

# Research on Corporate Equity Investment Management and Risk Control System

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**Abstract:** Corporate equity investment holds great significance for the achievement of corporate strategic objectives and the growth and expansion of the company, influencing its competitive position in the industry. This article, starting from the management of corporate equity investment, explores the key aspects of pre-investment, in-investment, and post-investment management of equity investment, as well as the construction of a risk control management system. It also proposes optimization suggestions for corporate equity management.

**Keywords:** Equity investment; Investment decision-making; Investment management; Post-investment management; Risk control; Investment research capability

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## 1. Introduction

In the era of profound transformation of the global industrial chain and surging waves of technological innovation, equity investment, as a crucial link connecting the capital market and technological innovation, is becoming an important force in China's investment field. The Fourth Plenary Session of the 20th Central Committee of the Communist Party of China clearly proposed "expanding effective investment," pointing out the direction for economic investment at present and in the future. How to improve the scientific nature of equity investment management and enhance the quality and efficiency of investment is an important proposition for industrial development and corporate governance.

Corporate equity investment refers to the investment behavior in which a company purchases the equity of a target enterprise through open market transactions, agreement transfers, or other means, and participates in or controls the enterprise to achieve its own strategic needs. Equity investment is one of the important investment tools for enterprises. By providing capital support with a longer term to enterprises, it helps enterprises achieve technological innovation, market expansion, and business upgrading, better serves technological innovation and industrial development, and cultivates and strengthens new productive forces.

## **2. Corporate equity investment management**

Corporate equity investment management refers to the systematic and professional management activities conducted by a company in the investment process of equity assets. It encompasses the entire process management, including investment decision-making, in-process management, post-investment management, and risk control.

### **2.1. Characteristics of equity investment**

Equity is the fundamental unit of corporate ownership and serves as a crucial voucher and proof of power for shareholders' contributions to the company. Through long-term equity investments, enterprises establish group companies and their internal capital markets, which not only influence the overall entity investment decisions and internal financing behaviors of the group but also affect financial investment behaviors based on the parent company <sup>[1]</sup>. It represents investors' ownership shares in the company's assets and corresponding rights and interests, which primarily include ownership, earnings rights, voting rights, and residual property claims. Based on the attributes of equity, corporate equity investments exhibit four characteristics: long-term nature, high risk, high potential for returns, and participatory nature.

### **2.2. Core content of equity investment management**

In the management of equity project investment, it can be divided into three stages in chronological order: pre-investment, during-investment, and post-investment. Each stage has different characteristics, and risk control and compliance management run through the entire process of these three stages.

#### **2.2.1. Investment decision-making mechanism**

The mechanisms are as follows:

- (1) Investment strategy formulation: The company's business development needs to align with its overall strategic planning. The formulation of equity investment plans should match the company's overall strategy. The company can establish a negative list system for equity investments, directly eliminating projects that do not align with the company's development strategy. The screening criteria for investment projects should align with the company's investment objectives, establishing a classification and screening mechanism based on indicators such as industry, scale, and growth potential;
- (2) Due diligence: Due diligence, also known as prudent investigation, refers to a comprehensive investigation conducted by investors themselves or entrusted third-party institutions on the financial, legal, and business aspects of the target enterprise after reaching a preliminary cooperation intention and reaching a consensus through negotiation. The purpose of due diligence is to discover the inherent value of the project, assess project risks and their impact on expected investment, prepare for the design of investment plans, and provide a basis for corporate investment decisions. The due diligence process generally includes steps such as formulating an investigation plan, conducting on-site investigations and collecting information, drafting a due diligence report, internal research review, and designing investment plans. The information collected during due diligence serves as the basis for writing the due diligence report and must meet the requirements of authenticity, completeness, and accuracy. For equity investments, as it involves the judgment of equity value, the valuation report issued by intermediary institutions is also a necessary component of due diligence;

- (3) Investment decision-making process: Equity investment decision-making is the pre-investment phase of a project, generally following the principles of hierarchical authorization and collective decision-making. It includes at least the stages of “project initiation-due diligence-internal review-corporate decision-making”. Given the high-risk and long-term nature of equity investment projects, expert committee reviews can generally be incorporated into the internal review stage, and reviews by the risk control committee, strategic investment committee, etc. can be added to the corporate decision-making stage, thus providing sufficient basis for decision-making by the company’s senior management. The investment decision-making system of state-owned enterprises should also comply with the “Three Major Matters and One Large Matter” management regulations, and be submitted to the competent department for approval or filing in accordance with laws and regulations.

### **2.2.2. Key management points of investment**

The investment and management phase of a project serves as a pivotal link between the past and the future. It generally encompasses two key stages: contract signing and equity transfer. Although this phase may be relatively short in duration, it is immensely important. It determines whether investment decisions are executed in a legal and compliant manner, and whether post-investment management can proceed smoothly. For instance:

- (1) Contract signing: The signing of an investment agreement (contract) not only confirms the results of preliminary negotiations, due diligence, and investment decisions, but also clarifies the rights and obligations of both investing parties, which is crucial for the effective implementation of post-investment management. The terms of the investment agreement include transaction structure, prerequisites, corporate governance, commitments and guarantees, as well as some special provisions. The investment agreement should stipulate the transaction structure, mainly including the investment method, equity price, equity ratio, payment method, and delivery arrangement. The investment agreement generally stipulates the rights and obligations of the investor and the invested enterprise. To protect its own interests, the investor usually imposes restrictive constraints on the invested enterprise. Common constraints include one-vote veto clause, preferential dividend, valuation adjustment clause, information disclosure clause, etc. The special provisions in the investment agreement are mainly aimed at protecting the rights and interests of shareholders and investors. Common special provisions include equity transfer restriction clause, preferential liquidation clause, pre-emptive right clause, tag-along right clause, drag-along right clause, anti-dilution clause, buyback clause, valuation adjustment clause, etc. <sup>[2]</sup>;
- (2) Equity delivery: The equity delivery process refers to the transaction of equity assets and funds between the investing parties in accordance with the investment agreement. In equity investments, equity delivery should meet the preconditions agreed upon by both parties. The equity registration and transfer procedures should be handled at the administrative department for industry and commerce, and the relevant materials should be complete, legal, and impartial. To ensure the safety of investors’ funds, the fund transfer process is generally initiated only after the equity registration and transfer. The management of investment funds requires close attention to fund transfer, fund use, and fund monitoring to ensure the safety and compliance of funds.

### **2.2.3. Post-investment management system**

Post-investment management refers to the activities where investors, after investing in the equity of a company,

actively participate in major business decisions of the invested company, track and monitor its progress, and provide a series of value-added services. Typically, the period from the completion of project investment decisions and implementation until the project exits falls under the scope of post-investment management. From the perspective of the company, post-investment management of equity investments needs to fulfill five functions.

- (1) Equity management: The exercise of shareholder rights by equity investors should be based on the “Company Law”, adhering to legal compliance, neither neglecting nor exceeding their roles, safeguarding the rights and interests of shareholders, and maximizing the company’s value. To implement equity management, corresponding institutions or responsible departments should be established, and full-time personnel should be arranged to engage in the daily management and coordination of equity affairs. At the same time, a complete set of standardized rules and regulations should be established and strictly enforced within the company. According to the equity investment agreement and the articles of association of the invested enterprise, investors can dispatch directors or supervisors to the invested enterprise, improve the corporate governance structure of the invested enterprise, pay close attention to the operation and major issues of the invested enterprise, and timely exercise shareholder rights;
- (2) Value enhancement: The post-investment management of corporate equity focuses on enhancing the value of the invested enterprise, fully empowering it, and thereby increasing the value of the held equity. A good corporate governance environment and ensuring the discretionary power of financial institutions are prerequisites for reducing inefficient investment in enterprises <sup>[3]</sup>. Qualified companies can promote the integration of the innovation chain, industry chain, talent chain, and capital chain through comprehensive financial services, collaboration with upstream and downstream enterprises, and other means. In terms of financing, joint financial institutions can carry out “investment and loan linkage”, “loan and investment linkage”, “investment guarantee linkage”, “investment and bond linkage”, “insurance and investment linkage”, etc., providing a package of comprehensive financial services to help the invested enterprise grow and develop. In terms of technology, coordinate the connection between the invested enterprise and major institutions, promote the integration of “production, research, and application” in the invested enterprise, and achieve the transformation and application of technological achievements and breakthroughs in key technological innovations of the enterprise. In terms of corporate governance, assist the invested enterprise in improving its systems, enhancing its operation and management, and enhancing the quality and efficiency of its operations. In terms of supply chain, introduce key suppliers and customers to the invested enterprise, and assist in expanding its market and business. In terms of strategic planning, provide research and consultation on industry development, helping the invested enterprise clarify its development strategy and path. In terms of talent team, assist the invested enterprise in recruiting talents and recommending talent teams;
- (3) Information monitoring: The company conducts daily tracking and monitoring of projects in post-investment management to effectively identify, control, and respond to risks. Typically, by establishing regular reporting and major event reporting systems, timely access to information on the operations of invested enterprises can be obtained, enabling the identification, assessment, control, and disposal of risks;
- (4) Project exit: Post-investment management facilitates the exit of equity investment projects through negotiation and supervision. Common methods of equity investment exit include IPO, mergers and acquisitions (M&A), equity transfer, liquidation, etc. Among them, IPO exit refers to the exit of a company through the transfer of its shares after listing on the securities market. IPO exit has become

an important method of venture capital exit in China <sup>[4]</sup>. Equity transfer refers to the legal transfer of equity held by investors to other individuals or institutions, serving as a means of capital return. Methods of equity transfer include agreement transfer, listing transfer on the National Equities Exchange and Quotations (NEEQ), or regional equity markets. M&A exit involves a company purchasing all the equity or assets of an invested enterprise, thereby controlling its operations and enabling the original investors to exit. Repurchase exit involves the operator or owner of the invested enterprise repurchasing the equity held by investors, which is also a common exit method for private equity investment funds. Liquidation refers to the exit through judicial reorganization or judicial bankruptcy when the invested enterprise is poorly managed and on the verge of bankruptcy. In liquidation exit, investors face significant losses in principal;

- (5) Performance evaluation: By tracking indicators such as return on investment, value growth, and reinvestment, performance evaluation can comprehensively reflect the achievement of equity investment objectives, urge invested enterprises to operate in a standardized manner, and is of great significance in ensuring the safety of investment <sup>[5]</sup>. The specific performance evaluation cycle and indicator system can be designed according to the needs of investors.

### **3. Equity investment risk control system**

Comprehensive risk management requires the implementation of basic risk management processes in all aspects of corporate management and operational processes to ensure the stable operation of the company. As an investment business, equity investment requires the improvement of risk management systems and processes, mainly including risk identification, risk assessment, and risk control. A sound risk control system is conducive to controlling risks in the equity investment process, facilitating project exits, improving investment returns, and ensuring the achievement of investment objectives.

#### **3.1. Risk identification**

The risk identification of corporate equity investment is the foundation and prerequisite for risk control. It refers to the process of identifying the sources of individual project risks and overall project risks, and recording the characteristics of risks. The main risks faced by equity investment include market risk, credit risk, liquidity risk, operational risk, compliance risk, etc.

Participants in risk identification activities include investment managers, investment team members, invested enterprises, external experts, compliance and risk control departments, and company management. As the investment team and business departments are directly exposed to projects on the front line, they serve as the “first line of defense” for risk prevention and control, making them particularly important. Therefore, it is crucial to focus on enhancing the business capabilities and risk prevention and control levels of the investment team. The company should adopt a unified risk recording format to describe and record the risks of investment projects, ensuring that every identifiable risk is clearly and explicitly understood, thereby supporting effective risk analysis and the formulation of risk response measures. However, throughout the entire process of equity investment, the risks of individual projects may continuously change as the project progresses, and the overall investment risk level will also evolve. Therefore, risk identification is an iterative process, and the company needs to make timely adjustments according to the situation.

### **3.2. Risk assessment**

Risk assessment involves predicting and measuring potential risks, estimating the probability of occurrence and the extent of loss. The primary methods for risk analysis and assessment include qualitative analysis, quantitative analysis, risk ranking, stress testing, and so on.

In equity investment management, various evaluation methods are often comprehensively utilized to conduct a comprehensive analysis of the causes, control, and consequences of risks. Risk classification standards are established to provide a reference for addressing risks.

### **3.3. Risk control measures**

Based on the characteristics of equity investment, measures such as diversified investment and investment limits should be taken before investment, terms protection measures should be taken during investment, and risk early warning and judicial disposal measures should be taken after investment. These measures can effectively prevent and control risks and ensure the safety of investment funds.

In the design of the company's organizational structure, the responsibilities and roles of the company's Party Committee, shareholders' meeting, board of directors, and management in risk control shall be clarified. The board of directors can establish specialized committees such as the risk control committee and investment decision-making committee, and establish a collective decision-making mechanism for risk control matters. A separate risk management department shall be established to exercise independent risk management functions. The division of responsibilities between the risk management department and front-end departments such as investment, financing, and marketing, as well as back-end departments such as compliance, audit, and finance, shall be clarified. The risk management process shall be optimized to improve the quality and efficiency of risk management.

In the construction of the risk control system, the whole-process management of investment shall be standardized, and mechanisms for risk identification, assessment, and response shall be established. An information disclosure system shall be established to regularly collect project information and form risk control reports. Legal and compliant risk control shall be adhered to, ensuring that risk control measures comply with laws, regulations, and regulatory requirements.

## **4. Optimization direction of equity investment management**

### **4.1. Strengthen investment research capacity building, and improve project screening and valuation levels**

Industry research shall be strengthened from three dimensions: macro, meso, and micro. At the macro level, policy analysis (regulatory dynamics + subsidy policies + standard evolution), market capacity measurement (TAM/SAM/SOM three-level penetration), and technology maturity assessment (Gartner curve positioning + patent map) shall be strengthened. At the meso level, distribution maps of industry chains, technology chains, capital chains, talent chains, etc. shall be drawn, and analysis on market share, technical solutions, profit models, etc. shall be conducted. At the micro level, analysis of individual enterprises shall be strengthened, and corporate governance, financial situation, product value, personnel team, and other elements shall be comprehensively studied.

A project reserve library for equity investment shall be established, and equity projects shall be scientifically and reasonably evaluated. Reference shall be made to the newly revised "Guidelines for Equity Valuation of Non-listed Companies" by the Securities Association of China, and the market multiplier method, income method, and other methods shall be selected for equity value evaluation according to project types, fully demonstrating the

reasonableness of project equity prices.

#### **4.2. Establish and improve decision-making systems, and standardize investment decision-making processes**

The organizational structure and responsibilities of investment management shall be clarified, and the work of the company's Party committee, board of directors, management, business departments, and middle and back-office departments shall be rationally divided in accordance with laws and regulations. Authorization management methods shall be established based on the type and amount of investment projects.

A high-quality and efficient decision-making process shall be established, including project screening, project approval, due diligence, expert review, and decision-making by the company's management. Process guidelines for decision-making steps shall be issued, and details such as materials, personnel, time limits, and voting methods for each step in the decision-making process shall be standardized.

#### **4.3. Improve the post-investment management system and enhance value creation capability**

Dynamic monitoring of post-investment information shall be strengthened, and the information of invested enterprises shall be promptly grasped through the deployment of directors, supervisors, financial officers, and other management personnel. The organizational structure of post-investment management shall be improved, the independence of the post-investment management department shall be maintained, and a professional post-investment management team shall be established.

Post-investment management positions shall be reasonably set up, and professional personnel shall be arranged to promptly collect and organize information about invested enterprises, and regularly analyze and study the financial statements submitted by invested enterprises. Through irregular telephone communication or on-site research, problems and risks in invested enterprises shall be promptly identified and corresponding countermeasures shall be provided. Shareholders' meetings and board meetings of invested enterprises shall be regularly participated in, with attention paid to major decision-making matters and operating conditions of invested enterprises. The linkage and docking between the company and invested enterprises shall be strengthened, and full empowerment shall be provided in finance, parks, industries, talents, technology, and other aspects.

#### **4.4. Establish a dynamic risk monitoring mechanism to promptly adjust investment strategies**

The risk monitoring indicator system shall be improved to promptly capture risk information and achieve agility in risk management through the closed-loop process of "monitoring-evaluation-feedback." A three-tier warning system of "red, yellow, and blue" shall be scientifically established, and investment strategies and project selection criteria shall be dynamically adjusted by combining manual research with AI analysis and decision-making. For invested projects, measures such as adding supplementary agreements, sending reminder letters, early exit, and judicial disposal shall be taken according to the degree of risk to address potential risks.

#### **4.5. Cultivate a professional investment team and strengthen the construction of talent pool**

The investment talent selection mechanism shall be optimized, talent evaluation standards shall be established, and investment managers shall be selected through market-oriented mechanisms. Recruitment and selection channels shall be broadened to build a diversified talent introduction model.

The talent training system shall be improved, and professional skills in talent investment shall be enhanced through internal lectures, external training, expert lectures, research discussions, and exchanges with renowned

enterprises. Mature investment managers shall be cultivated through case analysis, investment practice, project follow-up investment, and other forms.

The talent incentive and restraint mechanism shall be strengthened, and a competitive compensation and welfare system shall be designed based on the contribution and compliance risk control of investment talents. A corresponding accountability system for violations and risk events shall be established.

#### **4.6. Utilize financial technology to enhance management efficiency and decision-making quality**

Information systems shall be leveraged to optimize investment processes. Intelligent project analysis shall be conducted through algorithm design; AI-driven due diligence shall be performed using natural language processing technology; and online equity transfer registration shall be facilitated via blockchain technology and network protocols. Big data analysis shall be utilized to enhance the breadth and depth of project analysis, providing detailed references for investment decisions. Integrated system platforms shall be utilized to conduct factual monitoring and stress testing of risks, as well as standardized contract management and business authorization management.

The construction of an investment management system shall be accelerated, encompassing reserve project management, investment plan management, preliminary process management, project approval decision management, property rights management, exit management, and post-evaluation management functions. The system's implementation scope shall cover the company headquarters and all levels of enterprises and funds that need to be brought under unified control, meeting the company's hierarchical and tiered management control model requirements.

### **Disclosure statement**

The author declares no conflict of interest.

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