ORIGINAL ARTICLE

Financial Risk Management and the Avoidance Strategy in Corporate Financial Projects

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Abstract: With the rapid development of social economy, enterprises enter into an era with best opportunities for development, and are facing with great challenges at the same time. Especially in the current situation, it is important for enterprises to make careful decisions to avoid financial risks when carrying out financial projects. Based on this, this article, starting with the financial risks in corporate financial projects, scientifically divides financial risks into different types and puts forward specific strategies to avoid risks for reference.
Keywords: Financial Project; Financial Risks; Avoidance Strategy; Internal Management of Enterprises

1. Introduction

Obtaining profit is critical for enterprises to support their operations and development. In current market, enterprises may face various risks under the influence of external financial environment, which leads to a severe negative impact on financial projects. Therefore, enhancing financial risk management and applying effective avoidance strategies can greatly reduce the probability of financial fluctuations in enterprises.

2. Financial risks in corporate financial projects

In current market conditions, financial risks are increasing, characterized by diversification and complexity. To achieve sustainable development, enterprises must carry out high-quality financial risk management, especially in the face of financial projects, so as to avoid additional losses. Generally speaking, there are two independent accounting systems in corporate financial project management. Theoretically, due to the different rules, different classifications and different time points of data analysis between the two accounting systems, errors may easily occur. Therefore, this article puts forward the avoidance strategies to solve this problem. There are two parts, namely internal control system and risk assessment system. The former mainly includes finance, human resources and informationization. On this basis, the risk assessment and monitoring system are further established. It is necessary to ensure reasonable value distribution in financial projects through risks management, so as to improve the profits of enterprises. In short, internal financial control and financial risk management are inseparable and indispensable. Enterprises need to practically put forward practical solutions to possible risks.

3. The types of financial risks in corporate financial projects

Currently, many enterprises have attached little attention to financial control and financial risk management. They

doi: 10.18686/mmf.v4i3.2406

don’t implement risk prevention schemes in financial projects. Some enterprises even carry out projects only based on experience, which brings potential safety hazards to the development of enterprises. Financial risks can be divided into the following types.

3.1 Risks caused by insufficient prior assessment

Before carrying out financial projects, enterprises must analyze them in strict accordance with the relevant procedures. Especially in the preparatory phase of major projects, feasibility analysis is essential. After that, a high-level meeting shall be held for deliberation, so that financial risks can be reduced. However, many enterprises do not follow this process, in which the internal financial control system and financial risk management system have not been implemented. Besides, there is a lack of reasonable and feasible methods. In this way, enterprises blindly carry out financial projects and focus on the final income, which virtually increases the occurrence of financial risks.

3.2 Risks caused by insufficient personnel capacity

In the process of investment and financial project, professionals are in charge of the project to ensure the benefit. According to the experience, the final effect and quality of financial projects are closely related to the personnel. However, many enterprises, in fact, often ignore the comprehensive quality of personnel in the reform of financial internal management, which will cause various problems in the work and directly affect the transaction quality of financial projects. There are also some staff members who lack the sense of professional responsibility and proper work behavior, not only affecting the economic benefits, but also causing serious negative damage to the reputation of enterprises.

3.3 Risks caused by lack of management system

To avoid financial risks fundamentally, enterprises should work out a complete and systematic management system. By applying the risk management system, enterprises can control the uncertain factors and reduce economic losses when carrying out financial projects. However, while many Chinese enterprises have formulated management system and measures in the course of operation, they have not taken into account the actual demand and practical situation. So the function of the management system can not be fully brought into play, the management effect is greatly reduced, let alone the effective supervision and management of financial projects. If the management system applied is not perfect, the subsequent development will also be affected.

4. Specific strategies to avoid financial risks in corporate financial projects

In order to improve the ability of enterprises to avoid financial risks, it is necessary to start from multiple perspectives, realize comprehensive financial risk management, promote the scientific development of enterprises, and reduce potential safety hazards.

4.1 Establish and perfect the advance evaluation mechanism of financial decision-making

In the process of establishing and perfecting the advance evaluation mechanism of financial decision-making, both the accuracy of advance evaluation and the feasibility and practicality should be taken into consideration. Based on the analysis of external risk environment, enterprises should strengthen the management of financial projects, effectively improve the ability of defensing risks, and ensure the stable development of enterprises. The advance evaluation mechanism of financial decision-making can be divided into five criteria: super warning, major warning, medium warning, slight warning, no warning. In practice, super warning means that enterprises must take corresponding economic measures to regulate and control activities, otherwise they will get into financial trouble. Slight warning refers to that enterprises only need to monitor several abnormal indicators to avoid large fluctuations in individual projects. Taking Company X as an example, the effectiveness and feasibility of the early warning system are verified concretely, so as to effectively improve the current condition of financial risk management in coporate financial projects. Applying the advance evaluation mechanism of financial decision-making constructed above, the risks of financial projects to be carried out by Company X in 2020 is analyzed. Meanwhile, the overall operation, development and technical and economic conditions of Company X in 2019 are evaluated, and the financial risks existing in enterprise financial projects are analyzed strictly according to the evaluation levels. In calculation, the financial indicators of Company X in 2019 are obtained by applying its annual report. Then, the score and coefficient of each evaluation indicator are calculated according to their actual value by adopting the weight and evaluation standard in the early warning system. Taking the operation condition as an example, the evaluation indicators include: turnover of account receivable, turnover of inventory, recovery of asset cash and turnover of total asset, with the actual values of 8.22, 13.93, 10.77% and 0.42 respectively. On this basis, the quantitative index scores and the index are calculated respectively. According to the comprehensive score index, there are problems in the financial condition of Company X, which is still within the controllable range. The index of operation condition is 0.76, which belongs to slight warning, with low financial risks. However, the financial risks in operation and technology are higher. Then the final comprehensive evaluation result is medium warning, indicating that the overall risk is high, and it is necessary to improve relevant aspects. Overall, Company X can carry out the financial project in 2020, but needs to control the corresponding aspects and reduce the risks[1].

4.2 Scientifically standardize the management system of relevant personnel

In the financial risk management of modern corporate financial projects, the lack of professional and comprehensive financial managers is the fundamental cause of financial risks. It is the key task of enterprises at present to comprehensively strengthen the construction of internal financial management personnel, scientifically standardize the management system, enhance managers' understanding and attention to financial risks, and establish a correct sense of financial risk management. In this way, financial risk management and financial control will be implemented. For example, enterprises should carry out comprehensive education and training for the internal financial management personnel, and carry out comprehensive management in combination with motivation system, assessment system and post responsibility system, so that employees can realize their responsibilities, fully play the subjective initiative and actively participate in their work[2].

4.3 Establish and improve the management system for financial investment risks

To reduce the financial risks in corporate financial projects, enterprises should not only establish and perfect the advance evaluation mechanism of financial decision-making, and scientifically standardize the management system of relevant personnel, but also establish and improve the management system for financial investment risks. Firstly, leaders and manages of the enterprises should establish a positive sense of financial risk management, and lead employees to establish the concepts of financial risk management from top to bottom, so as to ensure the implementation of management and lay the foundation for further development. For example, an enterprise has set up a well-developed supervision and management department, which carries out the risk evaluation of each financial project, divides the risk types, and formulates risk prevention measures accordingly. Secondly, enterprises should have a clear understanding of their own business conditions. Before investing in a financial project, they should investigate their current economic condition, determine the financial investigations they can undertake, thus avoiding blindly carrying out projects. Then investment decisions can be made after scientific and feasibility analysis. For example, before starting a financial project, an enterprise will first investigate the overall condition of itself, and investigate the project as well, so as to effectively increase financial security and reduce the probability of loss. Thirdly, it is necessary to establish and perfect the risk prevention measures and work out emergency plans to ensure the stability of capital flow and stability of financial project activities. Taking an enterprise as an example, it has designed a risk management system and emergency plan according to the possible financial risks before carrying out financial projects, which can minimize losses once risks occur. Through the above three measures, it can truly realize the standardization of internal management system for financial risks, and realize the balance between costs and benefits. In this process, enterprises should abide by the principles of independence, integrity, vertical management, efficiency, division of labor, and openness. Taking an enterprise as an example, it has comprehensively strengthened the connection between financial internal control and other departments, and scientifically identified the possible financial risks through cooperation. Before carrying out follow-up financial projects, it has formulated corresponding prevention and emergency measures for financial risks, and dealt with them as soon as possible[3].

5. Conclusion

To sum up, while the improvement of the national economic level provides a favorable opportunity for the development of corporate financial business, enterprises must pay continuous attention to the external financial environment and constantly improve the internal management system in the fierce competition to avoid various risks. To deal with the current condition of extremely weak financial risk management in national corporate financial projects, deepening the concept of comprehensive financial risk management is the key to ensure the sustainable development of enterprises.

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