, such as incorrect judgment of market conditions or improper investment strategies, may lead to investment failure due to insufficient information, unscientific analysis methods, and unreasonable decision-making procedures. During the execution of transactions, traders' operational errors, system malfunctions, etc. can lead to problems such as incorrect trading instructions and price deviations. Inadequate risk management, the lack of an effective system and internal control regulations, and the inability to identify, assess and monitor risks in a timely manner, such as the absence of reasonable risk limits and early warning mechanisms, will lead to the loss of control of risks and cause huge losses to the enterprise.

## 4. Countermeasures for Corporate Financial Investment Risks

### 4.1 Measures for Responding to Market Risks

Risk hedging is a strategy of investing in assets or derivatives that are negatively correlated with the fluctuations in the returns of the underlying asset to offset potential risk losses. For instance, purchase interest rate futures to hedge against interest rate risks, buy foreign exchange forward contracts to hedge against exchange rate risks, and build a stock portfolio to reduce stock price risks. Asset allocation refers to the process where an enterprise, based on its own risk tolerance and investment goals, allocates funds to different financial assets to achieve a balance between risk and return. Rational allocation can reduce the risk of a single asset and enhance overall stability. Enterprises can dynamically adjust the ratio of stocks to bonds in accordance with market conditions. When the market is good, they increase stocks to achieve high returns; when the market is bad, they increase bonds to reduce risks.

### 4.2 Countermeasures for Credit Risk

Before making financial investments, enterprises

should fully assess and screen the credit status of their counterparties. This can be achieved through methods such as reviewing rating reports, analyzing financial statements, and understanding industry reputations. They should choose partners with good credit and strong repayment capabilities to reduce risks. It is also possible to require the counterparty to provide credit guarantee or mortgage. The guarantee shall be provided by a third-party institution, and it shall be held responsible in case of default. Mortgage is provided with assets as repayment security, and in case of default, the collateral can be disposed of to reduce losses. When signing a contract, enterprises should clearly define the terms, detail the rights and obligations of the counterparty, covering the repayment period, method, and liability for breach of contract, etc., so as to legally protect their rights in case of breach of contract.

#### **4.3 Countermeasures for Liquidity Risk**

Enterprises should, based on their own capital demands and sources of funds, rationally arrange the term structure of financial assets. Avoid investing too much capital in long-term financial assets, which may lead to significant liquidity pressure in the short term. At the same time, enterprises should maintain a certain proportion of highly liquid financial assets, such as cash and short-term bonds, to meet sudden capital demands.

Enterprises should establish a liquidity early warning mechanism to conduct real-time monitoring and early warning of their own liquidity conditions. By setting liquidity indicators such as the current ratio and quick ratio, when the indicators reach the warning value, timely measures should be taken to adjust the allocation of financial assets to ensure the liquidity safety of the enterprise.

Enterprises should enhance cooperation with financial institutions and establish a good bank-enterprise relationship. When facing liquidity difficulties, enterprises can promptly obtain financing support from financial institutions to solve the problem of capital shortage. Meanwhile, financial institutions can offer professional financial services and advice to enterprises, helping them optimize their capital allocation and enhance their liquidity management level.

#### **4.4 Countermeasures for Operational Risks**

Enterprises should establish and improve internal control systems, clearly define the responsibilities and authorities of each department and position in financial investment activities, and form a mechanism of mutual restraint and supervision. Strengthen the control over key links such as investment decision-making, transaction execution, and risk management, standardize business processes, and prevent the occurrence of human errors and illegal operations.

Enterprises should enhance the training and management of their employees, and improve their risk awareness and professional skills. Regularly organize employees to participate in financial investment knowledge training, risk management training, etc., to enable them to understand the characteristics and risks of the financial market and master the correct investment methods and risk management skills. At the same time, establish an employee performance appraisal mechanism, link the performance of risk management with employees' salaries, promotions, etc., and encourage employees to actively participate in risk management work.

Enterprises should enhance the construction of information systems and improve the informatization level of financial investment management. Establish a complete investment management system, risk management system, etc., to achieve real-time monitoring and dynamic management of financial investment activities. Through information systems, enterprises can promptly obtain market information, transaction data, etc., providing strong support for investment decisions and risk management. At the same time, strengthen the security maintenance of information systems to prevent problems such as system failures and data leaks.

#### **5. Conclusion**

Financial investment risk in enterprise financial management is one of the significant challenges that enterprises face. Various risks such as market risk, credit risk, liquidity risk and operational risk are intertwined, bringing huge uncertainties to the financial investment activities of enterprises. To effectively deal with these risks, enterprises need to take a series of comprehensive measures.

In terms of market risks, enterprises can reduce risks through risk hedging strategies and asset

allocation strategies. In terms of credit risk, strengthening credit assessment and screening, requiring credit guarantees and mortgages, and clarifying the constraints of contract terms are effective countermeasures. For liquidity risk, it is of vital importance to rationally arrange the maturity structure of financial assets, establish a liquidity early warning mechanism and strengthen cooperation with financial institutions. In terms of operational risks, improving the internal control system, strengthening employee training and management, and enhancing the construction of information systems are the keys. Enterprises should fully recognize the significance of financial investment risk management and incorporate risk management into the entire process of enterprise financial management. By constantly optimizing risk management strategies and methods, and enhancing the level and efficiency of risk management, enterprises can achieve a balance between risks and returns in financial investment activities, ensure financial security and stable development of the enterprise, improve the core competitiveness of the enterprise, and remain invincible in the fierce market competition. Meanwhile, as the financial market continues to develop and change, enterprises also need to keep a close eye on market dynamics and adjust their risk management strategies in a timely manner to adapt to the new market environment and risk challenges.

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