The Impact of Corporate Governance on Corporate Financial Crisis from the Perspective of Financial Capital

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Abstract: The complexity and uncertainty in the economic field have become increasingly prominent, and the financial crisis of enterprises has become more and more serious. At the beginning of corporate governance, the core proposition is to protect the interests of financial capital owners (shareholders) and prevent managers from adverse selection and moral hazard and clear the correlation between corporate governance structure and financial crisis. The higher the asset-liability ratio of the company, the more large shareholders' funds occupied, and the higher the degree of separation of the two powers of the company ultimately controlled by the local government, the greater the possibility of financial crisis of the company. The contradiction mainly includes the contradiction between internal stakeholders and external stakeholders and the contradictions between internal stakeholders, which all affect the efficiency of corporate financial governance to a certain extent. Establishing and improving the corporate governance mechanism is of great practical significance for enhancing the market competitiveness and steady development capability of modern enterprises and preventing financial crisis.

1. Introduction

The failure of company operation mostly starts from financial crisis, so it is of great significance for the identification and early warning of financial crisis. Corporate financial crisis is usually reflected by financial statements, but the deeper reason lies in the corporate governance structure [1]. On the basis of the analysis of financial indicators, this paper introduces the non-financial factors such as the deviation between adjusted net assets per share and pre-adjusted net assets per share, the announcement date of annual report, the type of audit report, whether there is abbreviation change or not, and the proportion of the largest shareholder holding, and carries out the financial crisis prediction research [2]. Whether an enterprise is alert or not depends not on its profitability, but on whether it has enough cash and the ability to pay cash in accordance with its scale of operation [3]. Corporate governance is naturally linked to financial capital (material capital). The core proposition of corporate governance is to protect the interests of shareholders (financial capital owners) and prevent managers from adverse selection and moral hazard [4]. There was also no agreement on the conclusions of equity concentration and financial crisis. One said that equity concentration can improve corporate governance efficiency and improve company performance. On the other hand, the opposite is true. It is believed that the concentrated equity has led to the “short-cut“ behavior of major shareholders becoming more intensive and increasing the possibility of financial crisis. In order to ensure the interests of investors and the security of funds, it is necessary to form a corporate governance structure with incentives and constraints as the core, and different corporate capital structures form different corporate governance structures, resulting in different corporate governance efficiency [5].

Actively supervise the use of capital by business operators. From the point of view of ownership of capital, capital includes two parts: own capital and borrower capital. [6]. Compared with equity capital, creditor's rights capital has positive effects such as tax deduction effect of interest expenditure, lower capital cost and moderate financial leverage income. Independent directors of the company are nominal, the interests of small and medium-sized shareholders are infringed, the board of directors is too large, inefficient and so on [7]. The reasons for the company's financial crisis in the board structure are as follows: the company's independent directors are nominal, the

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interests of small and medium-sized shareholders are infringed; the board of directors is too large, inefficient and so on [8]. After the Asian financial crisis, corporate governance reform has become a hot topic and primary task in East Asian countries and regions [9]. That is, the degree of separation between control rights and cash flow rights is an important variable to characterize the controlling shareholder's encroachment effect, and the higher the degree of separation between control rights and cash flow rights, the more prominent the agency conflict between controlling shareholders and small and medium shareholders, leading to prediction errors. The financial statements do not reflect the full extent of the company's operating conditions. The mere use of financial indicators ignores the impact of other non-financial factors on the financial situation. Thus, the more serious the encroachment effect, the greater the probability that the company will fall into a financial crisis [10].

2. Materials and Methods

Enterprise system includes corporate governance structure, especially the financial governance structure, which has a far greater impact on the efficiency of corporate financial operation than financial technology. If the main goal of corporate governance is to clarify the rights and obligations of all stakeholders in the company. Governance structure is what we usually call ownership structure, capital structure, board of directors and board of supervisors. Governance mechanism, including internal and external operating mechanism of the company. The key to prevent principal-agent risks and reduce agency costs is to establish a good incentive mechanism, give agents appropriate incentives to reduce the gap of interests, and spend a certain amount of supervision costs to limit the acts of agents deviating from the right path. Local government or state-owned property rights representatives will strengthen their control and intervention, directly control listed companies by reducing the level of control or control listed companies with as little control level as possible to achieve the purpose of extracting the interests of listed companies. Capital structure is the most important aspect of corporate governance structure, and the effectiveness of corporate governance structure depends to a large extent on capital structure. The diversified investment of institutional investors affects the degree of concern for the company's operations, and the existence of its "short-sighted behavior" means that institutional investors are not concerned about the long-term growth of the company, but the pursuit of short-term price differences and other actions will cause listed companies to fall into The nightmare of financial crisis.

According to the principle of matching risk with equity, the shareholder is the owner of the enterprise, and the owner of other elements, such as creditors and employees, can only be a fixed recipient, not a residual claimant of the enterprise, because they do not bear the risk of asset damage. Managers no longer only focus on the single goal of maximizing their own profits, but also pay more attention to the existence and development of enterprises themselves and the harmonious coexistence of other interest groups, and pay more attention to how to seek benefits and avoid disadvantages in dealing with stakeholders. To achieve the goal of win-win. It is through standardized qualitative and quantitative analysis that enterprise early warning management research puts forward the concept, principle and method of early warning management, and comprehensively expounds the success mechanism and failure mechanism of enterprise. There is an organic connection between corporate capital structure and governance structure. It is probably one-sided to study their impact on corporate value in isolation. Driven by the synergy of interest, the controlling shareholder is more willing to share the benefits and reduce the encroachment of self-interest. If we consider the changing effects of control rights and cash flow rights at the same time, that is, the higher the proportion of control rights and the lower the proportion of cash flow rights, then the relatively higher proportion of control rights leads to more serious agency conflicts. When the return on shareholders' equity is high, it means that the company can use profits to resist various risks, and the possibility of falling into a financial crisis is reduced; on the contrary, the possibility of enterprises falling into financial crisis increases.

For the non-listed companies that are used to debt financing, the debt ratio will also be reduced due to the increasing equity capital. Under the joint supervision of shareholders and creditors, coupled with effective incentive mechanism, in fact, the phenomenon of insider control will gradually disappear. The development of modern enterprises has proved that if the members of the board of directors are mainly composed of executive directors, that is, internal managers, they will not have the motivation to supervise themselves. The governance structure of the board of directors to supervise the managers will be null and void. The correlation of corporate financing structure is not significant, which shows that the proportion of senior managers and the establishment of the board of directors in the restructured listed companies of township enterprises are mostly in the form, and it is difficult to play a proper role in the financing decision-making of the company. Due to financing constraints and excessive transaction costs in underdeveloped markets, the ultimate controller of a privately controlled company has a rational incentive to implement internal market functions by building a pyramid equity structure. The shareholder bears the consequences of the company's profit and loss, and the manager does not bear the main responsibility for the company's profit and loss. Especially for modern large enterprises, an operation manager or an agent group. The responsibilities that can be assumed are limited, at best, the loss of personal reputation, property or freedom, which is quite different from the owner’s assets. In the more mature capital markets, the shares of major shareholders should receive certain checks and balances, which can avoid the fraud of major shareholders to protect the interests of many minority shareholders and enable the company to avoid financial crisis to a greater extent, so that the company is benign Direction development.

3. Result Analysis and Discussion

The narrow corporate governance structure focuses on the relationship between checks and balances and supervision among various stakeholders within the company, that is, to coordinate and arrange the power among shareholders, directors and managers. From the perspective of financial capital, corporate financial governance includes financial decision-making power, financial execution power and financial supervision power. Its allocation is the core content of financial governance structure. Shareholders are the main body of corporate governance. Corporate governance should protect the interests of investors and avoid adverse selection and moral hazard of internal managers. In order to relax financing constraints, the ultimate controller can build a pyramid structure and use the leverage effect of the pyramid structure to expand the scale of debt financing, so as to adapt to the financial market environment with financing constraints. Realize the harmonious unity and balanced coordination of the responsibilities, powers and interests of all parties. Finally, corporate governance is a power balance mechanism, including external governance mechanisms and internal governance mechanisms. Under the effect of the checks and balances mechanism, the relevant stakeholders operate independently and mutually restrict each other to jointly promote the effective operation of the company. If, during consecutive years, the company's asset-liability ratio continues to increase, indicating that corporate debt growth exceeds asset growth, the probability of a financial crisis increases; on the contrary, the probability of a financial crisis is reduced.

The internal operation mechanism of enterprises involves employment mechanism, supervision mechanism and incentive mechanism; the external operation mechanism of enterprises involves the supervision of capital market, government intervention and various social responsibilities. Financial indicators are the basis for screening indicators. Our purpose is to identify which indicators have significant differences between distressed companies and healthy companies from financial early warning indicators, so as to prepare for the construction of financial crisis early warning model. Then common factors are extracted from the standardized index values to overcome the multiple collinearity among variables, while retaining the financial information of the original index as much as possible. The results of the mean difference test of financial early warning indicators are shown in Table 1. It is confirmed that the introduction of corporate governance information variables can indeed improve the testing ability. Through the company's authority, decision-making body, supervisory organization and executive agency, the owner's ultimate control over the company is guaranteed, and the incentive and balance mechanism between the owner, the operator and the laborer is formed. The scale of the enterprise is larger. The more vulnerable it is to the attention of outside investors, the establishment of a scientific leadership system, decision-making procedures and accountability systems. The lower the level of asymmetry of information, that is, the higher the transparency, the lower the risk of bankruptcy and the less likely to fall into a financial crisis. Internal stakeholders can develop or directly influence the quality of financial information generation and reporting mechanisms, and are dominant in corporate financial governance. External stakeholders can only passively accept financial information or use certain means to test the quality of financial information, and its interests are vulnerable.

Table 1 Test results of mean difference of variables in financial early warning indicators

	Factor	Coefficient
Solvency	Funding cash structure ratio	0.03
	Current cash ratio	0.05
Operational capability	Net asset recovery rate	0.12
	Main Business Recovery Rate	0.32
Development ability	Fixed assets technology input	0.15
	Operating Cash Ratio	0.08
Earning capacity	Operating Cash Structure Ratio	0.12
	Net Profit Achievement Rate	0.05

Companies controlled by the central government are generally large-scale and in industries that involve the lifeblood of the national economy. Therefore, these enterprises are more closely monitored by the central government, and the protection of small and medium-sized investors is much better. When the proportion of managerial ownership and the change in four years are positive, it means that the proportion of managerial ownership increases during this period, and the interests of shareholders and managers tend to be the same. The contradiction of interests has been alleviated to a certain extent. Shareholders are only one of the many groups of stakeholders in the company. Every stakeholder has rights to the company. It is not only perfect in theory, but also superior to shareholder governance in mechanism. The characteristics of the modern enterprise system are "clear property rights, clear powers and responsibilities, separation of government and enterprise, and scientific management". The most important one is the reform of the property rights system. The root of the problems in China's property rights system lies in the absence of state-owned entities. Corporate governance is an effective system of checks and balances. It is generated by the company's entrusted agency system and serves to solve the problem of entrusted agency in the company. It will inevitably lead to the failure of the functions of the board of directors, and the operational risks will be borne by the minority shareholders and the major shareholders.

4. Conclusion

This paper studies the impact of corporate governance on corporate financial crisis from the perspective of financial capital. While realizing the socialization of investment, it also realizes the specialization of investment itself. Compared with ordinary small and medium shareholders, rational institutional investors hold a larger amount of capital, have a large number of comprehensive and specific information and sufficient investment ideas, research and analysis capabilities. If the company pursues the maximization of its own interests at the cost of the company's interests, the company's overall interests will be damaged, the company's value will decline, the risks will increase, and the accumulation of risks will eventually lead to financial crisis. The entire decision is moving in favor of the company. Modern corporate governance is increasingly advocating a flat management model that reduces information distortion. The efficiency of company management directly affects the company's financial status. Management confusion, lack of internal control, and decision-making mistakes will weaken the company's financial ability, which will lead to financial crisis. Different industries have different corporate governance structures and therefore have different impacts on financial conditions. The imperfection of the governance structure will make the company's financial situation worse.

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