

# Influencing Factors of Financial Flexibility on Enterprise Value

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**Abstract:** This paper puts forward a hypothesis, designs variables, builds models, and carries out an empirical study on them. And then, the overall description analysis, correlation analysis, and multiple regression analysis are used in the sample data. The results show that the awareness of financial flexibility of Internet enterprises needs to be raised. The innovation ability of Internet enterprises promotes the development of enterprises. China's economic development environment has an essential impact on the Internet business. The larger the scale and the faster the growth speed of Internet enterprises, the more favorable the financial flexibility of enterprise reserves will be to the enterprise value.

**Keywords:** Internet enterprises; financial flexibility; enterprise value; empirical study

**Fund project:** 1 The "13th Five—Year" Scientific Research Planning Project of the Education Department of Jilin Province (Social Science Research Project) "Research on Multi—Source Fusion Personalized Micro—Reading User Portrait Model Based on User Cognition" (JJKH20190715SK).

2 The General Project of Higher Education Scientific Research of Jilin Provincial Higher Education Association "Research on Influencing Factors and Promotion Strategies of Online Classroom Teaching in Colleges and Universities" (JGJX2020D93).

3 The "13th Five—Year" Scientific Research Planning Project of the Education Department of Jilin Province (Social Science Research Project) "Research on the Construction Model and Influence Improvement Path of Jilin Province's New Type of University Think Tanks" (JJKH20180459SK).

**DOI:**10.36012/ems.v2i1.2786

## 1. Introduction

**W**ith the acceleration of globalization, the business environment of enterprises is constantly changing, which leads to the increase of uncertainty, which makes

enterprises may not be able to seize more valuable investment opportunities. To ensure the regular operation of the enterprise and enhance the ability of the enterprise to raise funds, the enterprise needs to deal with unfavorable factors, such as the

shortage of funds and the uncertainty of the environment, which affect the development of the enterprise through the way of reserve financial flexibility. In the 1980s, the theory of enterprise flexibility began to be concerned by foreign scholars and applied to product operation management, financial management, and so on. In 2008, the international financial crisis caused many enterprises to be insolvent or even closed down, while the flexible financial enterprises survived the financial storm, which made senior leaders and theorists begin to pay attention to the value and significance of financial flexibility. At present, information technology has an irreplaceable position in the global market economy, which makes many Internet enterprises rise rapidly. Internet enterprises have the characteristics of a single financing channel, considerable operating risk, and high proportion of intangible assets, which makes Internet enterprises need to maintain a certain ratio of current assets and liabilities and reserve certain financial flexibility in the process of development, which is indispensable for Internet enterprises.

## **2. Factors Affecting Financial Flexibility and Enterprise Value**

Foreign research on financial flexibility started earlier. Myers and Majluf Research shows that companies have high cash flows to make them more flexible. Gamba and Triantis find that financial flexibility is a way for companies to adjust their capital needs at a low cost, which can lift them out of trouble. By studying the holding of bank notes, Kahl Wang proves that bank notes can enhance the financial flexibility of enterprises. AICPA and Byoun believe that financial flexibility is a financial ability to raise additional funds through certain measures and is an emergency response Trigeorgis shows that financial flexibility can be regarded as an option, which plays an important role in future investment activities. The more financial flexibility

the enterprise reserves, the greater the performance of the enterprise.

Xie Shengwen, a scholar who researched financial flexibility earlier in China, explained that financial flexibility, also known as financial flexibility, refers to the ability of a company to respond to cash needs arising from unexpected situations. Ge Jiashu et al. believe that financial flexibility is the ability of companies to devise timely strategies to adjust their cash holdings and to make valuable investments. Wang Zhiqiang confirms that companies with a high marginal value of financial flexibility tend to implement equity refinancing rather than debt refinancing. Li Jiangyan et al. took the patent data of China Mobile Internet listed enterprises as the research target and empirically analyzed that the higher the technological development ability of enterprises, the more conducive to the improvement of business performance.

### **2.1 Financial Flexibility and Enterprise Value**

Under the background of the international financial crisis, Zeng Aimin analyzed the influence of financial flexibility on the development of enterprises and found that the stronger the financial flexibility of enterprises, the easier it is for enterprises to resist the impact of the financial crisis, thus having the ability to continue to operate. Driving the enterprise to the direction of high quality, Byoun and Graham both believe that the financial flexibility of the enterprise contributes significantly to the value of the enterprise, that the high level of financial flexibility can promote the development of the enterprise more stable and lasting, and that the enterprise should hold a certain degree of capital to deal with the risk. Therefore, this paper assumes that reserve financial flexibility can deal with the crisis and risk in the process of enterprise development, seize greater investment opportunities, solve the problem of slow short-term capital turnover, to improve the business performance,

maintain the good reputation of the enterprise, and continuously enhance the value of the enterprise.

H1: financial flexibility is positively related to enterprise value, that is, the more financial flexibility of reserve, the more conducive to the improvement of enterprise value.

## **2.2 The Relationship between Enterprise Innovation Ability and Financial Flexibility and Enterprise Value**

The Internet industry is new. To continuously improve the value of enterprises, it is necessary to increase the innovation ability of enterprises and develop core products. By analyzing the impact of financial flexibility on enterprises, Ma Chunai found that to carry out investment and innovation activities better and actively seek profitable projects, enterprises often can not do without capital reserves and maintain a particular debt capacity, to ensure the funds needed for enterprise investment activities and the cash flow required in the course of operation, to avoid the situation that enterprises are forced to suspend projects. Therefore, this paper assumes that Internet enterprises have a high demand for operating funds because of their high innovation ability. Enterprises can tackle not only operating capital shortage but also reduce avoidable cost expenditure and ultimately boost enterprise value.

H2: the stronger the innovation ability of the enterprise, the more flexible the reserve finance can increase the enterprise value.

## **2.3 Relationship between Enterprise Growth and Financial Flexibility and Enterprise Value**

The development of enterprises has to go through four stages: start-up, growth, maturity, and decline. Especially in the two phases of start-up and growth, to obtain profitable projects, enterprises need more financial support to ease the financial pressure caused by excessive investment. Because the Internet industry is young, most of

them are in the initial stage or growing stage. Therefore, this paper assumes that Internet enterprises are carrying out a large number of investment activities in the period of rapid development, which is also the fastest-growing stage of enterprise value, and the demand for financial flexibility of Internet enterprises is relatively strong.

H3: higher the growth of enterprises, the more financial flexibility can promote enterprise value.

## **2.4 The Relationship between Enterprise Scale and Financial Flexibility and Enterprise Value**

According to the regularity of the economic environment, Liu Mingxu analyzes the relationship between financing constraints and financial flexibility of enterprises and proves that the larger the scale of enterprises, the stronger their ability to raise funds, the higher the financial flexibility of enterprise reserves. Therefore, this paper assumes that in the current stage of development of Internet enterprises, the larger the scale, the more the need to reserve a certain amount of financial flexibility to maintain long-term growth and enhance the profits and value of enterprises.

H4: larger enterprises, the greater the strategic significance of financial flexibility to enterprise value.

## **3. Conclusion**

This paper mainly empirically studies the impact of financial flexibility of the Internet industry on the value of enterprises. First, through the specific analysis of the characteristics of the Internet industry, the following conclusions are drawn.

First, the financial concept of financial flexibility of Internet enterprises is not strong. Through empirical research, it is found that Internet enterprises do not attach great importance to the role of financial flexibility, which makes enterprises face greater crises and risks. Even some enterprises face a situation that may be eliminated.

Enterprises that attach great importance to financial flexibility can not only prevent the occurrence of uncertain factors but also make valuable investment and create new development power. Internet enterprises should attach great importance to the role of financial flexibility in enhancing the value of enterprises and avoid bankruptcy.

Second, the innovation ability of Internet enterprises is of great significance to the development of enterprises. According to the above analysis, the higher the investment innovation ability of Internet enterprises, the more conducive to the impact of financial flexibility on the value of enterprises, the more favorable to the long-term development of enterprises. But the investment innovation ability is low, its reserve financial flexibility to the enterprise value influence is not obvious. Not only wasted the enterprise reserve cash superiority but also can not carry on the valuable investment predicament, Make the development of enterprise slower.

Third, China's economic environment has an important impact on Internet enterprises. Many sizeable domestic Internet enterprises belong to multinational listed companies. Only a few Internet enterprises are listed in Shanghai and Shenzhen, which reflects that the domestic capital market is not perfect. In contrast, the foreign capital market has the advantage of surpassing the domestic capital market. Therefore, the government

should actively create a relaxed economic development environment and provide superior conditions for the development of domestic Internet enterprises.

Fourth, the larger the scale of Internet enterprises, the faster the growth rate, the more favorable the financial flexibility of enterprise reserves to enterprise value. The Internet industry has more growth space than other industries. The faster the development, the more able to expand the scale to promote the prosperity and development of enterprises through the financial flexibility of reserves. The Internet industry is a sunrise industry, and there are many investment opportunities for various projects. If enterprises hold cash and can borrow surplus, they can carry out more investment activities, thus promoting the progress and value increase of enterprises. Promote the prosperity and development of enterprises.

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