

# Analysis of the Influence Mechanism of Financial Mismatch on Enterprise Total Factor Productivity from the Perspective of Internal Control

Weidong Liu<sup>1,\*</sup>, Shujing He<sup>2,a</sup>, Xiaoxuan Lin<sup>3,b</sup>, Yue Jiang<sup>4,c</sup>

<sup>1</sup> School of international trade and economics, Anhui University of Finance and Economics, Bengbu, 233030, China

<sup>2</sup> School of Statistics and Applied Mathematics Anhui University of Finance and Economics, Bengbu, 233030, China

<sup>3</sup> School of Accounting, Anhui University of Finance and Economics, Bengbu, 233030, China

<sup>4</sup> School of Management Science and Engineering, Anhui University of Finance and Economics, Bengbu, 233030, China

\*20203132@aufe.edu.cn, <sup>a</sup>20202661@aufe.edu.cn, <sup>b</sup>20200922@aufe.edu.cn, <sup>c</sup>20202898@aufe.edu.cn

## Abstract

Modern economic growth theory shows that improving total factor productivity is the power source of high-quality development, which is of great significance for China to build a socialist modern country in an all-round way. Based on the research perspective of internal control, this paper analyzes the impact of financial mismatch on the total factor productivity of enterprises and its mechanism, explores the methods and paths to effectively improve the total factor productivity of enterprises, helps enterprises plan their production and resource allocation strategies more reasonably and comprehensively, and enables enterprises to obtain new competitive momentum and scale effect through high-quality development, thereby helping China build an effective market mechanism An economic system with a dynamic micro main body and moderate macro regulation.

## Keywords

Financial Mismatch; Total Factor Productivity; Internal Control Quality.

## 1. Introduction

### 1.1. Research Background

Since the reform and opening up, China has made great achievements in economic growth, maintaining an annual economic growth rate of more than 9%, but this extensive economic growth model is difficult to sustain. The fact that excessive accumulation of capital leads to diminishing marginal returns and rising labor factor costs forces China's economy to move from rapid growth to high-quality development. Modern economic growth theory shows that total factor productivity is an important source of economic growth, and is the driving force for sustainable economic growth. The report of the 19th National Congress of the Communist Party of China also clearly stated that "we should promote the quality, efficiency and motivation of China's economic development, enhance the ability of financial services to the real economy, and improve total factor productivity".

However, the development of China's financial system is not perfect. The excessive proportion of indirect financing, excessive government intervention and imbalance of financial supply and

demand restrict the quality and efficiency of China's financial industry in serving the real economy and hinder the improvement of enterprise production efficiency.

### 1.2. Research Meaning

Based on the strategic background that China is in the period of transforming the development mode, optimizing the economic structure and transforming the growth impetus, and the objective fact that China's financial resource allocation efficiency is not high, this paper explores the impact of financial mismatch on total factor productivity of enterprises and its mechanism. On the theoretical level, studying the impact of financial mismatch on total factor productivity of enterprises and analyzing its mechanism can complement and enrich the existing research on financial mismatch and total factor productivity, and provide new ideas for subsequent research. On the practical level, based on the financial mismatch phenomenon in China's financial market, through objective evaluation of the impact of financial mismatch on the total factor productivity of enterprises, it can provide a good empirical basis and policy inspiration for the efficient allocation of financial resources and promoting the high-quality development of China's economy.

### 1.3. Research Status

Throughout previous studies, the influencing factors of total factor productivity of enterprises mainly include macro, meso and micro levels. First of all, in the macro aspect, the relevant factors mainly include government subsidies, national strategies and cultural atmosphere. Secondly, in the middle view, it is mainly to explore the impact on total factor productivity of enterprises from the difference of regional development. Finally, the micro level factors mainly focus on three major parts: first, human capital factors, such as the characteristics of senior executives, employee education, etc; Second, the company's management system, such as the company's governance structure and the construction of the board of directors; The third is the enterprise attributes, such as the nature of property rights, the integration of two positions and the length of the enterprise.

It can be seen that the existing research on total factor productivity of enterprises has gradually expanded from the macro level to the micro level, involving rich content. The economic impact of financial mismatch has also received some research and attention, but the existing literature mainly focuses on the macro regional level, the micro level involves less and is relatively limited, and few studies on the impact of financial mismatch on the total factor productivity of enterprises from the perspective of financial mismatch, which provides space for this study.

## 2. Methodology

There are pricing and distribution rights of financial elements in the Chinese market, and enterprises with different natures also have a large gap in financing costs, which has bred the phenomenon of "financial leakage" and rent-seeking behavior to a certain extent. If the rent-seeking behavior obtains more financial elements, it will lead enterprises to invest a lot of human and financial resources in the rent-seeking behavior [1], and also tend to carry out more projects conducive to the rent-seeking behavior, such as investing a lot of resources in short-term projects favored by the government [2], thus squeezing the resources and time required for other normal business activities of enterprises, reducing the total factor productivity of enterprises.

On the basis of the above analysis, this paper further explores the impact mechanism of financial mismatch on the total factor productivity of enterprises. The specific ways are as follows: financial mismatch acts on the real economy by reducing the quality of internal control of enterprises, leading to the reduction of total factor productivity of real enterprises.

### **2.1. Inhibition of Financial Mismatch on Internal Control of Enterprises**

Financial mismatch refers to the massive allocation of limited financial resources to some inefficient or even ineffective industries, which leads to the "irrational" or "mismatch" of financial resource allocation from the perspective of the whole society. Internal control is the general name of a series of methods, means and measures adopted by enterprises to achieve their business objectives, protect the safety and integrity of assets, ensure the correctness and reliability of information materials, ensure the implementation of business policies, and ensure the economy, efficiency and effectiveness of business activities. The five elements of internal control include internal environment, risk assessment, control activities, information communication and internal supervision. Financial mismatch has led to the difficulty of those enterprises with insufficient funds to use sufficient cash to establish a standardized corporate governance structure and rules of procedure, and to form a scientific and effective division of duties mechanism. In general, they do not have the money and ability to complete the five elements of internal control, which has a certain restraining effect.

### **2.2. The Effect of Enterprise Internal Control on Total Factor Productivity**

The change of the total factor productivity of an enterprise is a comprehensive reflection of the economic effect of internal control. An effective internal control system can guarantee the operation of an enterprise, enable the rational allocation of enterprise resources at different technical levels according to the expected goals, and supervise from within to ensure the efficient use of resources. On the one hand, the effective play of internal control governance effect is conducive to the development of reasonable compensation incentive plans; On the other hand, internal control can improve the openness and transparency of enterprise internal information, thereby reducing the cost of internal information transmission, reducing the occurrence of information asymmetry, improving the efficiency of enterprise management, thereby optimizing the efficiency of enterprise resource allocation and improving the management level, and promoting the growth of enterprise total factor productivity.

### **2.3. The Influence Mechanism of Financial Mismatch on Total Factor Productivity of Enterprises**

Finance is an important part of the enterprise development environment. The efficiency of financial factor allocation has a direct impact on the total factor productivity of enterprises. The so-called financial mismatch is the inefficient state of financial resource allocation. According to the internal control theory and relevant literature, the effective play of internal control governance effect is conducive to optimizing the efficiency of enterprise resource allocation and improving the level of enterprise management. However, due to financial mismatch, it is difficult for enterprises to establish a standardized governance structure and rules of procedure due to the shortage of funds, thus forming a scientific and effective division of responsibilities mechanism, which leads to the failure to achieve effective internal control of enterprises. Therefore, financial mismatch has an inhibitory effect on internal control of enterprises, thus hindering the improvement of total factor productivity of enterprises.

## **3. Results and Discussion**

The internal control of an enterprise is the guarantee for smooth production and operation, risk prevention, efficiency improvement and realization of long-term goals [3]. The five elements of internal control include internal environment, risk assessment, control activities, information communication and internal supervision. High quality internal control can promote the formation of a scientific and effective division of responsibility mechanism within the enterprise. Different organizations within the enterprise cooperate, restrict and supervise each other, so that information can flow quickly and efficiently within the enterprise, reduce the

agency cost of the enterprise, and improve the production efficiency of the enterprise. Risk assessment and management is the core of internal control. Enterprises with high quality of internal control will pay more attention to the risk management of enterprise operation efficiency when conducting loans or innovation activities [4] to avoid the high-risk consequences of rent-seeking behavior.

The emergence of financial mismatch not only induces rent-seeking, financial leakage and other phenomena, which makes it difficult for enterprises to effectively manage risks, but also makes enterprises face greater financing constraints, which makes it difficult for enterprises to bear the costs of internal supervision and internal information flow. Enterprises will also pay more attention to how to obtain loans, how to reduce financing costs and other issues, ignoring the improvement of enterprise internal control, thus reducing the enterprise's total factor productivity.

## **4. Conclusions and Suggestions**

### **4.1. Strengthen the Construction of Internal Control System**

Enterprises should pay attention to the problems in the construction of their own internal control, actively rectify the defects of their own internal control, and establish a more perfect internal control system. Rely on the positive effect of internal control on total factor productivity of enterprises, and constantly improve the quality of internal control construction of enterprises; The State shall continue to popularize the importance of the construction of the internal control system of enterprises, constantly optimize the internal control system and system of enterprises, and expand the scope of enterprises that are forced to disclose internal control information.

### **4.2. Pay Attention to the Promotion of Technological Progress**

Enterprises should fully develop and utilize the driving effect of technological progress on total factor productivity. Due to the convergence law of resource allocation, internal control has a negative impact on the growth rate of allocation efficiency. Therefore, a higher level of internal control will correspond to a lower resource allocation efficiency and the growth rate of total factor productivity. The driving effect of improving resource allocation efficiency on total factor productivity will gradually decrease. Therefore, enterprises themselves should strengthen their innovation awareness, focus on the development and utilization of relevant technologies, constantly promote the improvement of enterprise production efficiency, pay attention to long-term interests, and ensure that the enterprise's productivity has a source of power.

### **4.3. Continuously Promote the Reform of the Financial System**

The government's macro-control should focus on guidance and incentive, and capital should be distributed according to the principle of efficiency, gradually eliminating the "preference for state-owned system" or "regional preference" in the operation of the financial system, and establishing a fair financing channel; In addition, we can consider introducing more non-state-owned financial enterprises, so that market rules and price mechanisms can play their due role, and force financial institutions to change credit discrimination by strengthening financial market competition, so as to ensure the effective circulation and reasonable allocation of financial resources.

### **4.4. Increase Support for Small and Medium-sized Enterprises**

The mismatch of financial resources in China is very serious. It is obvious that large state-owned enterprises with low production efficiency occupy the vast majority of financial resources, while small and medium-sized enterprises with high productivity are difficult to develop due to lack of funds. Increase support for small and medium-sized enterprises in terms of funds and

policies to provide sufficient space for the development of small and medium-sized enterprises. At the same time, take small and medium-sized enterprises as a starting point, and drive large and medium-sized enterprises to optimize their industrial structure from point to point to improve productivity, so as to reduce the degree of misallocation of financial resources.

#### **4.5. Change the Existing Extensive Growth Mode**

Relevant research shows that China's economic growth depends on the continuous increase of factor input rather than the promotion of total factor productivity. China's demographic dividend is disappearing, and the extensive development mode relying on increasing factor input is obviously no longer scientific and applicable. Therefore, improving total factor productivity is one of the most effective ways to promote economic growth. According to scholars' research, China's total factor productivity still has huge growth space. It is necessary to improve the allocation efficiency of the factor market as soon as possible, combine innovation and technological progress to achieve higher efficiency improvement, and realize the transformation of the economic growth model supported by total factor productivity.

#### **Acknowledgments**

This paper is supported by Anhui University of Finance and Economics Undergraduate Scientific Research Innovation Fund (XSKY22019ZD). The ownership of the research results belongs to Anhui University of Finance and Economics.

#### **References**

- [1] Kevin M. Murphy and Andrei Shleifer and Robert W. Vishny. Why Is Rent-Seeking So Costly to Growth? [J]. *The American Economic Review*, 1993, 83(2) : 409-414.
- [2] Zhen Liming, Luo Danglun. Credit rent-seeking, financial mismatch and their impact on enterprise innovation behavior [J]. *Industrial and Economic Review*, 2019, 10 (04): 68-80. DOI: 10.14007/j.cnki.cjpl.2019.04.006.
- [3] Fan Xingjian, Xiao Guanghong. Theoretical Reflection on the Essence and Concept of Enterprise Internal Control [J]. *Accounting Research*, 2014 (02): 4-11+94.
- [4] Luo Hong, Jia Xiuyan, Wu Junfeng. The mismatch between internal control quality and enterprise investment and financing period [J]. *International Finance Research*, 2021 (09): 76-85. DOI: 10.16475/j.cnki.1006-1029.2021.09.008.