

Financial Risk Management of FK Coal Group: Basis for Policy and Strategy Formulation

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Abstract. This study delves into the financial risk management of FK Coal Group in China, focusing on aspects such as credit risk, liquidity risk, stability risk, and profitability risk. The research aims to provide a comprehensive profile of FK Coal Group, including its organizational structure, years in operation, number of employees, geographical scope, and asset size as of 2022. The financial risks are primarily associated with debt payments, asset management, the company's capacity to meet expenses, and production costs and outputs. The financial risk management process encompasses risk identification, analysis, evaluation, and treatment. Challenges are encountered in each phase, such as uncertain adverse events, risk assessment accuracy, risk mitigation strategies, and risk reduction and avoidance measures. The survey results from the employees of FK Coal Group reveal that it is a state-owned enterprise with a long operational history, a substantial workforce, and strong assets, primarily operating in the domestic and international markets. The study underscores the critical role of financial risk management in ensuring the company's operational continuity and competitiveness. Effective risk planning and monitoring are highlighted as crucial elements to improve profitability and prevent excessive spending or losses. The proposed financial risk management policy or strategy aims to address these challenges comprehensively, focusing on proactive risk identification, thorough risk analysis, robust risk evaluation, and appropriate risk treatment strategies to minimize adverse impacts on FK Coal Group's financial health and performance.

Keywords: Financial risks; Risk Avoidance; Risk management; Risk reduction; Organizational structure

1. Introduction

With the rise of economic globalization and China's increasing social influence, there has been a notable influx of foreign investors into the country. As China's economy experiences rapid growth, more enterprises are entering the market and expanding their operations. However, this growth comes with inherent risks, both internal and external, which can lead to financial challenges for businesses. These uncertainties pose a threat not only to individual enterprises' normal operations and economic benefits but also to national economic development and social stability. Therefore, it becomes crucial for enterprises to proactively identify risk factors, particularly in areas like financing, investments, business activities, and cash flow, and implement suitable measures to mitigate or prevent financial problems. Neglecting these risks could result in crises and substantial losses for businesses, emphasizing the necessity of real-time monitoring and effective risk management strategies (He, 2021).

Further, coal plays a vital role as a fundamental energy source, impacting various sectors of China's economy and social development. Despite China's abundant coal resources and its historical dominance in coal production, the industry has faced challenges due to shifting national policies emphasizing energy conservation and environmental protection. This shift has led to reduced demand, falling prices, profitability issues, safety hazards, and increased financial risks for coal enterprises like FK Coal Group. Therefore, this study focused on evaluating and controlling financial risks such as market risk, credit risk, liquidity risk, and operational risk within FK Coal Group, aiming to provide insights not only for its sustainable development but also as a reference for other enterprises in the industry navigating similar challenges. By assessing these risks comprehensively and proposing relevant policy implementations, enterprises can better navigate the ever-present financial risks in today's business landscape.

2. Methodology

The study employed a descriptive research approach to meticulously and accurately portray the prevailing conditions and phenomena related to financial risk management in the KF Coal Group. This methodology allowed the researcher to gather factual information through a survey research design, utilizing questionnaires to collect data.

2.1. Sampling Procedure

The study utilized a purposive sampling procedure to select the respondents from the KF Coal Group. Purposive sampling is a non-probability sampling technique that involves selecting participants based on specific criteria relevant to the research objectives. In this case, the criteria included being financial officers of executive management, internal audit personnel from the enterprise risk assessment department, and employees with more than 5 years of experience in financial concerns and risks within the KF Coal Group (Crossman, 2018).

2.2. Respondents

The respondents for this study were the manager of FK coal group to provide company profile and employees participated in answering the instrument. The study's respondents considered to be important and plays a crucial role in determining the financial risk management of KF Coal Group. There are about 120 thousands employees working in this company and this company are existing for various years (Hu, 2019).

2.2.1 Research Site

The study was conducted at FK Coal Group, where the target respondents were managers who provided the company profile and employees who answered the instruments. The study's respondents were considered important and played a crucial role in determining the financial risk management of KF Coal Group.

3. Results and Discussion

3.1. Profile of FK Coal Group

Table 1 Business Profile

Profile	Data
Form of Business	: State-owned enterprise
Years in Operation	: 41 years
Number of Employees	: 120,000
Geographical Scope of Operation	: International
Asset Size as of 2022	: 340 billion Yuan

The business is a state-owned enterprise with 120,000 employees. This business is in the operations for 41 years now and in terms of geographical scope of operations, it is international and with a total asset as of 2022

amounting to 340 billion yuan. It offers variety of products and it supply coals locally and outside the country.

3.2 Financial Risks of FK Coal Group

3.2.1 Credit

The findings revealed that respondents strongly agreed that the company is afraid of income loss due to credit-related issues, such as improper creditworthiness assessment and sudden rises in interest rates. They also expressed agreement that the company is aware of potential bad debts and considers changes in market conditions. This highlights the significant concern placed on credit risk management, emphasizing the need for proactive strategies to mitigate financial risks associated with credit misuse.

3.2.2 Liquidity

The findings revealed that the enterprise's primary concerns regarding liquidity are related to maintaining a "safety buffer" for overall expenses, meeting short-term financial commitments, and optimizing the use of fixed assets for generating short-term funding. These areas are crucial for managing liquidity risk effectively and ensuring financial stability. Proper financial planning, regular cash flow forecasting, and optimizing net working capital are essential strategies highlighted to mitigate liquidity risks. Maintaining a healthy balance between liquidity and investment opportunities is vital for the long-term financial health of the company (Jing, 2017).

3.2.3 Stability

The study's findings highlight that creating a budget, acquiring insurance coverage for unexpected incidents, and maintaining a safety buffer are crucial strategies strongly agreed upon by respondents to ensure financial stability. They emphasized the importance of making reasonable plans for future expenses, paying off debt, and cutting unnecessary expenses to reduce financial risks and enhance stability. Financial stability is seen as a vital element contributing to an enterprise's overall stability, ensuring the ability to fulfill obligations, attract investments, and operate smoothly even during market fluctuations (Ming, 2019).

3.2.4 Profitability

The study's findings emphasize that profitability risks are strongly associated with uncertainties in strategies, operational efficiency, risk management practices, income diversification, and safety procedures. Respondents strongly agree that managing these risks proactively leads to improved company functions, increased productivity, and enhanced profitability. The relationship between risk and profit, as outlined by economic theories, highlights that taking calculated risks can lead to greater financial rewards for businesses, underlining the importance of risk management in optimizing profitability and business performance.

3.3 Financial Risk Management Process of FK Coal Group

3.3.1 Risk Identification

The study's findings highlight a strong consensus among respondents regarding the identification of risks in key areas such as credit, liquidity, stability, and profitability. Risks identified include default payment issues, improper cash flow management, production costs, and constant fund flow requirements. Risk identification is crucial for businesses as it helps in understanding potential threats, formulating mitigation plans, and making informed decisions to manage risks effectively. Respondents emphasized the importance of continuous risk assessment strategies such as risk management forums, risk assessment checklists, and root cause analysis to mitigate unforeseen risks beyond their control.

3.3.2 Risk Analysis

The findings indicate a strong agreement among respondents regarding risk analysis in key areas such as profitability, credit, liquidity, and stability. Identified risks include expected losses, risk-adjusted return considerations, payment schedule concerns, and resilience to economic shocks. Risk analysis methods such as risk benefit analysis, needs assessment, and root cause analysis have been employed by companies to minimize losses, strengthen security, prioritize risks, allocate resources effectively, and manage costs. These strategies have helped in mitigating risks and addressing potential adverse impacts on business activities, particularly in financial matters.

3.3.3 Risk Evaluation and Control

The findings highlight a strong consensus among respondents regarding risk evaluation and control in various areas such as stability, credit, profitability, and liquidity. Key aspects such as awareness of workplace hazards, credit reputation and capacity, financial ratio analysis for profitability, and cash flow management for liquidity were emphasized. Risk evaluation is crucial in defining the significance of estimated risks and implementing appropriate controls to mitigate adverse events, especially concerning workplace hazards and financial risks. Respondents stressed the importance of risk assessments in reducing exposure to hazardous work environments and prioritizing hazard control measures to ensure business operations are not negatively impacted.

3.3.4 Risk Management

The findings underscore a strong consensus among respondents regarding risk treatment strategies in credit, profitability, stability, and liquidity. Key aspects such as reducing non-performing assets, improving efficiency and reducing costs, risk acceptance and avoidance, and maintaining a portfolio of liquid assets were highlighted. Risk treatment is seen as a crucial component of effective risk management, involving strategies like risk avoidance and insurance to mitigate potential financial risks. These strategies aim to identify security controls and safeguards necessary to prevent incidents that could disrupt business operations, especially concerning financial matters.

3.4 Proposed Financial Risk Management Plan

Based on the findings of the study, a proposed financial risk management plan was made. The financial risk management plan encompasses the processes of identification, analysis, evaluation, control, and treatment of risks. It involves creating a comprehensive table outlining areas of concern, issues at each stage, proposed policies/strategies, responsible units or persons, time frames, and expected outcomes. This approach aims to prepare enterprises or companies for potential risks, minimize their impact, and ensure sound financial management, compliance with laws and regulations, positive stakeholder relationships, and informed strategic decision-making.

4. Conclusions

FK Coal Group, a state-owned enterprise with over 40 years of operational experience and a vast workforce, operates on an international scale with billions in assets as of 2022. The company faces financial risks across various domains

such as credit, liquidity, stability, and profitability, dealing with issues related to debt payments, asset diversification, fund sustainability, and production costs. To manage these risks effectively, FK Coal Group follows a financial risk management process that includes risk identification, analysis, evaluation, control, and treatment. Based on the study's results, proposed activities and strategies have been outlined to prevent or minimize potential risks, with a specific focus on credit management, liability mitigation, ensuring stability, and enhancing profitability within the enterprise.

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