

# Research Status of Corporate Finance Theory in China

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**Keywords:** Corporate Finance, Economy Theory, Research Status

**Abstract.** With the development of Chinese economy, the application of western financial theory in China is also increasing. Western classical company financial theory is the premise of the use of a complete rational market, and Chinese capital market and corporate governance structure is still very imperfect, so simply copy the Western financial theory to study Chinese corporate finance, the results are often untrustworthy. This paper first summarizes the development process of western classical financial theory and points out the prerequisite of its research. Then it reviews the actual situation of corporate finance research in China, and points out the theoretical premise of western company finance and the governance of listed companies in China. The structure of the existing differences between the status quo, the final description of corporate finance in China, we must pay attention to our company's unique governance structure and the effectiveness of capital markets.

## Introduction

In the development of Western corporate finance theory, there is the assumption that there is a continuous process of relaxation. It is also gradually realized that the market imperfections and institutional factors in the cost of the company's impact on the value of the company, but it can be seen that it is the United Kingdom as the representative of the market-oriented corporate governance model for the theoretical background, its implied provided that the company has a sound internal governance mechanism and an effective external market, this corporate governance mechanism can effectively balance the company's management, so that it can maximize the value of the company as a goal. Therefore, in the logical derivation of the above theoretical schools, it is generally to maximize the shareholder value as the objective function to influence the relevant factors of the company's financial decision-making as a constraint, and then draw the relevant conclusions. The theoretical system derived from this idea inherited the research paradigm of neoclassical theory, with clear and systematic characteristics, but it also produced its limitations. Because of its theoretical research hypothesis is still a perfect corporate governance structure of the "ideal company", not concerned about the special institutional structure of the country caused by financial conflicts and coordination mechanisms and other related issues, ignoring the cultural and legal traditions, the background of the economic system changes, the actual situation of corporate governance and other factors led to the special financial environment, so that the conclusions of the lack of universality. When the object of the study is in a particular economic environment, the assumptions and the actual factors of the transmission mechanism changes will produce the actual economic situation and its classic conclusions do not match the phenomenon, thus weakening its different social and institutional structure conditions under the company's financial behavior to explain the ability.

## The Difference between the Theoretical Premise of Western Company Finance and the Research Situation in Our Country

The distribution of the shares of the listed companies in the western capital market is extremely fragmented, which causes the company's main business decision-making power to be in the hands of the managers. The agency costs mainly come from the contradictions between the managers and the shareholders. In China, the majority of the listed companies More concentrated, a dominant

phenomenon more, the company's management personnel appointment in the hands of large shareholders, so the agency costs mainly from the major shareholders of the infringement of small shareholders, rather than the Anglo-American capital market, as the cost of agency Mainly from the manager and the contradiction between shareholders.

In the West, debt restraint is a kind of hard constraint. When the company faces financial difficulties, the creditor will gain control of "camera governance". If the enterprise enters into bankruptcy liquidation or debt restructuring, the creditor has certain decision, that is, the debt contract Is associated with the bankruptcy mechanism. In China, the debt constraint of a listed company is a kind of soft constraint. The bankruptcy mechanism of the company has more non-economic factors. The administrative intervention of the government has a great influence on the bankruptcy mechanism, and the loan bank as the creditor is often excluded from the bankruptcy liquidation there is no voting right for the liquidation of the enterprise. Because of the government financial guarantee (free of bad debts), so the creditor banks have neither the power nor the power to carry out the management of the financial difficulties of the enterprise.

Western classical company financial theory, although taking into account the information asymmetry and incomplete contract factors, but that under the premise of a given information, investors are completely rational, the market is effective. In China, because the capital market development time is short, speculative behavior and stock price manipulation of the phenomenon of more investors to the degree of protection is weak, so investors can not according to the relevant financial information correctly identify the quality of the enterprise signal of.

In the Western classical corporate finance theory, investors are considered to have the right to vote in the market. When the current management of the company is inefficient in operation, the original shareholders or new acquirers will acquire enough stocks to obtain the company's control, resulting in a new receiver. Although the law of the United States in recent years, the company took over more legal restrictions, but the company's takeover market in the external regulatory function is still basically effective. In our country, the vast majority of listed companies, due to the existence of "a dominant" phenomenon, when the company's current management inefficient management, unless the major shareholders are willing to transfer OTC shares of non-tradable shares, or outsiders It is difficult to purchase enough tradable shares to achieve the purpose of taking over the company, that is, the company's control market is not perfect to play the role of external governance.

In the United States and the United States mature market model, the formation of a sound manager of the market, managers hired, appointment and dismissal and their professional reputation has a great relationship, to a certain extent, prompted the manager to work hard to avoid the stock price decline, the company was taken over or Corporate bankruptcy. (82- 96) However, in China, when the controlling shareholder of the listed company is state, the company's senior personnel appointment and removal rights in the hands of the local party and government departments, when the listed company's controlling shareholder for the family, People often by the family members to serve, through the manager of the market to hire a professional manager only a small part of the appointment and appointment of senior managers and their previous professional reputation is not much relationship.

## **Research on Financial Theory of Chinese Companies**

Because of the complexity and change of the national institutional arrangement under the transition economy, the governance mechanism of listed companies is completely different from that of Anglo-American market. Among the many stakeholders in Chinese listed companies, due to the high concentration of equity, the lack of "the power of the camera" and the negative nature of the institutional investors, the core controlling shareholders become the mainstay of the loan banks and small and medium investors the agent problem. Because of the lack of checks and balances, this phenomenon is also very serious, this financial system environment for corporate financial goals and financial behavior have had a huge impact. Therefore, the study of corporate finance in China should be concerned about the impact of institutional factors.

Due to the background of the transition economy, the background and orientation of the

establishment of the stock market in China are the financing of the state-owned enterprises, the tools of the difficulties of the reform of the transition system, the chaos of the capital market function, the more rent-seeking phenomenon, the investment It is difficult to compare with the foreign capital market, which will have the following effects on the company's actual financial decision: (1) From the point of view of performance measurement, the market reaction research can only study the impact on the wealth of shareholders of tradable shares, (2) there is a strong speculation in the stock market, making the effectiveness of the study of the event greatly reduced; (3) and Western theory, the stock price changes will not affect the security of control (4) listed companies through financial decisions to carry out earnings management or transfer information to manipulate the stock price.

In the explanatory study of the financial behavior of listed companies, it is necessary to determine who the decision-maker of a particular financial behavior is based on the corporate governance structure, what is the objective function in reality, what constraints What kind of company financial decisions. And not like the Western classical company financial theory, that the company is in an ideal corporate governance state, the financial decision-maker's objective function is the company's shareholder value maximization. For example, in our country, from the corporate governance structure of listed companies can be judged, with the company control is the core shareholder, his objective function in reality is to obtain "control of rent" to maximize (in different specific In the category of financial decision-making, "maximizing the control of rent" can be transformed into different specific targets), the restraint conditions are the other conditions of the corporate governance structure and the real conditions of the capital market, and finally it can explain its actual financial decision behavior.

The In the study of the optimal financial decision-making of listed companies, it is necessary to determine what the objective function of financial decision is, and then the different corporate governance ideas. In the classical corporate governance theory has always stressed that "shareholder centrism". But with the development of modern companies, the company's goal is not to maximize the market value of the stock or maximize the interests of shareholders, but to consider the interests of stakeholders, that is, a "stakeholder theory." (32- 53) Corporate governance is described as the behavior and results of all stakeholders, and there is no international prevailing corporate governance model. China is currently in the process of transition to the market economy, the future direction of the development of corporate governance and corporate governance to take what kind of idea is inconclusive. Western corporate financial research is to maximize the value of the company as the goal, its essence is still to investors as the core, and because its shareholders of the stock for the whole tradable shares, creditors of the bonds can also be traded, so to maximize the company The value is equivalent to maximizing the company's stock and bond market prices. However, China has a completely different situation: First, the company's debt is mostly bank loans, can not trade circulation, the creditors to pursue the company's financial security and principal repayment; Second, most of the shareholders of the stock is non-tradable shares, its only Can be limited to the transfer of the agreement, the transfer price is about equal to the net assets, so this part of the non-tradable shareholders to maximize its value, it must maximize the amount of net assets owned by its own; and shareholders of tradable shares in the market circulation transfer , Then maximize the stock price has become its pursuit of the goal. The above three parts of the company's investors in the pursuit of different goals, it is decided in the optimization of corporate financial decision-making when the objective function has a different choice. It is conceivable that, in the case of the current control of non-tradable shareholders, the financial decision-making behavior reflects the intention of the controlling shareholder to "maximize the control of rent". In the future, with the gradual circulation of state-owned shares, the introduction of institutional investors in the governance structure, or the main banking system, different corporate governance models will lead to different corporate financial goals. Therefore, in the future corporate finance research, Behavior explanation or the optimal design, can not leave our country's special system background.

## **Conclusion**

Corporate finance theory is to study the company's capital flow and operation of the law of science; it originated in Western countries, based on the developed capital market. With the development of economy and the establishment of capital market, the research of corporate finance theory in our country is increasing day by day. However, there is a clear misunderstanding in these studies, that is, the lack of comprehensive and deep-seated views on Chinese capital market and corporate governance structure of listed companies understand that the control of the interests of listed companies and the interests of the allocation of information is unclear. The results of the study either can not explain the actual situation, either very far-fetched, one-sided. This paper reviews the research status of corporate finance theory in China, and analyzes and puts forward some suggestions.

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