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The study on financial behavior of company managers

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ABSTRACT

Company management personnel and financial resource are the core capital of enterprises, human resource is the key factor of enterprises to form lasting competitive advantages and realize the long-term goal, and financial resource is also the key to ensure the normal operation of the capital, So, the optimizing of human resource and financial resource is the key factor to achieve preserving and increasing value of capital operation. The company managements, with excellent talents and noble professional ethics, have a huge effect on the company's development, managements' financial decisions appropriate or not play a decisive part in company's development, technology innovation and value's preserving and increasing. This article through analysis the status quo and existing problems of the managers of company investment behavior, fund-raising and income distribution, job-on consumption, embezzlement and whitewash financial statements to discuss how to use scientific decision of internal and external effective management to guard or reduce the unreasonable financial behavior, decrease the loss of company, and to realize the sustainable development of the enterprise value the maximization goal of business.

KEYWORDS

Management personnel; Financial behavior; Financial management.

INTRODUCTION

Management financial behavior has received the attention of the relevant scholars over the years, and gained fruitful achievements about company’s management financial behavior. After the two conferences (NPC and CPPCC), both the central and the local raised a wave of reform, companies in different sectors have an important influence in activating the capital market, so it is inevitable for companies to reform in the new economic environment. The vigorous development of companies not only rely on the abundant material, but also depend on the company’s management making the correct financial decisions, which could keep the company a sustainable and healthy development. Therefore, the financial behavior researching would be more important for companies.

At present the research on management financial behavior of company by domestic scholars is relatively less, and mainly concentrated in management buy-outs, mergers and acquisitions, whitewash financial statements as well as some other practical research, while it is less in theoretical study, and it has not been formed a unitary system. In the study of management financial behavior, foreign researchers also mainly focus on management buy-outs, mergers and financial fraud in practice, and in theoretical study, most of their financial behavior research is based on agency motivation and Maslow's hierarchy of needs.

THE SPECIFIC CONSTRUCTION FORM OF MANAGEMENT FINANCIAL BEHAVIOR

Western economist have done lots of research on the financial behavior of company’s management which caused by the agency problem. This not only provide theoretical basis for the study of our country’s management financial behavior, but also present their research tracks. This article is summarized the predecessors' research, in order to further research in the future.

Most of the domestic scholars usually divide the company’s financial behavior into investment behavior, financing behavior and income distribution behavior. From this perspective, these scholars take a company as a main body that can make decision, means a legal person. The main body makes investment, financing, income distribution and other financial behaviors in the name of firm. But the company itself does not have the subjective initiative, and cannot implement the behavior as a natural person, so it is the managements who make the financial decision. The company’s management financial behavior could be divided into two kinds, one is managers on the behalf of the company, make financial decisions based on the company’s interests, the other one is managers who for reasons of “rational man”, make financial behavior for their own interests by taking advantage of their authority in the daily operation, and typically include excessive investment behavior, job-on consumption behavior, etc. Both the financial made by managers for the development of company and on the behalf of their own benefit are the financial behavior of company’s behavior, for these two kinds of financial behavior are made by company management, and are connected with the interests of the firm and value maximization closely.

Investment behavior

Investment behavior is the key link for the company to achieve maximum value and sustainable development, expressed for managers as the choice of investment scale, project risk and expected return when they make investment decisions. Investment behavior can be divided into equity investment, bonds investment and other investments according to the investment directions; it can be divided into long-term investment and short-term investment on the basis of the length of the payback period of investment projects division ; the behavior can also be divided into direct investment and indirect investment in line with the company involvement. Corporate investment mistakes will not only lead to the loss of assets, but also damage the interests of stakeholders. Common investment failures include over consumption and under investment of managers.

(a) The excessive investment

From Chinese scholars perspective, excessive investment behavior is defined as to accept for the value of the company is not an optimal investment opportunity, especially the project net present value less than zero, thus reducing a low efficiency of capital allocation efficiency investment decision-making behavior. We can see from the above definition that the excessive investment behavior is unreasonable for the sustainable and healthy development of the company, but this kind of behavior in our country's companies is often exist, the reason is asymmetric information between the owner and managers, and thus bring problems such as moral hazard and adverse selection. Managers on the development of the company decision is deviated from the expect of owners, from the sake of "rational man" motivation, managers may be more concerned with the scale enlargement of company, because the expansion of the company scale more can improve managers' social reputation, status, and the opportunity to get a better job relative to owner pay managers compensation. When there is sufficient and idle cash flow in the company, managers can use their authority to make excessive investment, reduce the company's funds use efficiency, and harm the interests of stakeholders such as owners, creditors, etc.

The keys to the problems, excessive investment of company managers damages the interests of stakeholders, can bring more incentive measures for managers holding the stock right of the company’s shares, and combine the interests of managers with the company’s interests closely. It can also increase the company borrowed debt. The debt need to be repaid and the interest payments to a certain extent, reduce the managers’ discretionary cash, so as to reduce or prevent the possibility of managers excessive investment behavior occurs. At the same time, the creditor has the right to request to take over the company or sell off assets if the company can’t repay debt before debt payments, which in turn affects the company's survival and development of normal, this is in part prompted managers to actively manage the company, effective use of funds, improve the management efficiency.

(b) The lack of investment

Corresponding to the excessive investment company managers is the insufficient investments, and inadequate investment refers to the phenomenon a company to damage the interests of creditors and the phenomenon of enterprise value, giving up investment projects with a positive net present value. Under investment problem usually occurs when the company is in financial trouble or the company's debt ratio is higher, because if managers adopt new investment projects they may be faced with bigger risks, so conservative managers would lack the enthusiasm of the new project choice under the game of company's operating performance improvement and continue to deteriorate, choose not to invest in projects with a positive net present value.

Company can encourage managers to invest, make the company more sensitive feelings of market changes, and seize opportunities, conducive to the development of the company limited funds to play the company benefit, by improving the company's investment decision-making mechanism. The petrifaction of the company’s investment decision-making mechanism will make the company less sensitive feelings of market changes, and delinquent opportunities, restricted to the development of the company limited funds to play the company benefit.

The on-the-job consumption behavior

On-the-job consumption refers to the company management personnel use their right to get extra income except the pay during the term of his or her office. On-the-job consumption can be roughly divided into eight categories: the cost of office, travel, business entertainment, communications, training abroad, director of membership dues and meetings. Managers on the one hand, will use their position to take the extra spending on fees for the company and is not easy to be found, because the company in the notes to financial statements "pay other cash flow related to the business activities" project contains the company to pay management fees, according to the accounting standards for on-the-job consumption company managers are generally classified as "management fees" project. On the other hand managers will also use part of the assets of the company the right to use in unreasonable consumption, such as luxury cars, luxury office for their configuration, on-the-job consumption at the expense of the company's assets to expand their interests. And in some research we can find that some companies also regard on-the-job consumption as an incentive to management, because some on-the-job consumption is not clearly defined. And higher the managers in the company's position is, the greater the power, given managers by the company or they abuse their authorities by the more on-the-job consumption is likely to get. Or the managers think there's a big difference between they paid to the company's entrepreneurial talents and the company give their own reward. In this case, managers exist to compensate through on-the-job consumption for their failed to get its value.

Company resources to be able to bring returns to stakeholders, it will reduce the efficiency of the use of company resources if managers use company resources, for example by currying favors for his pursuit of his own benefit maximization. At the same time not expressly prescribed by on-the-job consumption behavior of managers or indulged will cause dissatisfaction with the other employees or imitation, thus to affect the whole company staff's work enthusiasm. This series of behaviors of the final result is not continuous and healthy development of the company managers to maximize the value of the company's business objectives.

The appropriate behavior of the company's assets

Encroach on the company's assets refers to using staff position to use this unit property illegally possess oneself of, “occupy” refers to the behavior person to devour, theft, diddle or take possession of the company's financial behavior by other means illegally. Management personnel to encroach on the company's assets affect the normal use of the company's assets, leads to reduce the assets of the company efficiency. This behavior not only violates the maximization of the value of owners and other stakeholders management goal, but also constitutes a crime if the encroach on the company's assets amount reaches a certain degree.

Normally, management staff seize the assets of the company production operation link, the behavior of managers makes the company's assets is not fully or even can't create value for the company, makes the company's assets loss, cash flow and discounts the value of the company.

Income distribution behavior

Income distribution is the company's capital providers to the distribution of total revenue of a period or retained for companies according to certain way, the income distribution by the main is based on the company's net profit after making up the losses of the past after the statutory surplus reserve, surplus reserve balances. Different dividend distribution policy for managers and owners and other stakeholders is different, the common dividend distribution policies includes residual dividend policy, fixed or sustained growth dividend policy, fixed rate dividend policy and low regular dividend plus extra dividend policy. Reasonable income distribution policy first can give investors confidence for continue to investment company. Secondly, it can provide part of the source of funds for the expansion of the company. Thirdly, for the company in the social public, government, potential investors and other stakeholders it can establish a good image attracting more investors and creditors to obtain the social from all walks of life support. It is better to maximize the value of the company.

But the unreasonable income distribution behavior of the company such as low rate of dividend payment or do not pay dividends, a lack of continuity and stability of the income distribution behavior will also bring negative effects to the company's operation and management, because the income distribution is a common concern for different investors, not only for it relates to whether the investors to support the development of the company, but also relates to the sustainable and healthy development of capital market in China.

Information disclosures

Financial information which is the company's stakeholders use to understand the company's financial position, operating results and cash flow and the main basis of making decision, according to the financial information to evaluate management responsibility fulfillment situation, can strengthen the departments in the company management, improve the economic benefit, the disclosure of financial information to promote the operation and management of the company, development and management of self supervision, safeguard the legitimate rights and interests of owners and creditors have important function, at the same time the company to disclose financial information for the social parties provide a platform to understand company, to show that their company has good prospects for normal operation, message, to attractive more investors and reduce financing costs. But in the case of two rights separation, the existence of information asymmetry between managers and information demander, managers relative to grasp the initiative will use their own information superiority whitewash financial statements, thus to achieve the false the purpose of operating results or encroach on the interests of others. Common statements whitewash behavior are fictitious trading facts, accounting change privately or selecting favorable accounting method, inflated profits and so on, the behavior of the financial statements of the company whitewash harms the interests of various stakeholders, first of all managers to whitewash financial statements to hide the company real situation, the company stakeholders can’t correctly evaluate the company's operating condition, will lead to resource configuration errors, not conducive to the development of capital market; Secondly, the company, according to the whitewash financial information to make decisions is often bring greater losses to the company, but the wrong investment decisions investors make on the basis of false information will make investors lose confidence in the enterprise, the company will loss of investors; Moreover, managers require financial worker whitewash financial information, so financial personnel in violation of the accounting rules, and the false financial information is bad for countries to develop the right economic policies, for the long-term and healthy development of the accounting profession is also very detrimental.

The concept of social responsibility accounting behavior

With the management personnel in the "rational man" of financial behavior motivation above, the concept of social responsibility accounting behavior is a kind of positive behavior of managers. Concept of social responsibility accounting behavior is refers to the managers for social responsibility, in order to business owners, creditors, employees, and government supervision and care company managers and the social public interests of conscientious managers to do their work, to grasp the investment opportunities, reasonable use of corporate assets, not self-serving, financial activities and to maximize the value of the company for the company to participate in charitable activities, public welfare activities, to provide services such as jobs in the financial behavior of the society. Bill Gates has said that "any more than millions of dollars has the duty to repay society". Management concept of the social responsibility of behavior is not only good fulfill its duties, but also return the owner, the return society, do an own strength for building a harmonious society and easing social conflicts, at the same time, the image of the company, "energy" will attract more investors and customers for the company, to better promote the development of the company.

ANALYSIS OF THE FINANCIAL ENVIRONMENT OF THE MANAGEMENT

Anything cannot do without the survival and development of the external environment. So is the company management personnel, the financial behavior of each management personnel make also depends on the specific environment. The company's financial situation not only including the macro environment, such as the whole social political, economic, legal, financial, cultural that the company faced, but also including the micro environment, such as the company's internal management system, the production and operation organization mode and the managers' management level, the cultural and moral level of the ordinary employees. On the whole, the macro environment of the company of our country facing is basically the same, but the micro environment of each enterprise is different. And the macro environment for the company is uncontrolled, companies can only passive to adapt to the change and requirement of the macro environment; but the micro environment can be improved by certain means, so the company can better development. The macro environment.

The economic environment

In the process of economic globalization development, because of the integration of the world economy, the economic ties between the countries are more closely, the range of periodic economic changes are more widely, the distinguish between the various stages are less obvious, the influence of the economic environment for the development of the company is more and more significant. Changes in the economic environment will affect the consumer's income and consumption levels, chain will affect the company's business, and then affect the company's business income, it will have an impact on the company's cash flow, financing and investment, then will affect the financial behavior of management.

In times of economic prosperity, consumer's income level is better, disposable income is more, the purchasing power will increase, the company's operating income will increase, increased profits provide the basis of funds for the development of the company, the company can invest more projects, also can purchase fixed assets to enlarge the company's scale, promote the development of the company. During the recession, consumers' disposable income is lower, and the level of consumption will decline, the company's main business income will decrease, so the company has to take the business policy tightening, manage the daily main business well, at the same time, reduce the investment, engage in some low risk projects, to obtain relatively stable income, maintain the company's development, smoothly through the economic depression.

The financial environment

Put simply, the place of financing is the financial market, where the capitals not only include stocks and bonds, but also include physical and monetary capital. Companies in the financial markets choose the appropriate in many financing ways for financing and investment, so that different funds occupancy forms can be transformed into each other, such as the realization of transformation between long-term and short-term, it is in favor of the company's effective operation. In addition, the analysis of financial market can also provide funds of supply and demand, the company's profitability and other important information.

The legal environment

The company's operation and management must comply with the national regulations and the company's internal regulations are the financial environment. Such as the "company law", "Securities Law", "contract law" and "partnership enterprise law" "tax law" accounting law "and so on, the various activities of managers must do in the legal category. Every management should be familiar with the national's corresponding laws and regulations, and understand the effects of various regulations for the company's operation, take some corresponding measures to realize the maximization of the value of the company legally. For example, every company has to pay taxes according to law of obligation, as the company tax can make a portion of the profits out, but each company must comply with the tax law, pay taxes according to law, the company only evade tax through legal means, but can’t defraud the revenue.

The national policy

National policy guides the development of the economy of our country to an large extent, the state in order to achieve balanced and stable economic development will implement preferential or encouraging policy for some regions and industries, and implement restrictive for another places and industries. For the familiar with the national policy, the management of the company can develop the projects that the state encourages, quit the projects that the state restricts, make decisions in accordance with the national guidance, hasten benefit in addition to the disadvantages, and then realize the maximization of corporation value, avoid some unnecessary investment losses of the company.

The micro environment

China's "company law" makes explicit stipulation for the type of company, organization structure, transfer mode, financial and accounting system and other aspects. The company also in the process of operation and development develops internal system about their company's production, management, financial accounting and the formulation of the company's management style is the micro environment of the company, the micro environment of science has the great significance for improving the staff's efficiency, promoting the development of the company, achieving the goal of company.

The financial environment the management facing is a whole system, various factors are interdependent, interaction and mutual influence in the change, and this influence is difficult to predict and control by the management personnel, but in some ways it has certain connections and rules. Managers need to make the financial behavior of the company's internal financial environment can produce certain effect to the development of the company, for example, from the enterprise management system, the company's operating system plays a decisive role to the development of enterprises, the merit or not limits the size of the authority and the width of the field of management when the managers make decisions; from the organization, the organizational form of the company determines the internal scale, registered capital, personnel composition and so on; from the production and operation status of the company, the company's production, sales determines the company's operating efficiency and realize the possibility of profit; from the company's management level, the proficiency when the managers plan, organize, manage and coordinate will affect the company's operation and management. A company's financial environment is good or not directly affects how managers make financial decisions and the survival and development of the company.

COUNTERMEASURES AND SUGGESTIONS TO SOLVE THE FINANCIAL BEHAVIOR OF MANAGEMENT

Standardize the financial behavior of the investment and financing

The investment decision is an important decision of company profits, the scale of investment, risk, expected earnings management on many alternative investment projects were chosen for comparison, if errors appear in the investment links will not only make the loss of corporate assets, but also damage the interests of the stakeholders. In order to select relatively less risk, higher profit project, try to make the lowest risk investment. The company when investing should first understand the company's goal is to maximize the value of this company, take this as the code of conduct. In full consideration of the project operational and continuity, adopt scientific method of project evaluation, such as frequently-used net present value method, the internal rate of return method, and pay period method, considering the investment project to be generated the present value of cash flow, the cost of investments and capital recovery period. At the same time we also need to consider the potential difficulties of projects, the sources and allocation of funds in the investment process, how to detect the project in the course of the project and the audit problems when the project is completed. Focus on investing the project which is accord with the long-term development of the company, promote the company's development space, form the core competitiveness of enterprises, rather than pursuit the project which investment cycle is short but quick. Third, it analyses the opportunity of the investment scientifically, every investment has a pivotal relationship for the company's development, so be cautious to grasp investment opportunity, establish effective mechanism to analyses the investment projects scientifically.

Financing behavior is also the basic behavior in the financial markets, generally speaking, the source of capital of the company has two aspects, on the one hand is the internal financing, which is the company's owners or investors raise funds; on the other hand is the external financing, the company issues stocks in the market or borrows loans, issues bonds from financial institutions and so on. Companies obtain capital through financing, which is the basis for the company to exist and develop. The company's financing way should also be consistent with the principle of maximizing the value of the company. The company managers should consider the following factors when financing: First, the company's capital structure should be maintained in a reasonable range, on the one hand it can make the company soon-to-expire debt on time, protect the interests of creditors and reduce financial risks, on the other hand, we also need to make full use of the funds that the company borrowed, grasp the investment opportunities, get more profits. Second, companies should control the cost of financing, different ways of financing will get different financing cost, for example, capital cost of equity financing is higher, the debt financing's capital cost is the lowest, the cost of retained earnings, preferred stocks, the issuance of bonds between common stocks and borrowing. As raising equity capital is the capital that the company can own long-term in accordance with the law, investors at any time can’t request the company to return his investment, this part of the funds is the company's Permanent Fund, the financial risk is small, and the corresponding capital cost will be high. Debt financing to raise funds has greater risk and thus lower cost of funds. Company management through the combination of various investment methods can reduce the financial risk, get relatively more funds at a lower cost of capital. Third, managers should pay attention to the utilization efficiency of the capital, avoid blind investment. If they can’t make full use of the raising funds, then the company should not only bear the cost of capital when raise funds cost, but also increase the financial risk, and even affect the sustainable development of the company.

Preventing the behavior of whitewash financial statements

Whitewash financial statements already is nothing new, accounting problems of this kind of extremely bad influence has long history. In order to solve the problem of managers whitewash financial statements, there are some suggestions as the following: First, do some education activities to managers regularly, form moral defense in thought, help managers develop moral rules of honesty and trustworthiness, seek truth from facts as the business standards to report the company's operating condition for the company's stakeholders. Second, using the long-term effective incentive mechanism to managers, so that can make managers pay more attention to the company's operating performance rather than whitewash financial statements, weaken the motivation that the managers use false information deceives stakeholders. Third, strengthen the supervision of the managers' management activities of supervision, and sternly punish the managers who use false information cheat stakeholders. On the one hand because of the supervision of the stakeholders, they have no chance to whitewash the financial statements. On the other hand, they also fear the severe punishment will damage their reputation and ability, and so they pay more attention to the actual operation rather than whitewash financial statements.

Regulate the behavior of income distribution

Investors put the assets into the company for the sake of sharing the revenue of the company's lasting business, after a period of time managers should consultations with investors to distribute the benefits of the company. Distribution of interests for managers is actually their measure between the immediate interests and long-term interests, managers should make the company's retained earnings can satisfy the need of the sustainable operation of the company and can’t be more than the company's ability to pay dividends, and they can’t be too harsh to make the small and medium-sized investors obtain investment returns. So the managers on the issue of income distribution, First, establish sustainable dividend system according to the development of company, allocate profits scientifically and effectively, so that the company can be long-term development; Second, under the condition of not affecting the profitability of the company, use a continuous and stable policy distribute the corporate income, this will improve the investors' confidence for the development prospects of the company, and attract more investors. Third, under the premise of the company can be continuous, stable operation to gradually increase the proportion of revenue distribution to investors.

Establish and perfect the supervision mechanism

Compared with the developed countries, our country of the company supervision system lags behind practice a lot, whether internal or external supervision department of the company has failed to give full play to the supervision function, the way of implementing supervision is single and the supervision is not enough, the unreasonable financial behavior of managers weaken the company's internal and external supervision management system and make the incentive system failed. Therefore, it is necessary to build the supervision and management mechanism to constraint the managers' financial behavior effectively for the company's quality, this mechanism is effective or not directly related to the company's survival and development. The departments of our country's supervision and management of the company have the Ministry of finance, Department of the CSRC, China Banking Regulatory Commission, the China Insurance Regulatory Commission, the active participation of the departments will be bound to creat a good environment for the operating internal management of our company. At the same time we should strengthen the internal control of the company, establish effective internal personnel supervision mechanism, put the internal control down to each step of the operation of the company, forming a restraining effect on the management, improve the professional ethics of the company's management and staff. Through the performance appraisal to make all the staff realize the maximization of the value of the company effectively.

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