

Financial Support of Controlling Shareholders and Enterprise Value Creation

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Abstract

The report reaffirms the “two unwavering” and provides strong policy support for the creation of value for private enterprises. The influence of corporate value creation on the financing method, the financial financing of holding shareholders with its internal risk control and other advantages, has become a new channel for financing private enterprise.

Keywords

Financial Support from Controlling Shareholders; Enterprise Value Creation; Private Enterprises.

1. Introduction

The report of the 20th CPC National Congress emphasizes the need to "optimize the environment for the development of private enterprises, and protect the property rights of private enterprises and the rights and interests of entrepreneurs in accordance with the law", and for the first time, the report explicitly mentions "promoting the development and growth of the private economy", which provides strong policy support for the creation of value by private entrepreneurs. This provides strong policy support for private entrepreneurs to create value. As the state attaches more importance to private enterprises and support efforts continue to increase, private enterprises ushered in the spring of development, but private enterprises due to their own reasons and external investors have more serious information asymmetry than state-owned enterprises, investors to protect their own rights and interests are usually set higher financing constraints, so that private enterprises need to spend a relatively high cost of financing, and therefore fall into the "difficult and expensive financing". "Financing is difficult and expensive, and cracking the problem of enterprise financing is an important measure to stimulate market vitality, increase investment in innovation, enhance enterprise value, and promote the high-quality development of private enterprises.

Financing is the starting point of corporate governance activities and plays a crucial role in corporate value creation. With the reform of China's financial system in recent years, the financing requirements have become increasingly standardized. In 2018, the CBRC formally released the Measures for Liquidity Risk Management of Commercial Banks, which defined the liquidity risk management framework of commercial banks and improved the regulatory system, making commercial banks more cautious about corporate lending. In 2020, the People's Bank of China's revised General Principles for Loans strengthened the review of corporate loan qualifications, which greatly increased the difficulty and cost of enterprise financing. Under the bank credit environment of "difficult and expensive financing", it is especially important for private enterprises to look for low-cost financing methods, and financial support from controlling shareholders has become a new channel for many private enterprises to finance funds by virtue of its advantages of low financing costs, controllable internal risks and simple procedures [1], which prompts private enterprises to take into account the interests of shareholders and creditors, and assume more responsibility for the financing of private

enterprises, which in turn leads to the increase of the number of shareholders and creditors, and the increase in the number of private enterprises. The rights and interests of shareholders and creditors, to assume more social responsibility, to the outside world to send a positive signal, to create a good corporate image.

2. Research Significance

The private economy is an important force in the market economy with the most vigor, potential and creativity, a powerful support for the prosperity of urban and rural economies, and an important force in promoting the high-quality development of China's economy. General Secretary Xi Jinping clearly pointed out that "China's private economy can only grow and cannot be weakened", so that the majority of private entrepreneurs ate the pill, peace of mind to seek development, and committed to enterprise value creation, for the private economy to a broader stage to infuse confidence and momentum. Under the socialist market economy, new financing channels come into being, and in-depth study of the relationship between financial support from controlling shareholders and enterprise value creation and its role in the mechanism has important theoretical significance and practical value.

2.1. Government Level

This paper studies in depth the mechanism and effect of controlling shareholders' financial support on enterprise value creation, which can help to provide a basis for the government and other regulatory departments to formulate relevant policies; help to let the source of innovation of the private economy fully flow, increase the gross national product, and improve the status of the private economy in the national economy; and help to let the creative vitality of the private enterprises fully burst out, and let the corporate value of the private enterprises be fully embodied to make greater contributions to the realization of the goal of "two hundred" and the great Chinese dream. It will help to give full play to the creative vitality of private enterprises and fully realize the corporate value of private enterprises, so as to make greater contributions to the realization of the "Two Hundred Years" goal and the Chinese dream of the great revival of the Chinese nation.

2.2. Enterprise Level

This paper helps to provide guidelines for enterprises whether to adopt this new financing channel of financial support from controlling shareholders; it helps to promote the reform and innovation, transformation and upgrading, and healthy development of private enterprises; it helps to broaden the financing channels of enterprises, reduce the cost of financing, and stimulate the creation of enterprise value; it helps to alleviate the conflict of interest between creditors and shareholders, improve the level of corporate governance, enhance the quality of internal control, and stimulate the private entrepreneurs' Creative vitality, so that the status of private enterprises in the national economy has been further improved.

3. Development Trends of Domestic and International Research

The research topic of this paper is financial support from controlling shareholders of privately listed companies and enterprise value creation, so we will sort out the literature based on the relevance of the research content from the economic consequences of financial support from controlling shareholders, the influencing factors of enterprise value creation and the relationship between financial support from controlling shareholders and enterprise value creation.

3.1. Economic Consequences of Financial Support from Controlling Shareholders

Under the support of relevant national policies, private enterprises have various financing channels, and based on the consideration of "minimizing the financing cost", more and more private enterprises begin to lobby their controlling shareholders to provide financial support to achieve the purpose of minimizing the financing cost. Therefore, with the continuous development of the socialist market economy, the study on the economic consequences of controlling shareholders' financial support has become more and more extensive. Zhang slowly [2] analyzes the current situation of financial support from the perspective of financial support provided by controlling shareholders, and points out that there are problems such as uncertain interest rates, unclear repayment period and chaotic account handling, and then puts forward corresponding countermeasures; Tan Yan et al [3] find through empirical research from the perspective of financial support provided by controlling shareholders that controlling shareholders are more likely to provide financial support to enterprises in the growth period and the non-growth period to the growth period, and that controlling shareholders are more likely to provide financial support to enterprises in the growth period and the non-growth period to the growth period. Replacement of the enterprise to provide financial support, and financial support tends to be more long-term, more able to give full play to the efficiency of the internal capital market of the group enterprise, alleviate the financing constraints, reduce the cost of enterprise financing, help to promote the development of the enterprise, and the shareholders and creditors of the financial support behavior and the bank loan has a complementary effect in the different phases of the life cycle of the enterprise presents different characteristics.

In terms of the motives of controlling shareholders, there is the "stewardship hypothesis" and the "opportunism hypothesis". On the one hand, the "stewardship hypothesis" suggests that support from controlling shareholders is generally found in firms that are in financial distress, or in crisis, or on the verge of bankruptcy. Financial support prevents defaults by group members and the negative spillover effects of defaults that could jeopardize other members. Therefore, major shareholders show a higher degree of stewardship to support firms in crisis situations. On the other hand, the "opportunistic hypothesis" of controlling shareholders' support suggests that when a listed company faces a crisis, controlling shareholders will provide support to help the company tide over the difficulties, but this supportive behavior is still an opportunistic behavior. The support behavior of major shareholders to listed companies does not have continuity, but is more of a "systemic drive", and major shareholders often accompany obvious "hollowing out" behaviors after their support. But in recent years, with the improvement of China's corporate governance system, the capital market supervision means to strengthen the regulatory agencies to increase the major shareholders "hollowing out" the company's behavior of remediation so that controlling shareholders through the financial support of hollowing out the company's behavior can be curbed. Controlling shareholders financial support from the "short-term relief" to the "long-term development" change, Tan Yan [3] and other found that when the controlling shareholders to provide financial support to the enterprise, more is to convey the signal of support for the development of the enterprise, the bank will expand the scale of its loan. At the same time, a recent study found that even if the enterprise does not have financial difficulties, based on the needs of enterprise development, if the provision of financial assistance can be obtained in the long run, at this time the controlling shareholders will also support. In summary, the supportive behavior of controlling shareholders is not always consistent with the opportunistic hypothesis, nor does it occur only in the special hardship scenario explained by the stewardship role hypothesis.

In terms of the governance function of investors under the dual role of controlling shareholders, banks as well as non-banking institutional investors, as shareholders cum creditors, have been

studied in the literature in terms of their supervisory function and resource function. These studies include the monitoring function. Participating in the corporate governance of a firm and being able to influence its decisions, while institutional investors own both equity and debt to prevent them from hollowing out the interests of creditors. In addition, there is the resource function. Banks are both shareholders and creditors of firms, and firms have fewer information and incentive problems, which reduces the cost of financial distress for firms and allows them to obtain more loans.

3.2. Factors Affecting Enterprise Value

Existing studies have examined the influencing factors of enterprise value creation from both macro and micro aspects. Firstly, national strategies, such as the "carbon neutral" strategy [4] and the value-added study of "precise poverty alleviation" [5]; secondly, industrial policies, mainly studying whether government subsidies and environmental regulations can promote enterprise innovation [6]; and secondly, regional development level, mainly exploring the relationship between regional marketization process and economic development level and enterprise innovation [7]; and secondly, regional development level, mainly exploring the relationship between regional marketization process and economic development level and enterprise value creation. innovation [6]; secondly, the level of regional development, mainly to explore the relationship between the regional marketization process and the level of economic development and enterprise value creation [7], there are also scholars concerned about the negative impact of regional economic policy uncertainty on enterprise value creation [8]; and finally, the financial science and technology, mainly to study the development of financial markets [9]. The micro-level influencing factors are: first, enterprise digital transformation, most studies believe that digital transformation and enterprise value creation have a positive and promoting relationship [10], but some scholars believe that the relationship between the two is a non-linear and inverted U-shaped relationship [11,12]; second, financial asset allocation, such as the financialization of the enterprise [13]; and third, the executive experience, such as the life experience [14,15], career experience [16] and academic experiences [17].

3.3. Relationship between Financial Assistance from Controlling Shareholders and Enterprise Value Creation

A good financing structure can better support the investment activities of the enterprise, thus creating more value for the enterprise, so choosing the right financing method to build a reasonable financing structure is of far-reaching significance in realizing the value of the enterprise. There are two main ways for listed companies to raise funds: equity financing and debt financing. In terms of debt financing, there is no unified conclusion on whether debt financing can bring enterprise value enhancement, on the one hand, many scholars take agency cost as the entry point, and find that enterprise debt financing behavior can reduce agency cost, and have a promoting effect on enterprise value creation; however, Jin Jing et al. take A-share listed companies in China's Shenzhen and Shanghai cities as the research samples, and after distinguishing the nature of the property rights, the state-owned enterprises' debt financing is negatively correlated with the enterprise value, while the state-owned enterprises' debt financing is negatively correlated with the enterprise value. However, Jin Jing et al. take A-share listed companies in Shenzhen and Shanghai as the research sample, after distinguishing the nature of property rights, the debt financing of state-owned enterprises is negatively related to enterprise value, while the debt financing of non-state-owned enterprises is positively related to enterprise value [18]; Zhu Yongming et al. use the data of Chinese listed companies as the basic data to study the relationship between the debt ratio and the value of the company, and the same confirms that the debt financing of Chinese listed companies has a negative impact on enterprise value [19]. In terms of equity financing, the literature has studied the impact of three

financing channels on the company's R & D investment, the study found that equity financing is not conducive to increasing the enterprise's R & D investment, the role of private entrepreneurs to stimulate the role of value creation is not significant or negative, but Liu Xuexin et al. empirical research found that you can reduce the cost of equity financing to enhance the long-term value of the enterprise [20].

To summarize, existing studies have explored the impact of financing methods on enterprise value creation mainly from two aspects: equity financing and debt financing. The enterprise value created will be different depending on the financing method chosen by the enterprise.

4. Application Prospects and Academic Value

4.1. Application Prospects

In recent years, the recurring development of the Xin Guan epidemic has caused varying degrees of impact on many private enterprises. General Secretary Xi Jinping has repeatedly relieved the difficulties of private enterprises and reiterated the "two unwavering" in the report of the Twentieth National Congress, indicating that the Party's consistent position and policies to support and encourage the development of the private economy have not changed, responding to the major concerns of the community and the voices of the private enterprises, and timely delivery of a "pill of peace of mind" to private entrepreneurs, so that they can work for development with peace of mind and dedicate themselves to enterprise value creation, and promote the high-quality development of the private economy. "Pill of peace of mind", so that its peace of mind to seek development, committed to enterprise value creation, and promote the high-quality development of the private economy. This paper intends to explore the impact of the dual status of shareholder and creditor on enterprise value creation after the controlling shareholder provides financial support to private enterprises, which will help promote the high-quality development of private listed companies, improve the status of private enterprises in the national economy, and make greater contributions to the realization of the "two hundred years" goal and the Chinese dream of the great rejuvenation of the Chinese nation. and make greater contributions to the realization of the "Two Hundred Years" goal and the great rejuvenation of the Chinese nation.

4.2. Academic Value

At present, the world is in a situation of unprecedented change, and China's private economy will usher in a new historical opportunity and enter a new stage of development. Private economy is the most active and creative market subject, and adhering to market-oriented reform is a powerful driving force to promote the development of private economy. This paper intends to select private listed companies as samples, analyze the impact of new financing methods on the value creation of private listed companies in a multi-dimensional way, explore how to improve the corporate innovation investment and social responsibility consciousness, and ultimately promote the value creation of private listed companies, as well as analyze whether the business environment, economic policy uncertainty and regional differences play a moderating role in the relationship between the controlling shareholders' financial support and value creation. The research in this paper helps to understand the impact of controlling shareholders' financial support on enterprise value creation at a deeper level, focuses on value creation of private listed companies from a new perspective, and has a revealing effect on in-depth understanding of the internal governance of private enterprises and value creation, as well as an important academic value for expanding and enriching the frontier theories of modern enterprise development.

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