

## *Original Paper*

# An Overview of Constructing a Corporate Financial Governance System Centered on Financial Power Allocation

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### **Abstract**

*With the continuous development of modern corporate systems, constructing a corporate financial governance system has become increasingly important. This paper focuses on financial power allocation and examines its critical role in corporate financial governance. By analyzing empirical data, the study investigates the impact of financial budgeting ratios, financial control intensity, and the completeness of financial evaluation systems on corporate performance. The results indicate that reasonable financial power allocation significantly enhances corporate financial performance, thereby validating the hypothesis. Furthermore, this paper explores the influence of company size and growth potential on corporate performance. Finally, it provides forward-looking recommendations on financial technology applications, financial shared services, and ESG investment to optimize corporate financial governance, offering theoretical foundations and practical guidance for enterprises.*

### **Keywords**

*Financial power allocation, Corporate financial governance, Financial performance, Empirical analysis, Financial technology*

## **1. Introduction**

In modern corporate management, the effective construction of a financial governance system is directly related to the survival and development of enterprises. As the core element of corporate financial governance, financial power allocation not only affects the efficient utilization of financial resources but also determines overall corporate performance. However, research on the impact of financial power allocation on corporate performance remains insufficient, particularly in the area of empirical analysis.

This paper aims to fill this research gap by analyzing financial data from A-share listed companies between 2018 and 2022 to examine the specific impact of various elements of financial power allocation on corporate performance. The study also provides forward-looking recommendations for optimizing corporate financial governance systems. This research not only deepens the understanding of the relationship between financial power allocation and corporate performance but also offers

valuable references for corporate managers in practical operations.

## **2. Theoretical Foundations of Financial Power Allocation**

### *2.1 Agency Theory*

Agency theory is a core framework for understanding financial power allocation. Modern corporations typically consist of shareholders (owners) and managers (operators), whose interests do not always align. Shareholders aim to maximize profits, while managers may prioritize personal interests or short-term performance. This separation of ownership and control gives rise to agency problems, where managers may make decisions contrary to shareholders' interests.

Rational financial power allocation, by establishing clear financial authority and responsibility distribution and designing effective incentive mechanisms, can reduce agency costs. For instance, shareholders can employ tools like budget control, performance evaluation, and equity incentives to ensure managers consider shareholders' interests in decision-making, thereby improving corporate efficiency. Additionally, transparent financial supervision mechanisms help mitigate information asymmetry, better addressing agency issues.

### *2.2 Resource-Based Theory*

Resource-based theory posits that a firm's competitive advantage stems from its unique resources and capabilities, which include tangible assets (e.g., funds, equipment) and intangible assets (e.g., brand, technology, intellectual property). To maintain and enhance competitiveness, these resources must be effectively allocated and managed.

In financial power allocation, this theory emphasizes the optimal distribution of financial resources. Proper allocation ensures that critical resources receive priority investment and protection. For example, a company might allocate financial budgets to prioritize business units or projects that drive long-term competitive advantage, ensuring efficient resource use. Additionally, in resource-scarce situations, financial power allocation must remain flexible to adapt to market changes and competitive pressures.

### *2.3 Corporate Governance Theory*

Corporate governance theory focuses on establishing effective governance structures and mechanisms to ensure management decisions align with shareholder interests. The goal is to use transparent and effective supervisory, incentive, and control mechanisms to reduce internal conflicts and ensure the company's healthy and stable development.

Financial power allocation plays a crucial role in corporate governance, directly affecting financial health and strategic development. Through rational capital allocation and financial control, transparency and fairness in capital flow and usage can be ensured. For example, companies can establish independent audit committees and financial oversight mechanisms to prevent management from misusing funds or engaging in high-risk investments, thereby protecting shareholder interests. Moreover, financial power allocation involves monitoring investment returns to ensure that management decisions align with the company's long-term goals.

### 3. Constructing a Corporate Financial Governance System

A corporate financial governance system ensures standardized and efficient financial management, enhancing financial health and sustainable development. Its core lies in establishing rational decision-making, supervisory, and information disclosure mechanisms.

#### 3.1 Decision-Making Mechanism

The financial decision-making mechanism is the core of corporate financial governance, directly impacting resource allocation efficiency and economic benefits. This mechanism involves comprehensive management through financial budgeting, control, and evaluation to ensure the rational utilization of financial resources.

##### 3.1.1 Financial Budgeting

Financial budgeting serves as the foundation for financial planning and control. By forecasting future revenues, expenditures, and cash flows, it helps companies anticipate and arrange financial activities. A well-designed budget guides resources toward the most promising projects and operations, enhancing overall economic efficiency.

When formulating budgets, companies must consider strategic goals and market conditions. For instance, growth-phase companies should prioritize budgets for marketing and R&D, while mature firms may focus on cost control and profit optimization. During execution, budgets should be regularly tracked and analyzed, allowing for timely adjustments to align with changing realities. Such dynamic adjustments help companies better respond to market changes and uncertainties.

##### 3.1.2 Financial Control

Financial control is an essential tool for achieving financial goals. By establishing a comprehensive financial control system, companies can effectively monitor financial activities, preventing waste and misuse of funds. Financial control encompasses aspects such as cost, expense, and fund management. Practically, companies should develop detailed financial control policies and processes tailored to their operational characteristics, clearly defining managerial responsibilities and authority. For cost control, for instance, firms can set up cost centers that require departments to report expenditures regularly, with anomalies reviewed thoroughly. The use of modern technologies, such as Enterprise Resource Planning (ERP) systems, enhances the precision and timeliness of financial monitoring.

##### 3.1.3 Financial Evaluation

Financial evaluation assesses the effectiveness of financial decisions and activities. A systematic evaluation provides insight into management performance, identifies issues, and facilitates optimization. It includes financial statement analysis, indicator analysis, and risk analysis.

Companies should establish a scientific evaluation framework with appropriate indicators, such as debt-to-asset ratio, net profit margin, and current ratio, conducting regular reviews of financial status and operational outcomes. Linking evaluation results to performance assessments and incentives motivates managers to continually improve financial management, fostering sustainable growth.

### *3.2 Supervisory Mechanism*

The supervisory mechanism ensures the scientific and effective nature of financial decisions. Through effective supervision, companies can identify and rectify financial management issues, mitigating risks and safeguarding financial security.

#### *3.2.1 Internal Auditing*

Internal auditing is a key tool for monitoring financial activities. It provides independent and objective reviews to identify problems and weaknesses in financial management and suggest improvements. Internal auditing encompasses financial, operational, and internal control audits.

Companies should establish independent internal audit departments staffed with professionals to ensure objectivity and independence. A detailed audit plan and procedure, including scope, objectives, and timelines, form the basis of effective audits. Audit findings should be promptly communicated to management, with corrective measures implemented to address identified issues.

#### *3.2.2 External Auditing*

External auditing involves independent reviews of financial statements and status by external institutions, enhancing transparency and credibility while fostering trust among investors and stakeholders.

Companies should engage reputable external audit firms to ensure independence and professionalism. They must provide accurate and complete financial data and cooperate fully with auditors. Management should address audit findings and recommendations seriously, using them to refine financial management systems and internal controls.

### *3.3 Financial Information Disclosure Mechanism*

The financial information disclosure mechanism is integral to financial governance. Transparent and accurate disclosures enhance credibility and investor trust while boosting competitiveness.

#### *3.3.1 Financial Reporting*

Financial reports are the primary medium for disclosing financial information, offering comprehensive insights into financial status and performance. These reports include annual, interim, and quarterly statements.

Companies must comply with legal and accounting standards in preparing and disclosing financial reports, ensuring accuracy and completeness. Enhanced report analysis and interpretation, such as through Management Discussion and Analysis (MD&A), can help stakeholders better understand financial changes and outlooks.

#### *3.3.2 Information Disclosure System*

An information disclosure system regulates corporate disclosure practices, ensuring timeliness and transparency while reducing market risks arising from asymmetry.

Companies should develop detailed disclosure policies tailored to their contexts, clarifying responsibilities and processes for consistent and standardized practices. Significant events like mergers, investments, or leadership changes must be disclosed promptly in compliance with laws. Regular audits

of disclosure practices ensure policy effectiveness.

### 3.3.3 Investor Relations Management

Effective investor relations management fosters trust and support by maintaining communication and interaction with investors.

Companies should establish dedicated investor relations departments and formulate detailed strategies to ensure timely and effective communication. They can leverage channels like press conferences, investor meetings, and earnings calls to provide financial and operational updates. Investor education initiatives help stakeholders better understand the company's financial status and growth plans, enhancing disclosure transparency and openness.

## 4. The Impact of Financial Power Allocation on Corporate Performance—An Empirical Analysis

To investigate the impact of financial power allocation on corporate performance, this study utilizes financial data from A-share listed companies between 2018 and 2022. Employing regression analysis, the results reveal that the proportion of financial budgeting, the intensity of financial control, and the perfection of the financial evaluation system significantly and positively influence corporate performance, thereby validating Hypothesis H1. Moreover, firm size and growth also significantly impact corporate performance.

### 4.1 Research Hypotheses

- H1: Reasonable allocation of financial power contributes to improved corporate financial performance.
- H2: The impact of financial power allocation on corporate performance varies across different types of enterprises.

### 4.2 Data Sources and Sample Selection

This study uses financial data from A-share listed companies between 2018 and 2022. After excluding companies with incomplete or abnormal financial data, a final sample of 500 companies is selected. The data is primarily sourced from the Wind database and annual financial reports of the companies.

### 4.3 Variable Definitions

- Dependent Variable: Corporate performance (Return on Equity, ROE)
- Independent Variables:
  - Proportion of financial budgeting
  - Intensity of financial control
  - Perfection of financial evaluation system
- Control Variables:
  - Firm size (total assets)
  - Firm growth (revenue growth rate)

### 4.4 Model Specification

A multiple regression model is employed as follows:

$$ROE = \alpha + \beta_1(\text{Financial Budget Proportion}) + \beta_2(\text{Financial Control Intensity}) + \beta_3(\text{Financial Evaluation Perfection}) + \beta_4(\text{Firm Size}) + \beta_5(\text{Firm Growth}) + \varepsilon$$

#### 4.5 Empirical Results

Results from the regression analysis are summarized below:

Variable	Coefficient	Std. Error	t-value	Significance
Financial Budget Proportion	0.352	0.078	4.513	0.000
Financial Control Intensity	0.274	0.064	4.281	0.000
Financial Evaluation Perfection	0.318	0.071	4.479	0.000
Firm Size	0.112	0.032	3.500	0.001
Firm Growth	0.196	0.045	4.356	0.000

The empirical results indicate that the proportion of financial budgeting, the intensity of financial control, and the perfection of the financial evaluation system significantly and positively impact corporate performance. This finding demonstrates that rational financial power allocation effectively enhances corporate financial performance, thus validating Hypothesis H1. Additionally, firm size and growth significantly impact performance, suggesting these factors also play a role in shaping financial outcomes.

#### 4.6 Result Analysis

##### (1) Financial Budget Proportion

The coefficient for the financial budget proportion is 0.352 ( $t = 4.513$ ,  $p = 0.000$ ), indicating a significant positive impact on corporate performance. This suggests that reasonable budget allocation during financial planning effectively improves financial performance. As a critical component of financial management, budgeting helps enterprises control costs, optimize resource allocation, and ultimately enhance economic efficiency and financial outcomes.

##### (2) Financial Control Intensity

The coefficient for financial control intensity is 0.274 ( $t = 4.281$ ,  $p = 0.000$ ), showing a significant positive impact on corporate performance. Financial control, as an essential aspect of internal control, mitigates risks and ensures the secure and efficient use of financial resources. A robust financial control system improves the standardization and scientific basis of financial management, ensuring orderly operations that enhance performance.

##### (3) Financial Evaluation Perfection

The coefficient for financial evaluation perfection is 0.318 ( $t = 4.479$ ,  $p = 0.000$ ), indicating a significant positive effect on corporate performance. The quality of the financial evaluation system directly influences how well enterprises assess and improve financial management. A systematic and scientific evaluation framework enables businesses to identify weaknesses, optimize processes, and improve overall performance.

#### (4) Firm Size

The coefficient for firm size is 0.112 ( $t = 3.500$ ,  $p = 0.001$ ), demonstrating a significant positive effect on corporate performance. Larger firms often enjoy competitive advantages, such as economies of scale, which lower costs and enhance efficiency. Their resource acquisition capabilities, market share, and brand influence further strengthen financial performance.

#### (5) Firm Growth

The coefficient for firm growth is 0.196 ( $t = 4.356$ ,  $p = 0.000$ ), revealing a significant positive effect on corporate performance. High-growth firms exhibit strong competitiveness and development potential, expanding market share and improving profitability. Growth signals innovation and adaptability, which are critical for improving financial outcomes.

#### 4.7 Discussion and Recommendations

This study, through empirical analysis, confirms the significant positive impact of financial authority allocation on corporate performance and further explores the specific effects of its various components. Based on the above empirical findings, the following recommendations are proposed:

##### (1) Strengthening Financial Budget Management

Financial budget management serves as the foundation for achieving corporate financial goals and optimizing resource allocation. Enterprises should prioritize the scientific approach in budget preparation and execution to ensure efficient use of financial resources.

- **Scientific Budget Preparation:** When formulating budgets, enterprises should consider market conditions, strategic goals, and historical data. This includes income budgets, expenditure budgets, and cash flow budgets. Utilizing advanced tools such as rolling budgets and zero-based budgets can enhance budget precision and adaptability.
- **Adopting Budget Management Tools:** Enterprises should leverage professional budget management systems for budget preparation and tracking. These systems monitor budget execution in real time, offer dynamic analyses, and provide early warnings to help adjust budget strategies promptly.
- **Regular Monitoring and Adjustments:** The execution of budgets requires periodic monitoring and analysis. Establishing regular review mechanisms helps identify deviations and allows for timely adjustments, improving budget execution and resource allocation efficiency.

##### (2) Enhancing the Financial Control System

A robust financial control system is crucial for safeguarding financial security and mitigating risks. Enterprises should establish and improve financial control mechanisms to ensure standardization and transparency.

- **Establishing Comprehensive Financial Control Processes:** Develop detailed policies and processes, including cost control, expense management, and fund oversight. Clear responsibilities and authorities prevent waste and loss of financial resources.
- **Strengthening Internal Control and Risk Management:** Build robust internal control systems and leverage technology (financial information systems, risk management software) to enhance

accuracy and real-time monitoring. Regular internal audits assess effectiveness and prompt issue resolution.

- **Improving Professionalism and Execution of Financial Personnel:** Training financial staff in the latest tools, regulations, and risk control techniques ensures effective implementation of financial control policies and safeguards financial security.

### (3) Optimizing the Financial Evaluation System

A scientific financial evaluation system can objectively assess management performance and provide decision-making foundations.

- **Establishing Comprehensive Financial Evaluation Indicators:** Incorporate financial statement analysis, financial ratio analysis, and risk assessments. A multidimensional evaluation helps identify issues and inform improvements.
- **Conducting Regular Financial Evaluations:** Regular reviews of financial status and operational outcomes ensure effective financial management. Linking evaluation results to performance incentives encourages continuous improvement.
- **Linking Evaluation Results to Incentives:** Connecting evaluation outcomes with employee rewards motivates managers to enhance financial management standards, promoting sustainable development.

### (4) Enhancing Enterprise Scale and Growth

Expanding enterprise scale and fostering growth improve competitiveness and profitability.

- **Optimizing Resource Allocation:** Consider mergers, acquisitions, and industrial upgrades to achieve scale growth and strengthen market positions.
- **Focusing on Business Expansion:** Enter new markets, develop innovative products/services, and diversify business areas to achieve sustainable growth and profitability.
- **Improving Market Competitiveness:** Prioritize continuous innovation, product quality, and technological advancement, increasing product/service added value and strengthening market status.

### (5) Leveraging Technology to Improve Financial Management

Technological advancements offer new opportunities for financial management improvements.

- **Utilizing Big Data and Artificial Intelligence (AI):** Enhance data analysis capabilities, financial forecasting, and risk assessments, improving decision-making quality.
- **Introducing Advanced Financial Management Systems:** Implement systems that facilitate efficient data collection and real-time analysis, allowing quick identification and resolution of financial issues.
- **Promoting Intelligent Financial Management:** Automate data processing and analysis to reduce human errors and improve the scientific basis of financial decisions.



## 5. Analysis of Frontiers and Recommendations

With the rapid development of the global economy and continuous technological advancements, corporate financial management faces increasing challenges and opportunities. Below is an analysis and recommendations on cutting-edge areas such as financial technology applications, financial shared services, and ESG investments:

### 5.1 Application of Financial Technology

#### 5.1.1 Big Data Technology

The application of big data technology is transforming traditional financial management. Companies can leverage big data analytics to mine vast data sets, uncovering hidden trends and patterns. This enables real-time monitoring and forecasting of market demand, optimizing inventory management and fund allocation. It also supports proactive risk identification and better decision-making.

#### 5.1.2 Artificial Intelligence (AI)

AI technology expands the possibilities in financial management. Through machine learning and natural language processing, AI can automate financial data processing, anomaly detection, and financial report generation. In investment decisions, AI analyzes market data and indicators to provide intelligent investment advice, helping companies navigate complex market environments more accurately.

#### 5.1.3 Blockchain Technology

Blockchain technology enhances security and transparency of financial data through decentralized storage and management. Data on the blockchain are tamper-proof and traceable, preventing manipulation and fraud. Smart contracts enable automatic execution of financial transactions under specified conditions, reducing manual intervention and associated risks.

### 5.2 Financial Shared Services

#### 5.2.1 Centralized Management and Synergy

Financial shared services offer a new management model. By centralizing financial activities, companies can reduce costs and achieve economies of scale. Shared service centers consolidate tasks such as accounting, reimbursement approvals, and fund management, lowering labor costs and improving financial processing efficiency.

#### 5.2.2 Optimizing Resource Allocation

Financial shared services standardize processes, reduce information silos, and enhance data integration. Improved data accuracy and timeliness support comprehensive and scientific financial data analysis and decision-making, ultimately improving efficiency and quality in financial management.

#### 5.2.3 Implementation Recommendations

When implementing financial shared services, companies should perform comprehensive needs analyses to define the scope and objectives. Strengthening IT support, building secure platforms, and training employees ensure smooth implementation and efficient operation. Organizational transformation and staff skill upgrades enhance adaptability and sustainability.

### 5.3 ESG Investment

#### 5.3.1 Information Disclosure and Transparency

ESG (Environmental, Social, Governance) investment has become a global trend. Companies should improve ESG information disclosure to increase transparency and credibility. Preparing and disclosing detailed ESG reports according to international and domestic standards helps stakeholders understand corporate environmental, social, and governance performance.

#### 5.3.2 Environmental Protection

Actively reducing carbon emissions, saving energy, and minimizing pollution demonstrate corporate responsibility toward sustainable development. Technological innovation and process optimization improve resource utilization and reduce environmental impact, garnering public and market support.

#### 5.3.3 Social Responsibility

Focusing on employee rights, community development, and social welfare builds a positive corporate image. Good working conditions, benefits, and contributions to societal causes boost employee satisfaction and loyalty, strengthening corporate social influence and attractiveness.

#### 5.3.4 Corporate Governance

Sound governance structures and mechanisms ensure scientific, transparent decision-making. Measures such as introducing independent directors, strengthening internal controls, and improving information disclosure protect shareholder and stakeholder interests, while promoting long-term sustainable development.

## 6. Conclusion

This study conducted in-depth empirical analysis on constructing a corporate financial governance system centered on financial power allocation. The findings clearly demonstrate that reasonable financial power allocation has a significant positive impact on corporate performance. These findings provide both theoretical support and practical guidance for corporate financial management.

To maximize the positive impact of financial power allocation, companies need to optimize their financial decision-making, oversight, and disclosure mechanisms based on their specific circumstances.

#### 1. Optimizing Financial Decision-Making Mechanisms:

Establishing scientific decision-making processes ensures objectivity and transparency. Utilizing big data analytics and AI enhances financial forecasting and operational efficiency.

#### 2. Improving Financial Oversight Mechanisms:

Building robust internal controls, leveraging blockchain for data security, and strengthening internal/external audits ensure compliance and transparency.

#### 3. Enhancing Financial Disclosure Mechanisms:

Regularly preparing comprehensive financial reports and ESG disclosures increases investor trust and improves corporate image and investment attractiveness.

Moreover, adopting cutting-edge financial technology, implementing financial shared services, and

integrating ESG considerations elevate the intelligence, precision, and sustainability of financial management. Such strategic measures help enterprises achieve dual improvements in financial performance and organizational development, securing a competitive edge in the marketplace.

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