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Research on the Influence of Corporate Governance Ability and Internal Control on Financial Management Level: Based on the Intermediary Role of Shareholding Structure

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Abstract: In modern enterprise management, corporate governance, in eternal control and financial management are the three core elements that determine the sustainable development of an enterprise. With the complexity of the market environment and the continuous improvement of regulatory requirements, shareholding structure is an important factor affecting corporate governance and internal control, and has attracted more and more attention from the academic and practical circles. The shareholding structure not only determines the distribution of control over the development of the enterprise and the balance of shareholders' interests, but also inevitably has an impact on the operation of the governance mechanism and the operation of internal control. In this context, based on the perspective of shareholding structure, this paper deeply studies the impact of corporate governance ability and internal control on the level of financial management, and discusses the role of shareholding structure in it.

1. Literature research on corporate governance

1.1 Concept and Characteristics

In recent years, with the integration of the global economy and the development of the capital market, corporate governance, as an important part of the enterprise system, has been the focus of domestic and foreign research in the past two decades. Corporate governance is the collection of mechanisms, processes and relationships used by all parties in a company to control and operate the company, which is a prerequisite for maximising the value of the company and the basis for improving the core competitiveness of the company. Good corporate governance does not necessarily lead to high profits from company operations, but generous investment returns must depend on good corporate governance. From a comprehensive perspective, corporate governance can be categorised as broad and narrow. Corporate governance, in the narrow sense, refers to a mechanism of supervision and checks and balances by owners over operators. Its main feature is the internal governance through the corporate governance structure consisting of the general meeting of shareholders, the board of directors, the supervisory board and the management. For example, the general meeting of shareholders is an important platform for corporate governance in which shareholders participate in major corporate decisions through their voting rights, while the protection of shareholders' rights, especially those of small and medium-sized shareholders, helps to improve the effectiveness of corporate governance and reduce the influence of large shareholders on the resources of the company. Corporate governance in a broader sense, on the other hand, is the coordination of the interests between the company and all stakeholders through a set of systems or mechanisms, including formal or informal, internal or external, to ensure that the company's decision-making is scientifically sound, thereby ultimately optimising the interests of all parties in the company. For example, the effectiveness of the capital market and the degree of sophistication of laws and regulations are at the centre of external governance mechanisms[1]. Details are shown in Table 1.

Table 1: Choose appropriate governance models according to their actual situation and needs

Miao Zhang, Guangguo Zhang	2024	The corporate governance model progresses and evaluates the company's operations and management through oversight mechanisms such as the Supervisory Board and internal audit to ensure compliance and risk control
Wei Shu, Mi Zhang	2020	Corporate governance, as an important part of the construction of a modern enterprise system, is undoubtedly one of the effective ways to improve the quality of listed companies, promote the development of the capital market, and thus enhance the ability of the capital market to serve the real economy.
Hongmiao Wang	2022	Corporate governance, as a series of institutional arrangements for corporate ownership and control under incomplete contracts, is not only a globalised concept, but also a 'local consensus' deeply influenced by national traditions and constrained by the realities of the country, and thus has the obvious characteristic of 'adaptability'. Characteristics

Zhang Miao and Sun Zhudao explored the enterprises need to choose appropriate governance models according to their actual situation and needs. At the same time, the corporate governance model should be constantly improved and improved to adapt to the changing market environment and the needs of corporate development. In his study, Wang Hongmiao shows that the specificity of each country's corporate form stems from historical and political factors, which are not the same across countries, suggesting that the development of corporate governance may require multiple solutions. There is no universal 'best' model of corporate governance, but the theories and experiences of global SOE governance can be learnt and used for our own purposes. Shu and Zhang showed in their research that good corporate governance is the cornerstone of the healthy development of the capital market, and according to the current corporate governance situation in China, they believed that to improve the level of corporate governance in China, it is necessary to further improve the quality and composition of the board of directors, vigorously develop institutional investors, and guide minority shareholders to transform into active shareholders[2].

1.2 Influencing factors

Efficient market regulation can effectively discipline withholding behaviour and reduce the possibility of financial fraud, while the impact of market regulation on corporate governance varies across countries and regions. Moreover, the overall practice and effectiveness of corporate governance implementation in enterprises is mainly influenced by the national institutional environment, enterprise characteristics and economic globalisation. This is because the legal system, market environment and cultural background of different countries have a huge impact on companies. With the development of economic globalisation, multinational enterprises not only have to fight against the home country's legal environment, but also have to adapt to the host country's system and culture, which makes their governance structure more complex[3].

2. Literature research on internal control

2.1 Concept and characteristics

Internal control is a part of enterprise management, which means the mechanism, rules and procedures implemented by the company to ensure the integrity of financial and accounting information, promote accountability and prevent fraud. It is the product of modern enterprise management and an important tool for modern enterprise management.

2.2 The impact of internal control

From a large number of studies, it can be seen that internal control has a significant positive impact on corporate performance. High-quality internal control can provide institutional guarantee for corporate social responsibility. Secondly, preventing financial fraud is an important function of the internal control system. Research shows that a sound internal control system can reduce the probability of financial fraud through effective supervision and audit mechanism, reduce the probability of opportunistic behavior of management to satisfy their own interests and damage the interests of the company, so that managers can make more favorable decisions according to the future development form and the enterprise's own operating conditions .In addition, high-quality internal control has a significant impact on enterprises' technological innovation, innovation efficiency and value creation ability. In short, internal control is not only an important tool to promote the compliance operation of enterprises, but also an important tool to improve enterprise performance, prevent financial fraud, optimize risks and enterprise technological innovation. See Table 2 for details.

Table 2: Related literature on the consequences of internal control

Author	Year	Main points
Jian Chen,Yongquan Lv	2024	High quality internal control can alleviate the agency problem between shareholders and management through the mechanism of incentive and supervision, and then reduce the behavior of manipulating financial information caused by interest inconsistency
Weiwei Jiang,Xi Wang	2023	Higher levels of internal control are conducive to more efficient investment by listed companies, with fewer overinvestments and underinvestments by listed companies with higher quality internal controls
Xingxing He,Jinsong Hu	2023	Internal control can reasonably control enterprise risks and enhance corporate social responsibility while improving accounting prudence
Jinming Hong,Qianlan Sang	2021	Internal control can alleviate managers' overconfidence in the enterprise's "short-term loan and long-term investment," and can effectively supervise the management's decision-making process

Chen, Jian and Lv, Yongquan in their study showed that when the internal control system is better, it will play a good role in monitoring the employees, which in turn will enhance the transparency of the company's information, which will reduce the agency problem and help to constrain the management's profit motive.Jiang, Weiwei and Wang, Xi show that internal control is an effective guarantee for the implementation of the internal contract, and that high-quality starvation of internal control is conducive to the reduction of inefficient investment triggered by insufficient financing under the information force. The results of He, Xingxing and Hu, Jinsong in their study show that internal control has the governance function of inhibiting tax avoidance in SOEs. Hong, Jinming, Sang, Qianlan in their study showed that internal control can avoid the emergence of arbitrary decision-making mechanism of managers by creating a good corporate culture, forming an atmosphere where everyone abides by rules and regulations, prompting more mental decision-making, and reducing the aggressive behaviour of investment decisions[4-5].

3. Literature research on level of financial management

3.1 Concept and its characteristics

Financial management level is one of the core functions of enterprise management, involving many aspects such as fund transaction, investment decision, cost control and profit distribution. Financial management level refers to the comprehensive ability of financial activities such as fund transaction, fund utilisation, risk control, financial information disclosure, etc. It reflects the enterprise's ability to effectively manage resources in the dynamic and financially complex market environment. This level is not only reflected in the financial indicators, it also involves the enterprise's scientificity in financial decision-making and standardisation in the management process, which directly affects the enterprise's capital utilisation rate, risk-bearing capacity and overall financial health. Details are shown in Table 3.

Table 3: Risk-bearing capacity and overall financial health

Yuanwu Zhu	2022	Financial management is the central link of enterprise management, and it is the important foundation and guarantee for enterprises to achieve sustainable development
Zhihua Xie,Ximing Jiang,Kaizhi Cheng	2022	The financial management objectives of a company are essentially value symbiosis and value sharing, with value symbiosis being determined by the underlying attributes of the company's value and value sharing being determined by the underlying attributes of the company's property rights

Yuanwu Zhu explored different financial management systems in the world in his research, and the current financial management system in China and abroad basically meets the requirements of the industrial economic era, maintains the normal operation of enterprise finance, and has been an indispensable and important part of enterprise management. Xie, Jiang and Cheng broke the traditional financial management goals of maximizing shareholder interests, corporate value and stakeholders in their research, but explained that value symbiosis and value sharing are the new financial management goals[6].

3.2 Influencing Consequences

The level of financial management is the core content of enterprise management, which has a potential impact on enterprise performance, capital structure wind direction control and other aspects. Higher financial standards can help enterprises to optimise resource allocation, enhance investment returns and reduce financial risks, thereby improving their overall competitiveness; Effective financial management can help enterprises identify, assess and respond to a variety of financial risks, and reduce losses often brought about by financial deviations or financial markets, and a high level of financial management can maintain lower financial leverage, higher interest multiples, and thus maintain a high level of risk resistance in economic fluctuations.The impact on the level of financial management is shown in Table 4.

Table 4: The impact on the level of financial management

Author	Year	Main points
Rongsheng Qin	2023	Accelerating the construction of a world-class financial management system is an intrinsic need for enterprises to achieve high quality.
Yongmei Xie	2023	Financial management plays an important role in business decision-making, risk control, and financial soundness.

Qin Rongsheng (2023) in his research explored how to comprehensively optimise the enterprise financial management system. Enterprises should be from the use of resources, decision-making support, internal management and control, value creation, innovation capacity, internationalisation degree of reins only with the world's first-class financial management system to the table, to find gaps in the continuous version, and continue to promote the organic strategic synergies of each business module, unit, to enhance the use of high-quality elements of the enterprise's resource capabilities, and to improve the all-round high quality of the enterprise's level of development. Xie Yongmei (2023) explored the current situation and existing problems of financial management in modern enterprises through seed industry enterprises in his research.

4. Literature research on shareholding structure

4.1 Concept and characteristics

Shareholding structure refers to the proportion of shares of different nature or shares held by different shareholding themes in a company to the total share capital of the company (Guo Bing; Liu Kun, 2022). According to shareholding concentration and shareholder type and shareholder structure can be divided into concentrated ownership structure, dispersed shareholding structure. A concentrated shareholding structure is one in which the shareholding is concentrated in a small number of large or controlling shareholders. Large shareholders are able to exert greater control over the company and are usually found in family-owned or founder-dominated companies. Diffuse shareholding structure reduces the absolute control of the majority shareholders over the affairs of the company, but may increase the agency problem between the shareholders and the shareholders, as self-interests may be pursued rather than the interests of the shareholders[7].

4.2 Influencing factors

The main factors affecting the shareholding structure include the legal and institutional environment, the size and development of the enterprise and the characteristics of the industry. In terms of the legal and institutional environment, in countries and regions with stronger legal protection, shareholders' rights are better protected and the shareholding structure of firms is usually decentralised, while in regions with weaker legal protection, shareholders may be more inclined to centralise power to protect their interests. In terms of enterprise size and stage of development, usually the shareholding structure of smaller and junior enterprises is more concentrated to facilitate effective control of the enterprise by the founders or early investors, but as the enterprise grows and expands, the shareholding structure may be gradually decentralised to adapt to the complex regulatory needs and requirements of the capital market. With regard to industry characteristics, there are significant differences in the market environment, technological requirements and competitive pressures faced by firms in different industries, and these differences can affect the formation of equity structures. See Table 5 for details.

Table 5: Affect the formation of equity structures

Xing Liang,Huiqin Yang,Chi Zhang	2023	Shareholding structure significantly affects the relationship between the performance expectation gap and the level of corporate risk-taking.
Na Guo,Jun Zhang,Li Feng	2023	A high-quality shareholding structure and reasonable control of shareholding concentration can fulfil the role of a major shareholder as an incentive for fintech development and enhance decision-making efficiency.
Wanjuan Feng,Tao Jia	2022	Shareholding concentration in the shareholding structure has a significant negative effect on the technical background of the decision makers in terms of industry dedication and experience
Jin Guo	2022	Equity structure has a significant moderating effect on the relationship between executive incentives and firms' investment in innovation.
Ying Hao	2022	The shareholding structure, as an integral part of the corporate governance mechanism, plays an important role in the governance effects of the enterprise

Liang, Xing, Yang, Huiqing and Zhang, Chi in their study showed that equity structure, as an important role of corporate governance, has a close relationship with firm performance van broad and risky decisions. Guo Na, Zhang Jun and Feng Li show in their study that the equity structure has a positive contribution to the development of fintech in banks, and that a more concentrated equity arrangement is conducive to shareholders giving full play to their equity advantages and concentrating their resources on innovative activities, thus promoting the development of fintech. Hao Ying shows that the governance effect of equity structure on management is equity concentration, but it may be a 'double-edged sword'. Wanjuan Feng and Tao Jia in their study explored the relationship between shareholding structure and the diverse types of background of decision makers and came to the above conclusions through hypotheses. Guo Jing shows in his study that the higher the equity concentration, the weaker the positive impact of executive incentives on corporate innovation investment; the higher the degree of equity checks and balances, the stronger the positive impact of executive incentives on corporate innovation investment[8-10].

5. The role and mechanism between them

After an in-depth analysis of existing literature and related theories, this thesis concludes that both corporate governance and internal control have an impact on the level of financial management with equity structure as the mediating variable. Firstly, corporate governance and internal control, as independent variables, are inextricably linked to each other and influence each other. Corporate governance and internal control are two core concepts in modern enterprise management. Internal control is a fundamental and important component of corporate governance. Effective internal control provides a reliable safeguard mechanism for corporate governance, ensuring that corporate governance decisions can be effectively implemented through control activities, risk assessment and monitoring mechanisms. In conclusion, corporate governance and internal control are closely and interdependently linked. Internal control contributes to the achievement of corporate governance objectives by safeguarding the accuracy of financial information, enhancing the transparency of information disclosure and controlling operational risks. Corporate governance, on the other hand, provides a strategic discovery and decision-making framework for internal control. The good effect of these two not only enhances the management efficiency of the enterprise, but also lays a solid foundation for the long-term sustainable development of the enterprise [11-13].

Equity structure, as a mediating variable, represents the fact that corporate governance and internal control have some connection with and influence on it. In companies with dispersed shareholdings, director independence plays a key role in corporate governance, ensuring that management decisions are in the interests of the company as a whole. Large shareholders usually have the power to make and elect directors, which affects the independence and effectiveness of board decisions. And high equity concentration usually means that large shareholders have some control over the company, which can reduce agency problems because large shareholders have sufficient incentives and resources to monitor management. However, excessive equity concentration may also lead to conflicts of interest between large and small shareholders and impair the overall governance outcome of the company. In terms of internal control, internal control and shareholding structure are also two crucial aspects of corporate management, with shareholding structure determining the pattern of power distribution within the company and affecting the effective implementation of internal control. Equity concentration is an important factor affecting internal control. In concentrated firms, large shareholders are usually able to exert stronger influence over the firm and facilitate the implementation of internal equity. However, excessive shareholding concentration may also result in the majority shareholder exerting stronger influence over the company. In turn, internal controls can ensure an efficiently functioning governance mechanism resulting from the equity structure, thereby enhancing the overall efficiency of the firm. In terms of power distribution and protection of shareholders‘ interests, effective internal control can enhance shareholders’ trust in corporate governance. In conclusion, the relationship between equity structure and corporate governance and internal control is complex and interdependent.

The shareholding structure determines the power and governance mechanisms within the company and inevitably has an impact on the level of financial management of the company. The degree of participation of shareholders in corporate decision-making, the strength of their supervision of the allocation of financial managers, and their concern for the performance of the company will all affect the level of financial management. Unreasonable shareholding structure will also lead to low level of financial management and increase corporate risk. There is a direct impact of equity concentration on the level of financial management. In companies with a high degree of shareholding concentration, large shareholders usually have a greater say in the company's financial decisions and are able to promote financial management strategies that favour their own interests. However, it may also result in shareholders' decisions being biased in favour of the interests of the majority shareholder and not valuing the interests of other shareholders. In contrast, firms with a low concentration of shareholdings are likely to be monitored more effectively and can lead to improved financial management practices and greater financial accuracy and transparency of financial statements [14-16].

6. Conclusion and Suggestions

6.1 Conclusion

Shareholding structure is one of the important foundations of corporate governance and directly affects corporate governance capacity.

In companies with a high degree of shareholding concentration, large shareholders usually have stronger control, which can improve governance efficiency and speed of decision-making. However, it may lead to corruption of power, increase the risk of larger shareholders encroaching on the interests of minority shareholders, and affect the fairness and transparency of corporate governance. In companies with dispersed shareholdings, governance structures tend to revolve around themes and democratisation that better balance the interests of different shareholders. However, there is a risk of facing divergent views among shareholders, with less efficient governance and a more complex decision-making process. Shareholding structure has a significant impact on the design and implementation of internal controls[17-19].

The relationship between the two plays a key role in corporate governance and financial management. In companies with a high degree of equity concentration, the majority shareholder usually has external control and can more directly influence the design and implementation of internal controls. This may help to enhance the efficiency and execution of internal controls, particularly in terms of risk response and ensuring consistent behaviour of openers. However, it may also lead to abuse of control by the majority shareholder, which may result in the independence of internal controls and increase the risk of internal control failures. Companies with dispersed shareholdings, on the other hand, are likely to be more independent in the design and implementation of internal controls and less influenced by a single shareholder, which can help to enhance the detectability and fairness of internal controls. However, dispersed shareholdings may also lead to inadequate implementation of internal controls, given the potential for serious agency problems and governance challenges in the absence of oversight.

Shareholding structure greatly affects the level of financial management of a company

When equity concentration is high, large shareholders tend to have stronger control, which can lead to higher financial management efficiency as the decision-making process may be more rapid and centrally heated, reducing the difficulty in decision-making, while large shareholders have an incentive to ensure that the company's financial position is sound in order to protect their investment interests. However, such concentration may also lead to the majority shareholder being overly concerned with its own interests and neglecting the long-term development of the company, and may even use its financial resources for improper transfer of benefits. In companies with dispersed shareholdings, management decisions are likely to be more democratic and transparent, as different shareholders can advise on financial management policies, which contributes to greater fairness and diversity in financial management. Diversified shareholders may lead to inefficient decision-making, an increased load on the implementation of financial management strategies, and possibly even a lack of adequate supervision and control in the warehouse, leading to increased agency problems and a decline in financial management.

6.2 Suggestions

We need to improve the internal control mechanism and strengthen internal supervision.

Listed companies should fully recognise the importance of internal control in improving financial management and the important role it plays in corporate governance. Company should start from the five basic elements of internal environment, risk assessment, control measures, information communication, supervision and inspection, and establish a practical internal control system, which cannot be blindly copied. At the same time, to ensure that the internal control system is effectively implemented, on the one hand, we need to enhance the awareness of the internal control of the whole staff, you can carry out the construction of the internal control system through the publicity, education and related training, so that all employees fully understand the importance of internal control; on the other hand, we need to do a good job of internal control inspection and evaluation, regular internal control self-assessment, or hire a professional body to assess the effectiveness of internal control and the implementation of the findings.

Optimising shareholding structure and improving corporate governance

A reasonable shareholding structure will ensure a balance of shareholders' interests, thereby enhancing the fairness and effectiveness of financial management. Listed companies should rationalise their shareholding structure by considering the impact of shareholding structure and type of shareholders, introducing the appropriate type and number of major shareholders, avoiding over-concentration leading to a shortage of power, and at the same time preventing governance and decision-making efficiency problems arising from over-dispersed shareholdings. The regulatory authorities should also actively guide enterprises to improve their shareholding structure, introduce strategic investors, form a diversified investment body and establish a mechanism of checks and balances.

Improving the transparency of information and strengthen the quality of financial management

With regard to the level of financial management, companies should enhance transparency and strengthen oversight. Moreover, the company should improve the transparency of financial information disclosure to ensure that all shareholders can obtain financial information in a timely and accurate manner. Promote openness and transparency in financial management by improving the quality of financial reporting and the level of action. Secondly, independent audits are conducted on a regular basis to ensure the truthfulness and accuracy of financial reports. Audit committees should be independent and professional, and should strictly implement audit procedures, maintain the independence of the audit process, and make timely improvements to the outstanding problems and weaknesses in the audit process in order to improve the quality of the audit and the level of financial management.

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