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The Theoretical Origin of Financial Risk Research From the Perspective of Stakeholders

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ABSTRACT

From the perspective of stakeholders, financial risk refers to the risk or uncertainty that the financing activities of an enterprise cannot meet the demand for working capital due to the imbalance between the supply and demand of working capital between the enterprise and internal & external stakeholders. This paper analyzes the financial risk concepts in sustainable development theory, information asymmetry theory, principal-agent theory, capital structure theory and enterprise risk management theory, analyzes the relationships among sustainable development, information asymmetry, principal-agent relationship, capital structure, enterprise risk management, stakeholders and financial risk, which lays a solid foundation for financial risk assessment and early warning research The theoretical basis of reality.

Keywords: *Stakeholders, financial risk, risk management*

1. INTRODUCTION

Stakeholders refer to the enterprises, groups or individuals that have certain contractual relationship with enterprises due to the investment of various forms of capital such as material capital, human capital and social capital in enterprises, influence or are affected by the economic activities of enterprises. Wang Zhu quan et al. (2006) creatively classified the stakeholders into internal and external stakeholders according to the conclusion that the essence of an enterprise is the collective choice of its stakeholders [1].

From the perspective of stakeholders, financial risk refers to the risk or uncertainty that the financing activities of an enterprise cannot meet the demand for working capital due to the imbalance between the supply and demand of working capital between the enterprise and internal and external stakeholders. However, for a long time, the development of traditional financial risk research has been slow, only with internal stakeholders as the main body and solvency assessment as the core, ignoring the financial risks caused by the uncertainty of working capital supply and demand relationship between enterprises and external stakeholders and the further destructive effect caused by the deterioration of these working capital supply and demand relationship.

With the change of corporate governance from shareholder centered to stakeholder co governance, the role of stakeholders in corporate finance has attracted more and more attention in academia and practice. To study corporate financial risk from the perspective of stakeholders and internalize the impact of stakeholders on corporate financial risk is a solution to the stagnant research on corporate financial risk. Therefore, the first task is to study the theoretical origin of financial risk from the perspective of stakeholders, which is also of great significance to deepen the research of financial risk assessment and early warning.

2. SUSTAINABLE DEVELOPMENT THEORY, STAKEHOLDERS AND FINANCIAL RISK

According to sustainable development theory, enterprises can properly handle the supply and demand relationship of working capital with internal and external stakeholders, financing activities can guarantee the demand of working capital for business activities, the capital chain of enterprises has not broken, and the survival life is long and the quality is high. As long as the financing activities can guarantee the working capital demand of business activities, the enterprise can continue to operate. The goal of sustainable development enterprise is not only to pursue the maximization of shareholders' interests, but to take sustainable development as the principle, and to create the value of sustainable development for other stakeholders and realize the maximization of the common interests of stakeholders.

The process of sustainable development of enterprises is not smooth sailing. They will always experience favorable conditions (steady growth of economic

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benefits in accordance with the established goals) and adverse conditions (economic activities in a difficult situation). Under the condition of market economy, both favorable and adverse conditions of enterprises are common objective economic phenomena, which occur alternately in the process of sustainable development of enterprises, making enterprises present a spiral trend of sustainable development. Therefore, in order to realize the sustainable development of enterprises, it is very important to prevent and deal with the adversity of enterprises. Business risk and financial risk are the main risks faced by enterprises. They affect the business performance and economic activities of enterprises and are the main reasons for the occurrence of adversity. If an enterprise is caught in the vicious alternate cycle of operational risk and financial risk, it will make the working capital of the enterprise shrink, dry up and die.

The premise of the sustainable development of an enterprise is its continuous operation. There are many enterprises with a long life of more than 100 years in the world, such as Stora that Sweden founded in 1288, Tong Ren tang that Beijing founded in 1669, and DuPont that the United States founded in 1802. They have proved that it is possible for enterprises to live a long life and develop continuously. These enterprises have experienced numerous adversity, with the change of time, their asset scale is larger and larger, and their anti-risk ability is stronger and stronger. Therefore, in order to realize the long-term sustainable development of the enterprise, the enterprise and its stakeholders should scientifically identify and evaluate the financial risks that affect the supply-demand relationship of working capital between the enterprise and its internal and external stakeholders, prevent and eliminate the financial risks in a targeted way, and realize the sustainable development of the enterprise.

3. INFORMATION ASYMMETRY THEORY, STAKEHOLDERS AND FINANCIAL RISK

Information asymmetry is due to the unequal information situation between the buyer and the seller in the capital market. The seller has more information than the buyer. Among the enterprise's stakeholders, the most important working capital supply-demand relationship is composed of operators, shareholders (external investors) and creditors. Based on their own interests, they are very concerned about the actual business situation and future development prospects of the enterprise.

Among the enterprise's stakeholders, the most important working capital supply-demand relationship is composed of operators, shareholders (external investors) and creditors. Based on their own interests, they are very concerned about the actual business situation and future development prospects of the enterprise. Among them, the operators directly participate in and control the production and operation activities of the enterprise, most understand the actual operation status and future development prospects of the enterprise, and they have the most real information; while the external investors and creditors are far away from the production and operation of the enterprise, they need to indirectly obtain information through some channels (such as financial statements, media, network), and they have access to more real information The desire for reliable internal information. The adverse selection caused by information asymmetry have great influence on the financial risk of enterprises. The information asymmetry between the creditor and the enterprise, such as the bank, makes the borrowing enterprise have a more detailed understanding of its own financial situation, the expected return and risk of the project to be invested than the bank, and the bank is in the position of information disadvantage from the beginning. The bank will increase the loan interest rate or other restrictive terms, which will force the loan enterprises with low-risk investment projects to withdraw from the loan market or urge them to replace the less risky projects with the more risky ones; at the same time, the increase of the loan interest rate will increase the interest expenditure of the enterprises, reduce the operating efficiency, and cause the decline of the repayment ability of the enterprises, which will lead to the decline of the enterprises' property Business risk increases.

The moral hazard caused by information asymmetry also has a great influence on the financial risk of enterprises. First of all, this kind of influence is reflected in the default of creditor's rights and debts. Not only will the enterprise's failure to repay debts on time lead to high debts, serious financial risks and increase the cost of debt capital financing in the future, but also the low contract performance rate will affect the normal development of the enterprise's production and operation activities, increase the storage cost of commodity inventory, cause serious capital occupation and increase the enterprise Financial risk of the enterprise; secondly, when the right and responsibility of the enterprise operators are not clearly defined, there will be free-riding behavior, such as the operator uses the enterprise's capital to speculate in real estate or stocks, the risk and loss are all borne by the enterprise, and they have to do their own good; or borrow, apportion, reimburse and occupy the assets of the enterprise by virtue of their power, which will seriously affect the production and operation of the enterprise The normal operation of activities artificially increases the financial risk of enterprises.

4. PRINCIPAL-AGENT THEORY, STAKEHOLDERS AND FINANCIAL RISK

According to the theory of principal-agent, principal-agent relationship is a kind of contract. Under

this kind of contract, in order to maximize their own interests, the principal authorizes the agent to engage in certain activities for their interests. The reason why the principal-agent problem arises is that the agent is also a rational economic person who pursues the maximum of his own interests. In the case of interest conflict and information asymmetry, the agent may put his own interests above the interests of the principal when exercising the rights granted by the principal, so that the interests of the principal suffer losses. Therefore, how to design the optimal compensation contract to solve the conflict of interest and information asymmetry between the principal and the agent is the core to solve the principal-agent problem. There are two main ways: one is incentive, the other is constraint. For the former, the principal can design a reward contract to encourage the agent to act in accordance with the principal's interests, so that the agent can take appropriate actions to maximize its own interests and the principal's interests, that is, incentive compatibility; for the latter, the principal can take necessary supervision and restraint measures to prevent the agent from encroaching on the legitimate rights and interests of the principal, such as establishing a reasonable An effective corporate governance structure maximizes the role of shareholders, board members and managers, and enables principals and agents to achieve the goal of maximizing their own interests.

The theory of principal-agent emphasizes the conflict of interest and information asymmetry between principal and agent. However, it should be noted that the basic interests of shareholders and operators in modern enterprises are not contradictory. To improve the economic benefits, increase the profits, prevent risks (especially financial risks), and realize the sustainable development of enterprises are not only related to shareholders, but also closely related to the remuneration of operators. While improving the economic benefits, increasing the profits, preventing the financial risks and realizing the sustainable development of the enterprise, the managers also help to increase their own value and improve their reputation and social status. The incentive effect of this non-material reward cannot be ignored. As a result, with the continuous development and improvement of institutional measures such as talent market, reputation system and talent selection mechanism, the interest orientation between shareholders and managers will gradually become the same. Therefore, it is not appropriate for the principal-agent theory to emphasize the conflict of interest between the principal and the agent. In addition, operators can also pass internal information to shareholders and creditors through the signaling mechanism (financial statements, network, media) to mitigate the impact of information asymmetry.

The practice of modern enterprises has proved that the operation performance and efficiency of enterprises do not depend on who owns the assets or what kind of property system is implemented, but more importantly on who manages, how to choose and decide the managers; the vitality of enterprises does not depend on the internal unity of shareholders and managers, but on whether the incentive and restraint mechanism can achieve the minimum goal of shareholders and managers Deviation. However, according to the principal-agent theory, due to the inconsistent interests and asymmetric information of shareholders and managers, the shareholders who are the ultimate risk bearers of enterprises may bear the economic consequences that the operators may evade risks for their own interests or consciously create risks, resulting in the loss of shareholders' interests. Therefore, the principal and agent not only share the interests, but also In order to share risks, we should establish a mechanism of sharing interests and risks between the principal and the agent, so that the actions of the operators who control the production and operation activities of the enterprise are in line with the interests of the shareholders, and their goals tend to be the same, and they are jointly committed to the smooth development of the production and operation activities of the enterprise. Only in this way can we prevent and reduce various risks or uncertainties of the enterprise to maximize the common interests of stakeholders.

The financial risk of most enterprises is not achieved overnight, but has a long incubation period. The essential reason why these enterprises can’t effectively manage and prevent financial risks in the early stage of financial risk formation is that the principal-agent problem leads to the low efficiency of financial risk identification and evaluation. For example, in the face of the choice of operating performance first or controlling financial risk first, operators tend to operate performance first in order to complete the operating indicators issued by shareholders and maximize their own interests, while for the latter, they take more measures such as concealment, concealment or ignore and let them develop. If the shareholders can supervise and restrain the behavior of the managers, find out the bad slim of the financial risk of the enterprise in time with the help of effective financial risk identification and evaluation means, and pull the managers back to the track of pursuing the maximization of the common interests of the stakeholders and the minimization of the financial risk, then the adverse effects of the principal-agent can be eliminated and the long-term development of the enterprise can be realized Long term and sustainable development.

5. CAPITAL STRUCTURE THEORY, STAKEHOLDERS AND FINANCIAL RISK

Throughout the development of the theory of capital structure, the traditional theory of capital structure is based on the random and unsystematic intuitive generalization, most of which are implied or inferred. The theory of capital structure after the theory of MM

with tax recognizes the influence of capital structure on enterprise value, and holds that debt capital financing is a better way, but the capital structure of 100% debt can't be adopted, because the financial risk is objective [2].

Modern and post-modern capital structure theories adopt the research paradigm of capital structure → stakeholder behavior → enterprise value. In the study of the relationship between capital structure and enterprise value, these theories all involve the behavior of enterprise stakeholders. This is because modern enterprises are contractual consortiums that composed of all stakeholders, each of whom equally participate in the distribution of residual claim and control rights. In this established enterprise system framework, capital structure theory is the objective basis and theoretical basis for all stakeholders to participate in the distribution of residual claim and control rights. According to this, the research path of modern and post-modern capital structure theory is as follows: first, analyze the choice of enterprise capital structure, such as the choice of equity capital structure, the choice of debt capital structure, the choice of the composition and proportion of equity capital and debt capital, etc.; second, analyze the influence of the selected capital structure of enterprise on the behavior of its operators, shareholders, creditors and other stakeholders Finally, based on the above research results, the paper analyzes the impact of capital structure on enterprise value and financial risk. However, in the study of the relationship between capital structure and enterprise value, modern and post-modern capital structure theories neglect the influence of equity capital structure and debt capital structure on enterprise value, only consider the influence of material capital on enterprise value, and neglect the influence of human capital and social capital on enterprise value [3].

6. ENTERPRISE RISK MANAGEMENT THEORY, STAKEHOLDERS AND FINANCIAL RISK

Enterprise risk management refers to the joint implementation of enterprise managers, board of directors and other relevant personnel under the mutual cooperation of internal and external stakeholders, through the use of certain scientific methods, to identify, evaluate and respond to various risks (business risk and financial risk) that may occur in the economic activities of enterprises, so as to maximize the common value of enterprise stakeholders And risk cost minimization, to become a sustainable organizational process. Enterprise risk management is an organic system, including risk identification, risk assessment and risk response; enterprise risk management is not only the business of enterprise managers, but also requires the participation of all stakeholders of other departments; enterprise risk management is not to completely eliminate enterprise risks, but to follow the principle of cost-benefit, to minimize the risk cost, so as to achieve the goal of the enterprise To achieve reasonable rather than absolute assurance.

There is a close relationship between enterprise risk management and its internal and external stakeholders. One of its goals is to maximize the common value of stakeholders. For example, business operators need to identify matters affecting risks, assess risks and take corresponding countermeasures; the board of directors composed of directors elected by all shareholders provides supervision, guidance and approval of strategies, some special transactions and policies; all employees of the enterprise should provide information required by risk management or take necessary measures to manage risks. Similarly, external stakeholders, such as creditors, suppliers, customers, government administrative departments, should also help or cooperate with enterprises in risk management, and reflect the interests and requirements of external stakeholders in enterprise risk management. However, the external stakeholders are not responsible for enterprise risk management, only play a role of cooperation.

The essence of enterprise management is enterprise risk management. The core of enterprise risk management is financial risk management. The focus of enterprise financial risk management is operating capital influenced by internal stakeholders' risk preference, risk capacity, self-owned capital supply, management system and external stakeholders' business model, financial innovation, political connection, etc. The financial risks or financial difficulties caused by the relationship between supply and demand of gold should be identified, evaluated and replied, to ensure that the enterprise can achieve the goal of maximizing the common value of stakeholders, minimizing the risk cost and sustainable development. In the process of risk identification, assessment and response, identification is the premise, response is the purpose, and assessment is the bridge between identification and response, which is an important part of enterprise risk management.

7. CONCLUSION

Due to the separation of management right and ownership, there are principal-agent relationship, adverse selection and moral hazard, resulting in asymmetric information owned by internal and external stakeholders. One of the goals of enterprise survival and development is sustainable development, to maximize the common value of stakeholders and minimize the risk cost. However, the existence of debt capital in the capital structure leads to the inevitable existence of financial risks. Financial risk is a kind of risk or uncertainty, which affects the sustainable development of enterprises. Therefore, to study the financial risk from the perspective of stakeholders, we

need to study the financial risk concept in the sustainable development theory, information asymmetry theory, principal-agent theory, capital structure theory and enterprise risk management theory, which also lays a theoretical foundation for the financial risk assessment and early warning research.

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