

Analytical Study on Financial Risk Management Strategies of Hengrui Medicine

Xiuyu Zhao, Zixing Cao

School of Economics, Guangzhou College of Commerce, Guangzhou, Guangdong, China

Abstract: Financial risk management has a critical position in corporate management. In recent years, financial risk management strategy have attracted growing attention across diverse business sectors, such as the new energy industry, high - tech industry, and pharmaceutical industry. More and more scholar has proved that optimizing financial risk management strategies can effectively enhance corporate operations. As an innovative pharmaceutical enterprise in China, Hengrui Medicine is continuously advancing its internationalization process and serves as a representative case for research in China's pharmaceutical industry. This paper takes Hengrui Medicine as the research object, deeply collecting information on the enterprise's financial risk management strategies from multiple perspectives. Through a comprehensive analysis of this information, it summarizes research conclusions that offer reference value for other enterprises. Additionally, by examining the distinct links of financial risk management, this study identifies the current challenges in Hengrui Medicine's risk management practices and proposes targeted recommendations, which also hold certain reference significance for other pharmaceutical companies.

Keywords: Financial Risk; Internal Control; Pharmaceutical Enterprise; Management Strategy; Risk Awareness.

1. Introduction

With the continuous development and innovation in the financial sector, financial risk management has emerged as a central topic in finance. As a complex and high-risk industry, the pharmaceutical sector requires particularly robust financial risk management. Hengrui Medicine, a leading Chinese pharmaceutical enterprise, relies on sound financial risk management strategies

to sustain its stable growth. This thesis uses Hengrui Medicine as a case study to conduct a thorough analysis of its financial risk management strategies, aiming to provide valuable insights and recommendations for Hengrui and other enterprises.

1.1 Research Background

With the rapid development of China's pharmaceutical industry and the intensification of global competition, Chinese pharmaceutical enterprises face significant financial risks in research and development (R&D) investments and international market expansion. According to data from the National Medical Products Administration (NMPA), the clinical trial failure rate of innovative drugs in China reached 68% in 2023, with R&D risks directly affecting the cash flow stability of enterprises. Meanwhile, fluctuations in the RMB exchange rate have an annual average impact of 4.2% on the conversion of overseas revenue for multinational pharmaceutical companies. As the first domestic enterprise to launch a PD-1 monoclonal antibody in the international market, Hengrui Medicine accounted for 18.7% of its revenue from overseas markets in 2023, making it a typical case for research.

1.2 Research Significance

This study enriches the theoretical framework of financial risk management for pharmaceutical enterprises through empirical cases and supplements research on risk governance in the internationalization process of emerging market enterprises. Meanwhile, it provides actionable risk management strategies for Hengrui Medicine and similar enterprises, helping Chinese pharmaceutical companies enhance their ability to withstand global risks.

2. Literature Review

Charles [1] found that the primary causes of the collapse of financial companies in New

Zealand were the excessively high non-performing asset ratio and the low capital adequacy ratio in their operations. Guo et al. [2] proposed that enhancing the understanding of risk management concepts serves as the foundation for improving the risk management system. Yang and Wan [3] found that the application of big data analysis technology can optimize financial risk management strategies. Zhang [4] found that technological innovation, a robust governance framework, and a proactive risk awareness culture are of significant importance in the financial risk management strategies of Chinese enterprises. Elmoursy et al. [5] found that there is a positive correlation between the gender diversity and independence of an enterprise's board of directors and the effectiveness of financial risk management. Palakurti[6] found that integrating Business Rule Management Systems with Artificial Intelligence and Machine Learning can effectively enhance the efficiency of risk management. Junming Li [7] found that financial risk management in enterprises can be strengthened through strategies such as enhancing internal control, improving internal audit, and establishing financial risk early-warning mechanisms. Kibe [8] found that risk management strategies have a positive impact on financial performance, and investment firms should develop comprehensive risk management frameworks to effectively identify, assess, and mitigate potential risks. Paulino et al. [9] maintains that comprehensive risk management practices are of great significance for enhancing financial stability and operational efficiency. Lu [10] proposed that machine learning tools can enhance the efficiency of risk management in enterprises.

3. Overview of Hengrui Medicine's Financial Risk Management

3.1 Introduction to Hengrui Medicine

Jiangsu Hengrui Medicine Co., Ltd. is an enterprise specializing in pharmaceutical innovation and the research and development (R&D) of high-quality pharmaceuticals. Established in 1997, the company went public on the Shanghai Stock Exchange in 2000. As of the end of 2021, Hengrui had cumulatively applied for 1,321 domestic invention patents, holding 360 valid domestic authorized

invention patents and 478 authorized patents in foreign jurisdictions such as Europe, the United States, and Japan. Its main business scope covers the fields of anti-tumor drugs, cardiovascular drugs, and endocrine drugs.

Hengrui has consecutively been listed among China's top 100 pharmaceutical industrial enterprises for many years, and in 2021, it once again ranked first on the list of "Best Industrial Enterprises in China's Pharmaceutical R&D Product Line." On April 17, 2024, the company released its 2023 annual report, showing that it achieved an operating revenue of 22.820 billion yuan in 2023, a year-on-year increase of 7.26%; net profit attributable to shareholders of the listed company was 4.302 billion yuan, a year-on-year increase of 10.14%; and net operating cash flow was 7.644 billion yuan, a year-on-year increase of 504.12%.

3.2 Importance of Financial Risk Management

The significance of financial risk management is primarily reflected in the following aspects:

Reducing risk uncertainty: Enables effective identification and mitigation of potential risks, ensuring smoother operations of financial institutions and markets.

Enhancing enterprise competitiveness: Improves the operational efficiency and profitability of financial institutions through scientific risk management.

Promoting stable enterprise development: Provides reliable financial support for economic activities, ensuring the healthy operation of the economic system.

Protecting investor and consumer rights: Safeguards them from unnecessary losses and strengthens market confidence.

3.3 Financial Risks in the Pharmaceutical Industry

High R&D Risks: Data from relevant foreign research centers show that the average R&D cycle for innovative drugs ranges from 10 to 15 years. Although Hengrui Medicine's R&D investment accounted for 23.1% of its total revenue in 2023, its clinical trial failure rate still reached 55%. These figures collectively indicate the significant R&D risks inherent in the pharmaceutical industry.

Strong Policy Sensitivity: In the Chinese market, numerous pharmaceutical enterprises

have been affected by centralized procurement policies, which have reduced drug profits. For example, in 2023, the revenue from drugs included in the national centralized procurement by Hengrui Medicine decreased by 12.8% year-on-year.

Complex International Risks: Currently, pharmaceutical enterprises face increasing international risks due to exchange rate fluctuations in overseas markets and rising tariffs between China and the United States. In addition, there are multiple risks such as intellectual property disputes and regulatory disparities.

3.4 Basic Framework and Process of Financial Risk Management

The basic framework and processes of financial risk management include the following components: risk identification, risk Assessment, risk response, risk monitoring and reporting, risk culture construction.

3.5 Current Status of Hengrui Medicine's Financial Risk Management

As a leading enterprise in the pharmaceutical industry, the financial risk management practices of Hengrui Medicine are crucial to its stable operations and sustainable development. Based on public information, Hengrui Medicine has implemented multiple measures to ensure financial security and stability:

Established a comprehensive risk management system and internal control framework covering all operational aspects (finance, investment, R&D, sales, etc.), enabling effective identification, assessment, and control of risks.

Adopts a cautious approach to investment decisions, conducting thorough market research and risk assessments before any investment to ensure project feasibility and safety. The company also emphasizes diversified investment portfolios to reduce risks from single investments.

Strengthened collaborations with financial institutions (banks, securities firms, etc.), securing more financing channels and preferential terms while lowering financing costs and improving capital efficiency.

In summary, Hengrui Medicine has implemented multi-faceted measures in financial risk management, including robust risk management systems, prudent and

diversified investment strategies, and close partnerships with financial institutions. These efforts safeguard the company's financial stability and provide a solid foundation for sustained growth.

4. Implementation Effects of Financial Risk Management Strategies

4.1 Financial Risk Management Strategies of Hengrui Medicine

Classification of financial risks refers to various types and categories of risks faced by enterprises, including interest rates, exchange rates, price indices, etc. According to their causes, financial risks can be divided into two categories: one is caused by volatility in the market due to changes in external factors; the other is the expansion of losses due to non-systemic force majeure or unplanned natural disasters. When facing these issues, how should enterprises take measures to avoid such events, reduce the degree of economic losses and risks, and thus achieve the goal of controlling financial risks?

Hengrui Medicine has adopted the following strategies in financial risk management:

Strengthen R&D of innovative drugs: Invest more resources in the research and development of innovative drugs to enhance the company's core competitiveness and market position.

Broaden financing channels: Raise funds through multiple means such as equity financing and bond financing to reduce financing costs and risks.

Introduce highly educated talent: Recruit and cultivate highly educated talent to improve the company's R&D capabilities and management level.

Optimize product structure: Enhance the company's profitability and risk resistance through product innovation, upgrading, and the expansion of a diversified product pipeline.

Establish and improve internal control systems: Improve financial management systems, strengthen internal audit and risk assessment, and ensure the compliance and safety of the company's financial activities.

Control debt scale and optimize debt structure: Maintain a low debt ratio, reasonably arrange the proportion of short-term and long-term liabilities, and reduce debt risks.

Attach importance to risk management:

Identify and assess various financial risks, formulate corresponding risk prevention measures, and reduce potential losses.

These measures help Hengrui Medicine reduce financial risks and enhance its financial stability and sustainable development capabilities. However, financial risk management is an evolving process, and the company needs to continuously adjust and optimize its strategies according to market conditions and its own circumstances. At the same time, when evaluating Hengrui Medicine's financial risks, investors should also comprehensively consider multiple factors such as the company's financial status, industry competition, and market environment.

4.2 Effects of Risk Management Strategy Implementation

Financial Stability: Through effective risk management strategies, Hengrui Medicine can identify and address potential market risks. This helps maintain the company's financial stability, avoid significant financial losses, and lay a solid foundation for its long-term development.

Business Continuity: Risk management strategies ensure that the company can maintain business continuity and stability in the face of various risks. Whether it is supply chain disruptions, R&D failures, or market changes, Hengrui Medicine can mitigate the impact of these risks on its operations through risk management strategies.

Optimization of Investment Decisions: In investment decision-making, risk management strategies can assess the risks and returns of Hengrui Medicine, enabling more informed investment decisions. This helps the company optimize resource allocation and improve return on investment.

Enhanced Market Reputation: Through effective risk management, Hengrui Medicine can demonstrate its prudent business style and sound governance capabilities, thereby enhancing its market reputation. This helps the company gain more support and trust in the capital market, creating a more favorable environment for financing and expansion.

Promotion of Innovation: Risk management strategies not only focus on risks in existing businesses but also those arising from the company's innovative activities. By providing risk safeguards for innovation, Hengrui

Medicine can encourage employees and teams to actively innovate, driving continuous breakthroughs in R&D, products, and markets. In summary, risk management strategies have a multi-faceted impact on Hengrui Medicine, helping the company maintain financial stability, business continuity, optimize investment decisions, enhance market reputation, and promote innovation. These effects collectively contribute to the company's long-term development, enabling Hengrui Medicine to maintain a leading position in a highly competitive market environment.

5. Challenges in Financial Risk Management of Hengrui Medicine

5.1 Risk Identification and Assessment

Incomplete risk identification: As a listed company in the pharmaceutical industry, Hengrui Medicine faces diverse financial risks, such as market risks from stock market fluctuations, R&D risks in the pharmaceutical sector, policy risks due to regulatory changes, and production risks in pharmaceutical manufacturing. Although Hengrui Medicine has a relatively complete risk management system, it primarily focuses on operational risks, with insufficient attention to other risk categories. This may lead to the neglect of certain risks, potentially causing losses to the company.

Unscientific risk assessment methods: Different financial risks require tailored assessment approaches. Hengrui Medicine focus on operational risks relies mainly on common financial indicator analysis. To comprehensively evaluate financial risks, it is essential to consider multiple factors, including risk types, occurrence probability, and potential loss severity, and then select appropriate assessment methods. The company's single-method approach to risk assessment cannot fully evaluate all financial risks, potentially leading to inaccurate results and failing to provide effective risk warnings or response measures.

5.2 Risk Monitoring and Reporting

Inadequate risk monitoring mechanisms: Hengrui's existing risk monitoring mechanisms are incomplete, particularly in their insufficient consideration of financial

risks. This may result in delayed detection and identification of potential risks, increasing the company's exposure to risk. Moreover, the scope, frequency, and methods of risk monitoring do not cover all critical business areas and processes, creating blind spots in financial risk management.

Inadequate risk response measures: The company currently lacks a well-developed emergency plan for financial risks. A robust emergency plan should include risk event protocols, designated responsible personnel, and strategies to address potential public opinion impacts. The absence of such a plan may lead to ineffective implementation of response measures, unclear accountability, and the potential for risks to escalate or worsen following an incident.

5.3 Risk Response and Resolution

Unclear risk response strategies: When facing different financial risks, companies must prioritize distinct focuses and adopt tailored strategies. Hengrui's current response strategies remain predominantly focused on operational risks, leading to delayed reactions and missed optimal response opportunities when confronting non-operational financial risks. The lack of targeted and flexible strategies hinders effective risk mitigation, reducing the overall effectiveness of risk responses.

Unstandardized risk resolution processes: Hengrui's risk resolution processes lack clear steps and accountability, resulting in chaotic and inefficient handling of incidents. Non-standardized procedures often lead to insufficient communication and coordination, causing information gaps and undermining resolution efficiency.

6. Recommendations

6.1 Risk Identification and Assessment

Diversify risk assessment methods: Hengrui Medicine currently relies primarily on financial indicator analysis for operational risks, which is overly simplistic. It is recommended to introduce additional risk models, such as Value-at-Risk for market risks and gap analysis for liquidity risks, to fully quantify the magnitude of risks faced by the company. Incorporating multiple assessment methods allows for a more comprehensive

evaluation of risk probabilities and their potential impacts on the company's finances, market position, reputation, and other dimensions. By optimizing risk assessment, Hengrui can more accurately grasp the characteristics and trends of various risks, providing a scientific basis for formulating targeted risk management strategies. The application of these advanced concepts and methods will not only enhance the efficiency and accuracy of risk management but also help the company maintain a competitive edge in the dynamic pharmaceutical market.

Strengthen risk information collection and analysis: During the risk identification and assessment process, Hengrui should place greater emphasis on collecting and analyzing relevant risk information. For example, establishing a dedicated database to continuously gather domestic and international pharmaceutical market data—including market demand, competitor dynamics, and policy regulations—will enable the company to more accurately identify market changes and potential risks through in-depth data mining and analysis, providing robust support for risk management.

6.2 Risk Prevention and Control

Implement risk limit management: In terms of risk control, Hengrui is advised to establish a risk limit management system by setting clear risk thresholds for various financial transactions, ensuring business activities remain within controllable limits. Additionally, emphasizing risk diversification through strategies such as diversified investments and rational asset allocation can reduce the impact of single risk events on overall operations.

Develop a streamlined emergency response mechanism: The company should establish a clearer and more efficient risk emergency response mechanism, covering risk event protocols, responsible personnel, and strategies to address post-resolution impacts. This mechanism will enable the company to better handle sudden risk incidents and ensure timely and effective responses to risk challenges.

6.3 Risk Response and Resolution

Formulate comprehensive risk response strategies and standardized resolution processes: Hengrui should develop more comprehensive risk response strategies and

standardized resolution procedures. A comprehensive strategy should first address different types of financial risks and then specify targeted responses for each risk category to enhance effectiveness. Standardized resolution processes should include clear steps for handling different financial risks, designated responsible personnel for each stage, and strict accountability to ensure smooth implementation.

7. Conclusion

In conclusion, future risk management will face more challenges and opportunities. Enterprises must continuously enhance risk awareness, improve management systems, adopt advanced technologies, promote information sharing and collaboration, and develop robust contingency plans. Meanwhile, they should monitor risk management trends to drive innovation and development in this field. Future research directions may further explore, for example: the application of blockchain technology in risk management of pharmaceutical supply chain finance; the impact mechanism of ESG factors on the risk premium of pharmaceutical enterprises; and quantitative assessment methods for intellectual property risks in cross-border R&D cooperation.

This study provides a theoretical path for Hengrui Medicine and Chinese pharmaceutical enterprises to enhance their global risk management capabilities, helping the industry achieve stable development in complex financial environments.

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