An Analysis of Financial Flexibility and Over Investment from the Perspective of Corporate Governance

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Abstract: financial flexibility is a kind of ability for enterprises to timely mobilize funds to deal with uncertain matters, which has two sides. On the one hand, it is conducive to enterprises to effectively deal with crises and better grasp investment opportunities. On the other hand, maintaining an inappropriate level of financial flexibility will lead to more free cash flow and lower level of financial leverage, leading to more serious over investment of enterprises. Overinvestment is a manifestation of inefficient investment, that is, enterprises invest in projects with negative net present value, damaging shareholders' wealth and enterprise value. Based on the relevant data of Listed Companies in China, this paper takes over investment as the dependent variable, financial flexibility and corporate governance as the independent variable, establishes regression model and makes empirical analysis. The research shows that there is a positive correlation between financial flexibility and over investment, and the higher financial flexibility of a company will lead to over investment behavior; through the comparison of the regression results of high-level and low-level corporate governance, the higher the level of corporate governance, the weaker the impact of financial flexibility on over investment behavior.

1. Introduction

Since entering the 21st century, China's economy has developed rapidly, and as one of the "troika" driving economic growth, investment has provided great help for China's economic development. The output value of investment mainly depends on the investment scale and investment efficiency. Today, when the investment scale is relatively sufficient, investment efficiency has become the focus of research. Especially after the subprime crisis in 2007, in order to cope with the impact of the gradual spread of the financial crisis and prevent economic downturn, the State Council put forward a package of investment plan of 4 trillion yuan by the end of 2010 to promote the soft landing of the economy. Under the influence of this economic policy, the scale of investment in our country is expanding rapidly. At the same time, there is a phenomenon of extensive development of investment. Managers use surplus cash to invest in unnecessary projects, resulting in low investment efficiency, waste of resources, and affect the wealth of shareholders and enterprise value.

Since the economic crisis in 2008, many companies are facing financing difficulties because of the credit crunch and they can't get the funds needed for production from the outside. Therefore, many enterprises reduce the investment scale in response to the crisis, hold a large amount of cash in the hands of enterprises, and maintain a certain level of financial flexibility to wait for the opportunity, so as to survive the economic crisis. Financial flexibility refers to the ability to hold excess cash or retain liabilities to cope with possible adverse shocks or seize potential investment opportunities. This shows that enterprises can weaken over investment to some extent by increasing financial flexibility. With the development of the times and the continuous changes of the economic market environment, the corporate governance system is also constantly improved, but the
governance level is uneven, the relationship between financial flexibility and over investment is not clear, so it is necessary to explore the relationship between the two from the perspective of corporate governance, in order to reduce blind and over investment behavior and achieve the maximization of investment efficiency. Therefore, based on the consideration of China's special economic system, this paper analyzes the influence of financial flexibility on over investment under different levels of corporate governance, and whether there are differences between state-owned enterprises and private enterprises in the degree of influence. It can not only broaden the research scope of corporate financial management investment decision-making, but also enrich the related theoretical body of financial flexibility and over investment. In addition, it can provide suggestions for state-owned enterprises and private enterprises to maintain appropriate financial flexibility, and put forward that we should pay attention to corporate governance, that is, the construction of internal supervision mechanism, and also provide theoretical basis for the relevant policy-making of external supervision departments.

2. Theoretical Review

There are many researches on over investment, financial flexibility and corporate governance at home and abroad. First of all, in terms of over investment, Richardson proposes that when there is excess cash in an enterprise, the management will not distribute it to shareholders but make over investment; Marchica and Mura point out that the enterprise's ability to hold excess liabilities, that is, the elasticity of liabilities, will have an impact on the investment efficiency; Yu Honghai and other researchers have studied that when the free cash flow is large, the phenomenon of over investment of the management caused by principal-agent is more serious; the principal-agent problem between shareholders and management will not only lead to over investment, but also to under investment; Liu Xing and Dou Wei's research shows that enterprises controlled by large shareholders are more likely to have inefficient investment; Wang Ping and Sun Shixia think that over investment of non-state-owned enterprises is more serious than that of state-owned enterprises; Yan Huahong believes that state-owned enterprises and non-state-owned enterprises are more likely to have over investment, and there is a difference in performance between over investment and under investment.

Secondly, in terms of financial flexibility, Graham and Triantis think that financial flexibility is a kind of ability to obtain funds quickly; Zhao Hua defines financial flexibility as the ability of financial buffer, coordination, adaptation and innovation from the perspective of strategy; Zeng Aimin thinks that financial flexibility is a kind of ability to maximize the value of an enterprise from the perspective of financial management, which mainly comes from raising and using funds at a lower cost. Huang Shizhong believes that financial flexibility is the excess cash and cash equivalents held by enterprises. On the contrary, Hess and Immenkotter think that holding excess cash only reflects the short-term effect of financial flexibility, but also the long-term effect of debt financing ability. At the same time, Wang Dihua believes that financial flexibility should be the combination of cash flexibility and debt flexibility, and equity flexibility refers to the ability of enterprises to obtain funds internally.

Then on the study of corporate governance, Li and Liao found that good corporate governance can reduce the problem of over investment caused by the chairman and senior executives; Ma Wei found that the monetary compensation plays a more significant role in restraining over investment than the equity incentive mechanism; Yang Xingquan's empirical results show that equity and currency are two kinds of incentives. All incentive methods will inhibit the occurrence of over investment.

Finally, on the research of the relationship between financial flexibility and over investment, Chen Hongbing et al. found that the higher the financial flexibility, the higher the investment behavior of enterprises, but it is also easy to cause over investment; Liu Ting et al. (2015) clarified the relationship between the two from the perspective of bank credit, pointing out that enterprises with better bank credit and high financial flexibility are in over investment. Investment is more significant than general enterprises; Zhao Yang et al. (2016) pointed out that due to the intermediary...
effect of agency cost, there is a close relationship between financial flexibility and over investment.

3. Related Concepts and Theoretical Analysis

3.1 related Concepts

3.1.1 Financial flexibility

Financial flexibility refers to the ability of an enterprise to adapt to changes in the economic environment and take advantage of investment opportunities, specifically the ability of a company to use idle funds and residual liabilities. The ability to respond to possible or unforeseen emergencies and grasp future investment opportunities is the company's ability to respond to, adapt to and adjust the internal and external environment. This is essentially different from the concepts of financial conservatism and financial stability.

3.1.2 Overinvestment

Investment refers to the behavior that the economic subject invests in physical assets, monetary funds or monetary capital equivalents in order to obtain income or increase value in a foreseeable period of time. Over investment refers to the investment of the manager in the project with net present value less than zero, which does not meet the standard of project investment. The reason is that the objectives of operators and shareholders are inconsistent. From their own point of view, investment is beyond the scope of production and operation of enterprises.

3.1.3 Corporate governance

Corporate governance, in a broad sense, refers to the mutual restriction between the people who are related to the interests of the company, such as investors, managers, employees and the government, and the behavior of maximizing the interests of the enterprise through the mutual supervision and balance between the two. In a narrow sense, it is a science to study how to authorize professional managers and exercise regulatory functions for professional managers to perform their duties at the level of enterprise ownership.

3.2 Theoretical Analysis

Due to the existence of cash elasticity, the free cash flow of the enterprise will increase. Because of the principal-agent problem caused by the separation of the two rights, there is a conflict of interest between shareholders and managers. In order to improve the investment scale, managers will invest even if the net present value is less than 0, resulting in excessive investment. Due to the existence of debt elasticity, the financial leverage level of the enterprise is low, lacking negative The contingent governance function of debt aggravates the information asymmetry and the over investment. Therefore, the higher the financial flexibility is, the more likely the company is to over invest.

Corporate governance as a check and balance mechanism between shareholders and operators, through the supervision mechanism to make the interests of shareholders and operators as consistent as possible, to inhibit the generation of principal-agent costs; and through the incentive mechanism to make the management work hard for the overall interests, and then reduce the existence of free cash flow and financial leverage caused by the low over investment. Although the existence of financial flexibility will provide managers with extra funds to use, it will reduce the impact of financial flexibility on over investment due to the decrease of the probability of moral hazard and adverse selection under the high level of corporate governance. Therefore, the higher the level of corporate governance is, the weaker the influence of financial flexibility on corporate over investment is.

4 Conclusions and Suggestions
Under the macro-economic environment in which China's economic development is still mainly driven by investment, this paper realizes the importance of investment efficiency, and focuses on the over investment in inefficient investment. At the same time, we know that financial flexibility, as a kind of coping ability to deal with uncertainty, has its good side and bad side. Therefore, financial flexibility cannot be generalized. The real significance of financial flexibility lies in its holding level. Holding the appropriate level of financial flexibility is conducive to the realization of the goal of maximizing the value of the enterprise and the wealth of shareholders. If the level of financial flexibility is too high, on the one hand, it means the increase of free cash flow. In the absence of effective corporate governance, the operator's Office On the other hand, in order to maintain a high level of financial flexibility, enterprises will reduce the use of financial leverage, reduce the level of corporate debt to maintain financial flexibility, and lack the contingent effect of debt on corporate over investment, thus aggravating over investment. At the same time, this paper also verifies that under different levels of corporate governance, the impact of financial flexibility on corporate excessive behavior is also different.

Therefore, based on the conclusions of this empirical study, the following suggestions are proposed: (1) A listed company should establish a correct financial concept. In today's unpredictable macroeconomic environment, we must maintain the appropriate level of financial flexibility to deal with the crisis. Because too high financial flexibility may lead to excessive investment behavior, which leads to the contrary. Therefore, enterprises should grasp the financial flexibility, control it within a reasonable range, and avoid excessive investment caused by excessive cash to the maximum extent.(2) Listed companies should improve the level of their own governance. The empirical results of this paper have shown that the level of corporate governance directly affects the impact of financial flexibility on over investment. The higher the level of corporate governance, the less likely the overinvestment behavior is to make a voice. Therefore, the company can improve the supervision and incentive mechanism to balance the interests of the management, the management and the board of supervisors. At the same time, it can enhance the understanding of the management and the operation of the company by increasing the number of meetings of the board of directors and the board of supervisors, so as to improve the governance level of listed companies.(3) Improve the capital market and strengthen external supervision. Due to the imperfection of the capital market, enterprises can not raise the funds needed for investment in time, so financial flexibility is more important; at the same time, the imperfection of the capital market also causes the regulatory authorities to have a high degree of control over the listed companies for equity refinancing, resulting in the lack of equity flexibility, which affects the diversification of financial flexibility. Therefore, first of all, the national regulatory authorities should strengthen the monitoring of the investment behavior of enterprises, standardize the investment behavior of enterprises; secondly, we can improve the transparency of information disclosure, increase the proportion of circulating shares, so that the majority of people can supervise the listed companies, and fundamentally eliminate the occurrence of excessive investment behavior of listed companies.

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