International Journal of Trend in Scientific Research and Development (IJTSRD)
Volume 5 Issue 5, July-August 2021 Available Online: www.ijtsrd.com e-ISSN: 2456 – 6470

Summary of Research on Financial Governance Theory

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ABSTRACT

Since the theory of financial governance came into being in my country's academic circles, scholars have systematically studied financial governance in terms of the connotation, system, subject, and object of financial governance on the basis of foreign research and based on my country's financial practice. A relatively complete theory of financial governance. But in general, due to the short research time, the research perspective is not comprehensive enough, and the research needs to be further enriched and developed.

KEYWORDS: *financial governance, financial power allocation, control power*

How to cite this paper: Zhang Yue "Summary of Research on Financial Governance Theory" Published in International Journal of Trend in Scientific Research and Development (ijtsrd), ISSN: 2456-6470, Volume-5 | Issue-5, August 2021, pp.1036-1040, URL: www.ijtsrd.com/papers/ijtsrd44982.pdf

IJTSRD44982

INTRODUCTION

Financial governance theory has been a research hotspot in the academic circles in recent years. my country's financial governance theory research began at the beginning of this century and has achieved very fruitful research results. In essence, financial governance is a contractual arrangement about the allocation of financial rights. Financial governance mainly deals with "financial relations", that is, the allocation of financial power. Financial governance theory is a unique financial theory proposed by Chinese scholars, while scholars in the field of financial governance in the West have not systematically proposed the exact concept of "financial governance", nor have they formed a complete theoretical system of financial governance. This is because the western market economy system has been quite perfect, and the theory of corporate governance and corporate financial management has been quite mature, and it is of little significance to conduct financial governance theoretical research alone.

Chinese scholars formally put forward the concept of financial governance based on my country's financial practice on the basis of learning from foreign research. The financial governance is systematically studied from the aspects of financial governance subject, financial governance object, financial governance objective, financial governance content, etc., and a relatively complete financial governance theory has been initially formed. However, most of the research on financial governance theory in our country fails to deviate from the western research paradigm of "corporate governance", and fails to fully understand the dynamics and operability of financial governance. The existing research in our country focuses on the discussion of the static level of financial governance, and does not pay enough attention to the efficiency of financial governance.

Research on foreign financial governance theory

The research results related to financial governance in foreign countries are scattered in the theory of enterprise and capital structure, and the integration of corporate financial theory and corporate governance theory has provided a foundation for the generation and development of financial governance theory.

In terms of the research on corporate finance theory, in 1988, the article "Corporate Finance and Corporate Governance" by Williamson in the United States pointed out that the issue of corporate finance and corporate governance should be considered comprehensively. For example, the substitutability of debt and equity financing is not only reflected in financing instruments. Functionally, it is also reflected in the governance structure. The article explains that the choice of a company's financing method is affected by transaction costs, and mainly depends on the characteristics of the assets. This article lays a theoretical foundation for further comprehensive research on corporate finance and governance issues. In addition, Jensen and Meckling (1976) proposed the agency theory of capital structure, and established an agency cost model that emphasizes the relationship between capital structure and operator behavior from the perspective of corporate governance. They considered that the interests of the company's managers and external shareholders are inconsistent. At the time, the question of how external shares operate. Agency costs arise because the manager is not the complete owner of the company. Different financing contracts are linked to different agency costs. The choice of financing structure is to minimize agency costs. It is concluded that the company's capital structure is optimal when the marginal agency cost of equity is equal to the marginal agency cost of debt. Since then, capital structure theories such as the signal transmission model of Ross, the guarantee model of Grossman&Hart, the control model of Aghion&Bolton, and the debt mitigation model of Harris and Raviv have been gradually established. Grossman and Hart established a formal agency model to analyze how debt financing eases the conflict between managers and shareholders. They view debt as a guarantee mechanism that can prompt managers to make better investment decisions. Such an appropriate increase in debt can reduce agency costs due to the separation of ownership and control.

In the research of corporate governance theory, in 1992, the British Cadbury Committee published "Financial Aspects of Corporate Governance", which made corporate governance a hot topic. After the Asian financial crisis, due to the financial scandals of companies such as Enron and Arthur Andersen in the United States, corporate governance has become a hot topic of public concern, and this has triggered a new round of corporate governance practices in the United States, thereby affecting corporate governance worldwide. To have a positive impact and make corporate governance a worldwide research and practice topic, this article emphasizes the importance of finance in corporate governance. The report emphasizes the control and reporting functions of the board of directors and the role of auditors, especially focusing on the company's internal financial control and risk management issues, which have a profound impact on the company's financial governance theory. Rahman believes that a series of financial financing and supervision activities originated from simple concepts such as corporate governance and incomplete contracts. Dionne &Triki believes that although it may not be necessary to maintain a majority of independent directors on the board of directors and to equip the audit committee with directors with accounting education background, it is necessary for shareholders to restrict the size and independence of the audit committee. Cornett, Marcus &Tehranian believe that corporate governance mechanisms play an important role in limiting earnings management.

The above-mentioned research in the western academic circles provided the germination of ideas for the emergence of financial governance theory. However, because the research paradigm of the western theoretical circle pays more attention to empirical research and does not pay enough attention to independent research in the field of financial governance, it has not clearly put forward the concept of "financial governance", nor has it established a theoretical system of financial governance.

Research on domestic financial governance theory

A. Research on the connotation of financial governance

Domestic scholars have studied the connotation of financial governance earlier. Feng Qiaogen, Song Xianzhong, Li Xinhe, Wu Zhongxin, and Yang Shue have defined financial governance from the perspectives of contract economics, corporate governance, and rights allocation. However, scholars have not really given the exact concept of financial governance. Many scholars have summarized a variety of financial governance concepts based on different focuses. For example, Wu Zhongxin (2001) believes that the financial governance structure is a set of institutional arrangements, with financial rights as the basic link, and gradually establish the position and role of shareholders, board of directors, managers, and corporate financial personnel in the flow and division of financial power, which reflect the respective positions and roles of shareholders, board of directors, managers, and corporate financial personnel. The relationship of mutual restraint and mutual checks and balances between the main bodies in terms of financial power. Lin Zhonggao (2003) believes that financial governance is a series of institutional arrangements and structural network of relationships between stakeholders. Its fundamental purpose is to achieve a balance of rights, responsibilities and interests among stakeholders through such institutional arrangements. Realize the reasonable unity of efficiency and fairness. Yang

Shue (2006) comprehensively reviewed the previous research on the connotation of financial governance, dividing different views on the definition of financial governance into a contract system view, an information view, a subsystem view, a view of the allocation of financial rights, and a two-level view.

The many different understandings of scholars on the concept of financial governance can be summarized into two categories: one is the structural category. It is believed that financial governance is the financial governance structure, and the financial governance structure is an important part of the corporate governance structure. It is an institutional arrangement whose content is basically the same as the corporate governance structure; the other is the mechanism type. It is believed that financial governance is a mechanism for the arrangement of corporate financial power, and through this financial power mechanism, the internal financial incentive and restraint mechanism of the enterprise can be realized. However, these views still have some shortcomings. Many scholars put financial governance under the framework of corporate governance in their research, and refer to the concept of corporate governance to roughly define financial governance; in particular, they equate "financial governance" with "financial governance structure". "Or "financial governance mechanism" is not clearly defined conceptually.

B. Research on the subject and object of financial governance

Regarding the subject of financial governance, scholars have the following different views. Zhang Dunli (2002) believes that the subject of financial governance is who participates in financial governance. This view starts from the core position of financial governance in corporate governance, but equates financial governance subjects with stakeholders, making financial governance subjects too broad; Lin Zhonggao (2003) believes that financial governance actors refer to specific Natural persons and legal persons who have financial rights and participate in financial governance need to consider whether the actors involved in financial governance have the ability and motivation to exercise their power. This view focuses on the main financial governance entities within the company and their relationships, but does not pay enough attention to creditors and other external creditors; Yi Longxin (2002) believes that the subject of financial governance is capable, qualified, and willing to participate in the company Financial activities, and internal authorities, individuals and legal persons that occupy a certain position in corporate governance, but ignore other external stakeholders other than creditors.

Regarding the object of financial governance, scholars have the following different views. Zhang Dunli(2002) believes that the object or object of financial governance depends on the attributes of financial governance. How to reasonably distribute the residual claim right and residual control right among the stakeholders is the practical object of financial governance. It is specifically manifested in financial activities and their financial relationships such as fundraising, investment, capital operation, income and its distribution. However, this view only emphasizes the object of rights under the governance framework, and ignores the objects embodied in the financial category, which is not comprehensive. Wu Zhongxin et al. (2006) believe that financial governance is mainly the treatment of financial relations, the core of which is the reasonable allocation of financial power, which runs through the process of handling financial relationships. Financial power should be regarded as the object of financial governance.

C. Research on financial governance system

Scholars have conducted extensive discussions on the issues of financial governance system, among which the more widely recognized viewpoints are as follows. Yi Longxin (2002) comprehensively used modern financial theory, corporate governance theory and other discipline knowledge to initially construct a financial governance system, clearly proposing that financial governance should include three aspects: governance structure, governance mechanism, and governance code of conduct. You Xiaofeng (2005) proposed that the financial governance framework should include the subject, object, hypothesis, model, etc. of financial governance. The financial subject is the stakeholder, and the object of financial governance is the financial conflict, including two major categories: the financial conflict between shareholders and operators, and the financial conflict between creditors and shareholders. Huang Jubo (2002) believes that the financial governance structure is a problem of the allocation of rights, and the content of financial governance includes: investment and financing, dividend policies; the implementation of accounting standards and accounting systems; and the timely, accurate and adequate financial reports. Zhang Dunli (2002) believes that financial governance is an important system in the framework of corporate governance structure and is at the core of corporate governance; financial governance organically integrates four parts of corporate governance, namely, entrusted-agent governance, shareholder governance, operator governance, and capital structure governance. combine together. Therefore, the main content of financial governance is reflected in the above-mentioned four parts of governance structure. Wu Zhongxin (2005) based on the theory of "financial power flow" and proposed that financial governance mainly deals with "financial relations". The governance system has been preliminarily constructed.

D. Research on the allocation of property rights

Many scholars have conducted research on the allocation of financial power. Based on the theory of "financial power flow" and the understanding of "financial power = financial power + (corresponding) power", Wu Zhongxin et al. proposed that financial power can be divided into the category of general financial power based on corporate fairness and the category of residual financial power based on corporate efficiency. The property rights of the enterprise born from the complete part of the incomplete contract of the enterprise. Residual property rights originate from the incomplete part of the incomplete contract, which is the corporate property rights that are omitted from the corporate contract, are not specified, or that the third party cannot verify the results although the company has made clear provisions, thus constructing the optimal property rights allocation framework; Based on the understanding that "corporate ownership" is "residual claim and residual control rights", Zhang Zhaoguo and others believe that corporate financial rights are a set of powers related to corporate finance, including financial income rights and financial control rights, and put forward the logic of stakeholder cooperation. A framework for corporate financial arrangements. At the same time, he believes that all stakeholders should share corporate financial rights, and proposed that corporate financial governance mechanisms should be established that take into account common governance and contingent governance. However, this view understands financial power only as financial power and is not comprehensive. Yang Shue et al. defined corporate financial rights as the decision-making power, supervisory power and execution power related to the company's financial interests and the interests of all participants, and proposed a framework for the allocation of stakeholders' financial power.

Review and Prospects of Research at Home and Abroad

Western scholars focused on the analysis of the capital structure's influence on the arrangement of corporate financial rights and on the financial governance structure, laying a theoretical foundation for financial governance research, giving birth to the budding of corporate financial governance theory, and having a great influence on the generation and development of financial governance theory. The theory of financial governance was finally produced and flourishing in the domestic financial circle. Chinese scholars have fully borrowed the research results of western corporate governance theories and conducted independent research in combination with the background of my country's financial practice. He pioneered and clearly put forward the concept of financial power and financial governance, analyzed its connotation, conducted independent and professional research in this field, and initially established the framework of the financial governance theoretical system, which promoted the development of financial governance theories.

However, it can be seen from the above summary of scholars' viewpoints that domestic research on financial governance theory and practice is still in the exploratory stage, and scholars have their respective focuses, but a complete theoretical system has not yet been formed. In addition, many have failed to completely break away from the western research paradigm of "corporate governance", failed to highlight the difference between financial governance and corporate governance, and failed to fully understand the dynamics and operability of financial governance. In particular, insufficient attention has been paid to the dynamic issues of financial governance, which need to be further studied.

The future development direction of financial governance theory research needs to take into account both basic theory and empirical research. For basic theoretical research, in addition to the connotation and conceptuality, it is necessary to find the economic roots of financial governance and explore the basic theoretical sources of financial governance; in addition, it is necessary to advance with the times and conduct in-depth empirical research, conduct empirical tests and apply them.

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