Institutional differences between Europe and China. Effects on firms' financing decisions

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Resume

In this article, I will focus on the impact of institutional differences in four European countries: Spain, Italy, Germany, Norway and China on corporate financial decision-making, and I will start with four areas: finance, economy, law and governance. The main comparative analysis of the financial aspect is the financial system; the economic aspect is mainly the economic level and growth, income distribution; the legal aspect is the legal protection of investors; the government aspect is mainly the degree of corruption and political stability.

1. Introduction

Spain, located in the Iberian Peninsula in southwest Europe, covers an area of 505925 square kilometers, accounting for 5 / 6 of the peninsula area. To the East is the Mediterranean Sea, to the south is the Strait of Gibraltarian and Morocco across the sea, to the west is Portugal, and to the north is the Bay of Biscay. Spain is a developed capitalist country and a member of EU and NATO. It is the second largest tourist country in the world. It receives more tourists than the total population every year. Spanish is the second largest official language in the world, after English. As of December 2019, the gross national product (GDP) of European countries ranked sixth and that of the world ranked thirteenth, making it the fifth largest economy in the euro zone.

Italy, located in southern Europe, is mainly composed of Apennine Peninsula, Sicily and Sardinia. It covers an area of 300000 square kilometers and has a population of 60.8 million. As a country with ancient European history and the birthplace of Roman Empire, Italy has an important influence on European society, politics, economy and military affairs. At the same time, it plays an indispensable role in culture, science, health care, education, sports, art, fashion, religion, food, architecture, music and so on. Italy is one of the highly developed countries in the world economy. It is one of the four major European economies, the founding member of the group of eight (G8), the founding member of the North Atlantic Treaty (NATO) and the European Union (EU), and is one of the countries leading the economic trend of Europe and the world.

Germany, a republic country with federal parliament in Central Europe, covers an area of 357340 square kilometers and consists of 16 federal states. Each state can develop its own economic, educational and immigration policies. Germany is also a member of EU, EURO and NATO. It is bordered by Switzerland and Austria in the south, Denmark in the north, Czech Republic and Poland in the East, Holland, Belgium, Luxemburg and France in the West. The population is currently the largest in the EU, with 82.6 million. And Germany is a highly developed capitalist country, its social security system is perfect, the people have a very high standard of living. At the same time, it is also one of the four major powers in the world, and its industrial development level is leading in the world.

Norway, one of the five Nordic countries and a member of NATO, has a land area of 385000 square kilometers and a population of 5.3 million. The Scandinavian mountains run through the north and south of Norway. The plateau, mountains and glaciers account for more than 70% of Norway's land area, and the cultivated land only accounts for 3% of the total area. Norway is a highly developed industrialized country. Oil fields were discovered in the North Sea in the 1960s, and a large amount of oil has been exploited. The annual oil production is nearly 80 million tons, and the natural gas production is 120 billion cubic meters. All of them are exported to the outside world except for their own consumption. The petroleum industry has become an important pillar of the national economy. Today, Norway's per capita GDP exceeds US $80000, ranking among the top five in the world, and ranked first in the human development index for ten consecutive years.

China is one of the permanent members of the UN Council. It is located in the east of Eurasia, west of the Pacific Ocean, and adjacent to 15 countries such as North Korea, Myanmar, Russia and Mongolia. The long coastline facilitates China to establish a good trade system. Its land area is more than 9.6 million square kilometers, ranking third in the world. China has a history of more than 5000 years. So far, China has formed a special situation, that is, it takes the Han nationality as the main body and 56 ethnic groups coexist harmoniously. At the same time, it is also the world's second largest economy and the most populous developing country in the world, with a population of 1.4 billion. And continue to be the largest contributor to world economic growth. It is considered one of the potential superpowers.

2. Finance

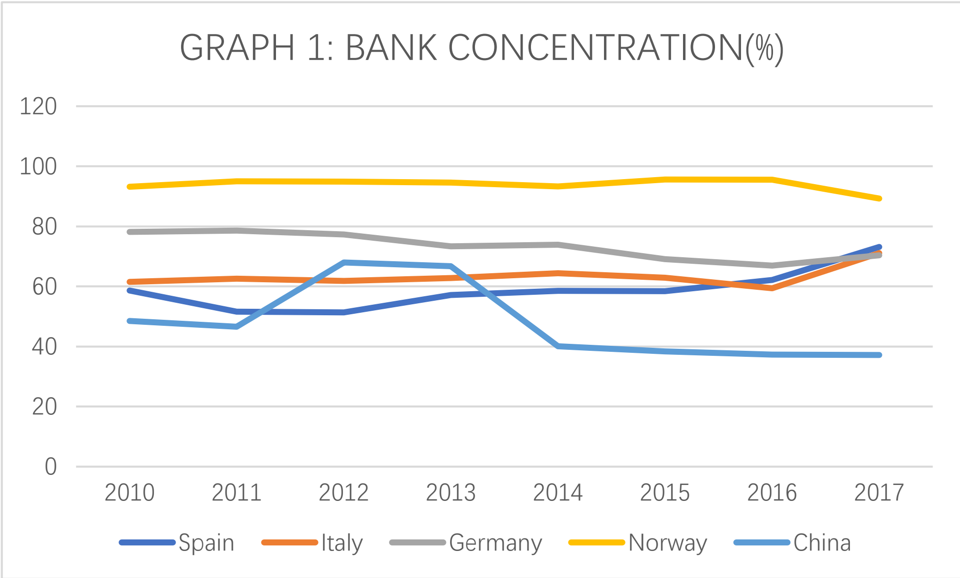
a) Banking system and its stability

The function of finance on economic development is reflected through the function of financial system. Whether the effective allocation of resources, to a large extent, depends on the advantages and disadvantages of its financial system. According to the different roles played by financial intermediaries (banks) and financial markets in the financial system, the financial systems of developed countries can be roughly divided into the market-oriented (British American model) and the bank-oriented (German Japanese model) (Luo & Xie, 2008).

The financial systems of the five countries: Spain, France, Germany, Norway and China are all bank-oriented. Among them, Spain, France, Germany and Norway are all developed countries, and China is a developing country.

The research shows that the concentration of banks and the competition of banking system are different and not closely related. Even in countries with a high concentration of banks, market competition can be intense. Bank concentration is defined as the asset share index of the top three or five banks in a country. It is the main index to measure the degree of bank monopoly. The larger the value, the higher the degree of bank monopoly. The competition degree of the banking system is measured by Lerner Index. The smaller the value is, the higher the competition of the banking system is (Martinez·Peria, 2010).

Boyd and Runkle (1993) showed that the reason why Z-score is used to analyze bank stability is that it has a negative correlation with the possibility of bankruptcy of financial institutions. The smaller the Z-score, the greater the possibility of bankruptcy.



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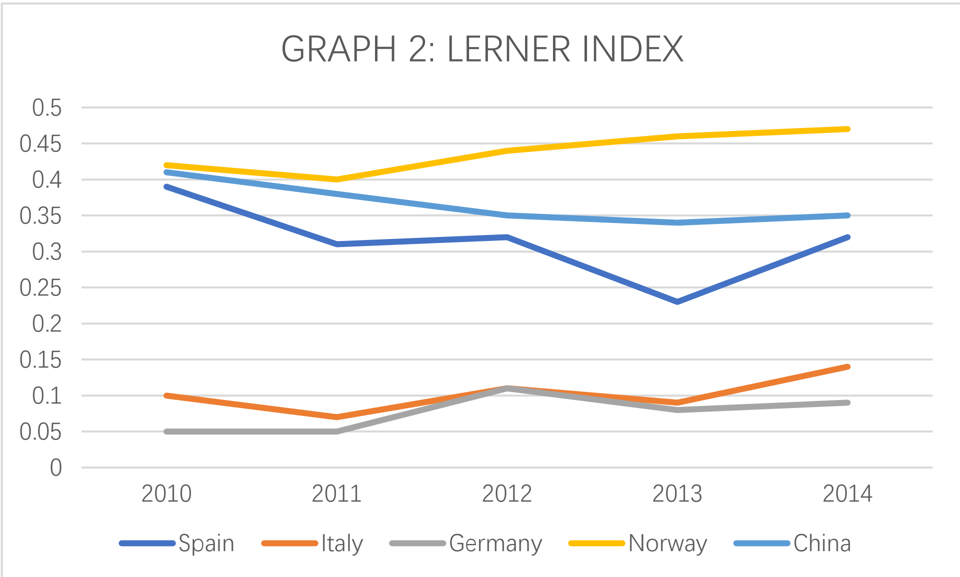

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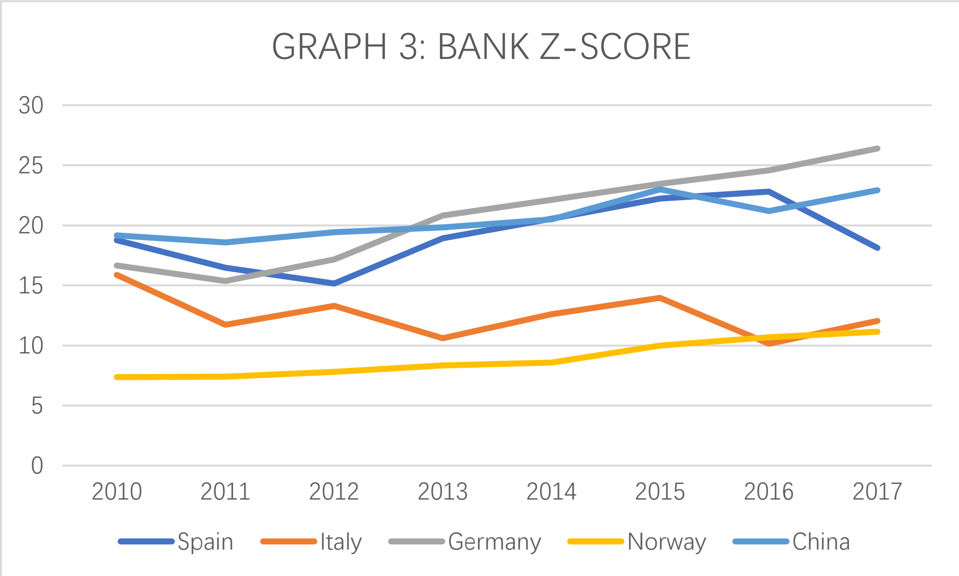

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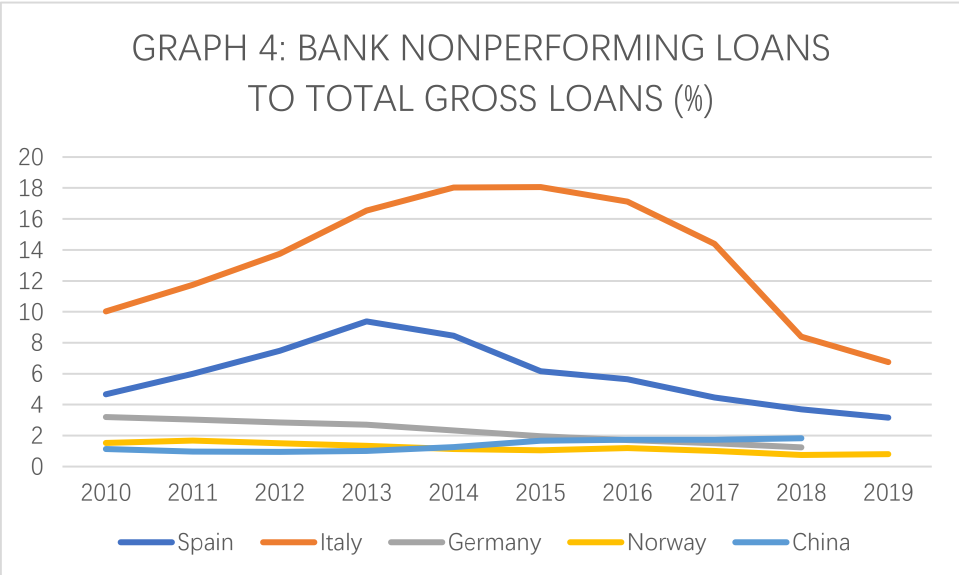

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According to the data of graph 1 and 2, the bank concentration in Norway is the highest, while the competition among banks is the least fierce. That's because its central bank, the Norges bank, controls the government pension fund, the world's largest sovereign wealth fund (Michael, 2016). Norway's banking industry is mainly composed of some large commercial banks, some regional banks and some small savings banks. In addition, there are 14 subsidiaries of foreign banks. Due to the marketization of large commercial banks, the share of international funds is much larger than that of small savings banks, and the operation of the latter mainly relies on deposit funds. As a result, Norway has a high degree of banking monopoly. A large amount of evidence shows that high competition of banking system may endanger financial stability (Beck, 2008). Norwegian banks are the least competitive compared to the other four countries. This situation just eases the risk brought by the high concentration of banks to the banking industry.

As can be seen from the bank Z-score, Norway's score was the lowest among the five countries from 2010 to 2015, and it was similar to Italy's in 2016-2017. The smaller the score is, the more likely the financial institution will go bankrupt. Norway's banks are highly concentrated in the top three banks, and their size and complexity may make it difficult for them to be regulated, and may actually take on more and more risks.

Between 2010 and 2016, German bank concentration was second only to Norway. In 2017, the banking concentration of Germany, Italy and Spain was similar. German banks are highly concentrated because of its three top banks: Deutsche Bank, Commerzbank and KFW Bankruppe. German banking is divided into three parts: private banks, publicly owned savings banks (Landesbanks), and member-owned credit unions. One of the reasons for the high level of competition in Germany is private banks, which compete not only with banks in other sectors of the industry, but also with each other. While high competition can endanger financial stability, proper competition can bring many benefits. For example, more financial services, higher quality financial products and more innovation will be produced. It can also be seen from the bank Z-score that Germany's banking system is relatively stable, which may be due to its flexible economy and low unemployment rate.

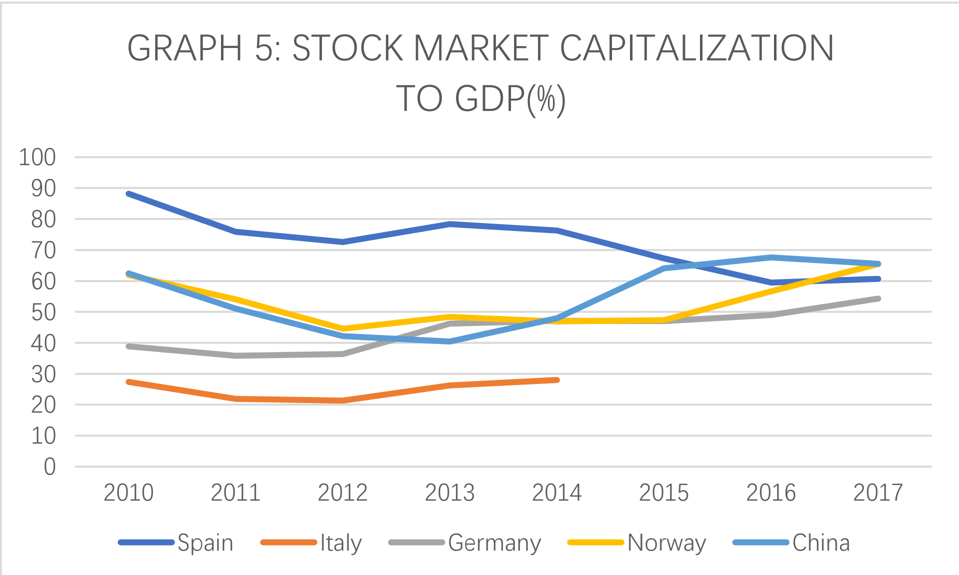
The concentration of banks in Italy is similar to that in Spain, and the competition among banks is a little more intense than that in Spain. But Spain's banking system is more stable than Italy's. Italy's banking industry is mainly divided into three parts: commercial banks, savings banks organized by provinces or regions, and investment institutions (issuing bonds and providing medium and long-term credit for public works and agriculture). Spain's banking industry is mainly composed of commercial banks, savings banks and cooperative banks. The main reasons restricting the development of Italy's banking system are as follows: it has been seriously affected by the economic recession and the national debt crisis; there are many small and medium-sized local banks; Italy has one of the highest private savings rates in the world, and many people don't invest but put their money into banks; and Italy's non-performing loans are also very serious.

The main structure of China's finance is "one bank, three committees". One bank is the people's Bank of China (PBOC), and three committees are China Banking Regulatory Commission (CBRC), China Securities Regulatory (CSRC) and China Insurance Regulatory Commission (CIRC). The aim is to decentralize management. This is one of the reasons why China's banking system is relatively stable. After 2013, China's bank concentration gradually declined. This is due to the gradual increase in market share of 12 joint-stock commercial banks and one postal savings bank, except for five large state-owned banks (Bank of China, Agricultural Bank of China, Industrial and Commercial Bank of China, Construction Bank of China and Bank of Communications). Bank competition is not as fierce as Germany, Italy and Spain, but it is also gradually increasing. This is because China's finance is still in the development stage, the proportion of indirect financing is relatively high, and the financing risk of the whole society is still highly concentrated in the banking system.

The ratio of non-performing loans to total loans is also a part of financial stability indicators. As can be seen from graph 4, Italy's banking system is the most unstable among the five countries, followed by Spain. Even if their banking system is large, the impact of stability factors on the banking system should also be considered. The banking systems of Norway, Germany and China are relatively stable.

b) Financial market

For financial markets, Levine, Ross, & Zervos (1998) showed that stock market capitalization to GDP is often used to approximate the scale of stock market. At the same time, it is also one of the most commonly used indicators for the development of financial markets. The larger the stock market is, the more competitive the market is, and the lower the financing cost is, the higher the efficiency of capital allocation is. At the same time, with the development of economic globalization, the internationalization of bond market can promote the development of national economy in many aspects (Qin, 2002). The degree of internationalization of the bond market is generally measured by international private debt securities to GDP (Dou, 2018). The development degree of stock market and bond market can also approximately reflect the development degree of a country's financial market (Levine, Ross, & Zervos, 1998).



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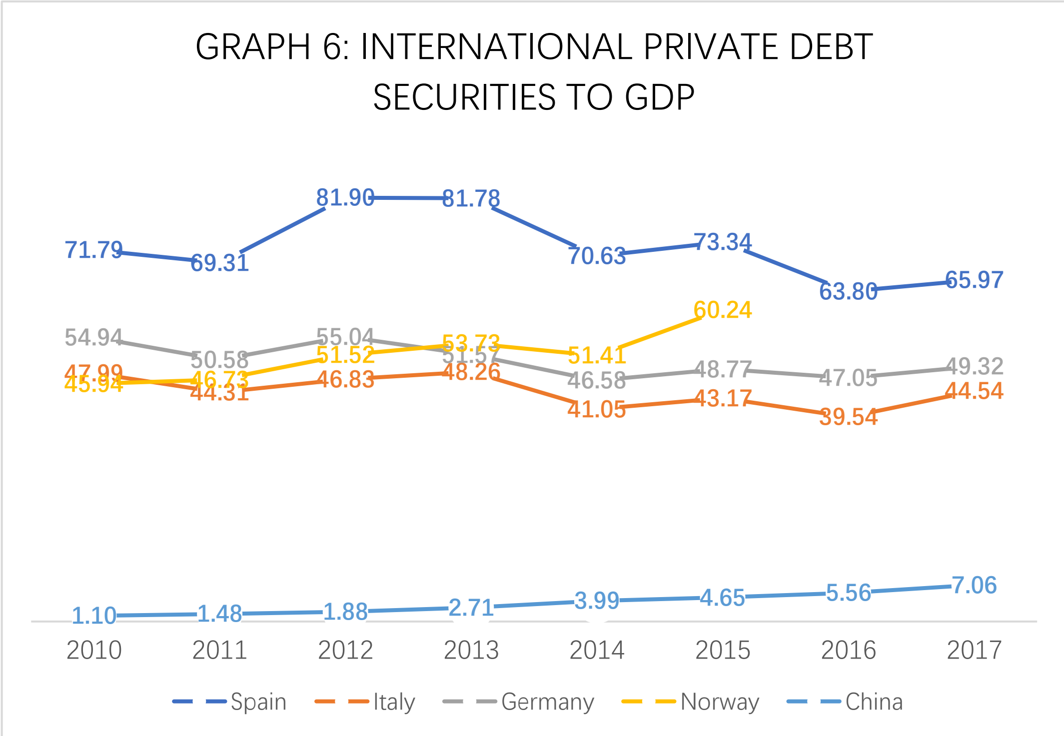

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Through the existing data, we can know that the development of Italian stock market is relatively lagging behind. This is because there are so many small and medium-sized enterprises in Italy that they cannot obtain financing from any stock exchange and can only rely on banks to obtain loans. This leads to insufficient capital in the stock market. However, the degree of internationalization of its bond market is not backward.

In the two countries with excellent banking system: Germany and Norway, the development of stock market and bond market is slightly less than that of Spain. In Germany, the relationship between enterprises and banks is closer and longer, so its capital market is not as developed as market-oriented countries (the United States and Britain). The stock market and bond market play a relatively minor role in the whole financial industry.

Norway's stock market has always been good, and its listed companies have brought favorable prospects to its stock market because of their good historical returns and stable market structure (Steigum & Thogersen, 2014). For its bond market, the data show that the proportion of international private bonds issued by Norway in GDP is increasing, which indicates that its bond market is becoming more and more internationalized.

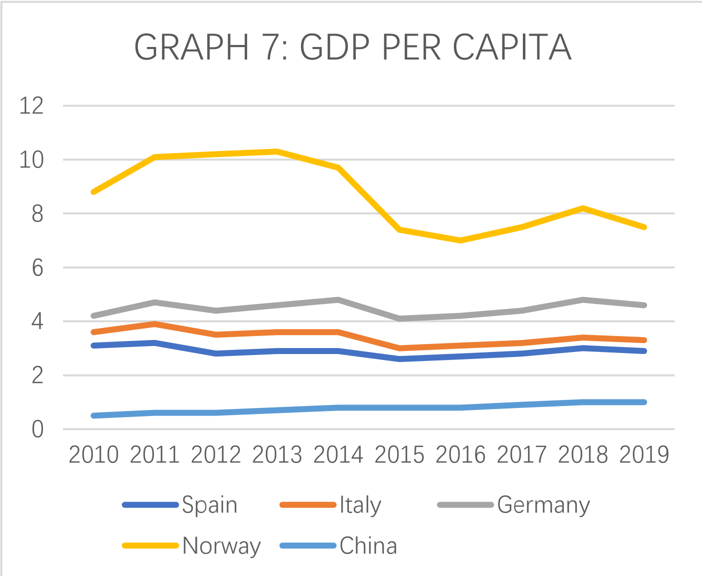
Spain's stock and bond markets are the largest relative to the other four countries. In 2002, Spain became the Bolsas y Mercados Espanoles (BME) in response to the international financial environment. Investors, companies and institutions need to trade in a safe and transparent system (Williams, 1999). The continuous improvement and perfection of the system has made the Spanish stock and bond market continue to grow. However, at the beginning of the economic crisis in 2008, Spain's international capital investment decreased. At the same time, affected by the European environment, the stock and bond markets began to show a downward trend. But since the recovery of Spain's economy in 2014, its financial markets have also begun to recover slowly.

It took less than 20 years for China's stock market to develop from its emergence to the present, and it has gone through the development course of western countries' stock market for more than 200 years. At present, there is almost no gap between the size of the stock market and that of some western countries. But China's stock market is the product of the economic development of socialism with Chinese characteristics. In particular, it is directly under the jurisdiction of the government. As a result, the degree of marketization is lower than that of administration, which has a little impact on the efficiency of the stock market. From the current trend, China's stock market is a very potential emerging market. But the bond market is much smaller than the stock market. The main reason for this is the unreasonable structure of government bonds. Due to various restrictions, corporate bonds have insufficient liquidity in the market. In addition, the bond market of developed countries is the main place for cross-border investment and trading because of its long history and perfect system. Europe and the United States, the two major bond markets, account for a large part of global security financing investment funds, which also has a certain impact on some Asian countries in economic development (Dou, 2018).

Therefore, in terms of finance, Norway and Germany are excellent.

3. Economy

a) Economic level and growth



Source: https://data.worldbank.org/indicator/NY.GDP.PCAP.CD

TABLE 1: GDP

GDP(dollars)	Spain	Italy	Germany	Norway	China
2018	1.44trillion	2.09trillion	3.95trillion	0.44trillion	13.46trillion
2019	1.39trillion	2.00trillion	3.85trillion	0.40trillion	14.34trillion
change	-3.5%	-4.3%	-2.5%	-9.1%	6.5%

Source: https://data.worldbank.org/indicator/NY.GDP.MKTP.CD

GDP per capita is a strong indicator of the economic performance and strength of a country. It is obtained by dividing the gross domestic product of a country by the total population of the country. GDP is often used to describe the total economic volume of a country in a certain period of time, and to measure the overall economic situation of the country. GDP per capita can more specifically describe the average living standard of the people, but also can reflect the per capita economic and quality of life of the people (Chappelow, 2020a).

(1). Spain

Spain is a moderately developed capitalist industrial country and the fifth largest economy of the European Union. Chemical industry and tourism are two obvious fulcrums of Spanish economy, shipbuilding and high-speed rail are also very powerful. In addition, Spain's agricultural exports are also a major source of income.

Graph 7 shows that Spain's GDP per capita has been declining in a fluctuating manner since 2010, but it has increased since the economic recovery in 2014. In 2019, GDP per capita is equivalent to US $29585, falling below the US $30000 barrier. But in terms of GDP per capita, Spain is still a moderately developed country in the world. As can be seen from table 1, Spain's GDP in 2018 was $1.44 trillion, and that in 2019 was $1.39 trillion, a decrease of 3.5%.

(2). Italy

Italy is a developed industrial country. Private economy is the main body, and its output value accounts for more than 80% of GDP. This is because there are many small and medium-sized enterprises in Italy, which has the title of "Kingdom of small and medium-sized enterprises". Foreign trade is an important part of Italian economy. Among them, personal consumer goods, machinery and equipment occupy an important position in the global market.

From graph 7, we can see that Italy's GDP per capita fluctuated from 2010 to 2015, but increased after 2015. GDP per capita in 2019 is US $33100, which belongs to the moderately developed countries in the world. Only when GDP per capita exceeds 40000 US dollars can it belong to the highly developed countries in the world. According to table 1, Italy's GDP was 2.09 trillion US dollars in 2018 and 2.00 trillion US dollars in 2019, a decrease of 4.3%.

(3). Germany

Germany is the largest economy in the EU and the fourth largest economy in the world. Its GDP is second only to the United States, China and Japan. And it is a traditional industrial country, and "made in Germany" is famous all over the world.

From graph 7, we can see that Germany's GDP per capita is always above US $40000, which is a highly developed country in the world. In table 1, we can see that Germany's

GDP in 2018 was 3.95 trillion US dollars, which is the revised result of the German Federal Bureau of statistics. In 2019, the GDP was 3.85 trillion US dollars, a decrease of 2.5%. That means Germany's GDP shrank by about $100 billion in 2019, but it is still the fourth largest in the world.

(4). Norway

Norway is a highly developed industrialized country. GDP per capita is not only the first in northern Europe, but also one of the top ten economic powers in Europe. In addition to its rich natural resources, Norway has the world's second largest sovereign wealth fund, also known as the oil fund.

From graph 7, we can see that Norway's GDP per capita has always been above 70000 US dollars. From 2011 to 2013, its GDP per capita even exceeded $100000. In table 1, we can also see that Norway's GDP in 2018 was 0.44 trillion US dollars. Although GDP is far behind Germany and China, its Per capita GDP is far ahead of the two countries, reaching 82000 US dollars. Its GDP in 2019 was $0.40 trillion, down 9.1% from 2018. GDP per capita fell to about 75000 US dollars. It can be seen that although the Norwegian economy is affected by the global downward trend, its overall strength is still strong.

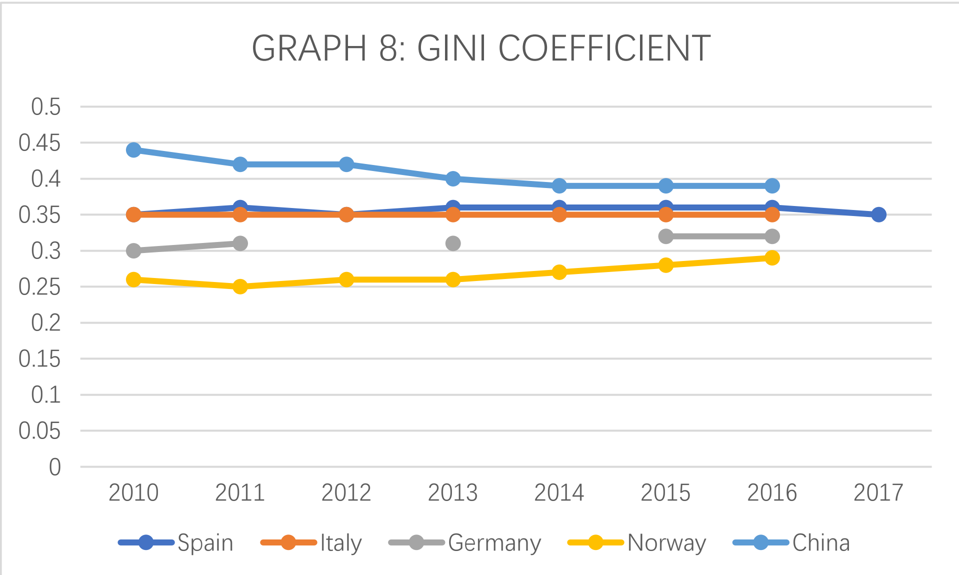
(5). China

At present, China is the largest and most powerful developing country in the world. At the same time, China has become the world's second largest economy and occupies an important position in the world. With the development and progress of science, technology and trade, China has gradually kept up with the pace of world economic development, and has become a major trading country with global influence and an important emerging economy in the world.

From graph 7, we can see that China's GDP per capita continues to grow. It shows that China's comprehensive economic strength is increasing, and social wealth is also increasing. According to the population of about 1.4 billion, GDP per capita in 2019 is 70982 yuan, which is more than 10000 US dollars per capita in US dollars. According to the world bank classification standard, China belongs to the middle and upper income countries. In table 1, we can see that China's GDP in 2018 was $13.46 trillion, and that in 2019 was $14.34 trillion, an increase of 6.5%. Although facing increasing downward pressure, the overall operation of the national economy was stable in 2019.

b) Income distribution

Gini coefficient was put forward by Italian economist Gini in 1912. It is an important analysis index to comprehensively investigate the difference of income distribution among residents. The Gini coefficient ranges from 0 to 1. The smaller the score is, the closer the income distribution is to the average. On the contrary, the higher the score, the more disparity of income distribution. (Chappelow, 2020b)



Source: https://data.worldbank.org/indicator/SI.POV.GINI?locations=CN

It can be seen from graph 8 that the lowest Gini coefficient is Norway and the highest is China. As a representative of Nordic welfare countries, the income gap between different social members in Norway is very small and the degree of income equalization is high. The Gini coefficient is basically maintained below 0.3. The score between 0.2 and 0.3 indicates that the income distribution is relatively average, which effectively reduces social confrontation (Lambert, 1985). At the same time of economic growth, social balanced development has been achieved.

Different from the Nordic countries, the equity redistribution of German welfare state is smaller. Germany has always been a country with a small income gap, and the Gini coefficient is basically below 0.32. A score between 0.3 and 0.4 indicates that income distribution is relatively reasonable (Lambert, 1985). The Gini coefficients of Spain and Italy fluctuate between 0.35 and 0.36, which belong to the relatively reasonable income distribution.

At present, China's income gap is showing a wide range of multi-level expansion trend. From the perspective of Gini coefficient, the gap between the rich and the poor in China is approaching the "red line" of social tolerance. In 2016, the score was 0.39, nearly 0.4. However, from 2010 to 2013, China's Gini coefficient has been above 0.4, and a score between 0.4 and 0.5 indicates a large income gap. Usually more than 0.4 means breaking through the reasonable ring line of the gap between the rich and the poor (Lambert, 1985).

In different business cycles, enterprises should adopt different financial management strategies. Financial decision-making should be based on the level of economic development, guided by the goal of macroeconomic development, and ensure the realization of business objectives and business strategies from the perspective of business work (Amit & Livnat, 1988). Norway and Germany have a high level of economic development. The economic level of Spain and Italy still belongs to the developed countries, but the development is slow. China's economy has been growing steadily. The level of economic development and national conditions are different, the national macroeconomic development goals are inevitably different, which leads to different financial decision-making guidance of enterprises.

The market country where the enterprise is located has a high level of economic development, which has certain advantages for the development of enterprise's financial activities. China is in the developing stage, and the deepening of economic system reform has a great impact on the financial behavior and financial management of enterprises (Wang, 2012). Although there are many development opportunities and sufficient space for enterprises, it is conducive to the financial development of enterprises. But the goal and direction of national economic development will affect the direction of financial decision-making to a certain extent, so enterprises need to consider more potential factors. Therefore, Norway and Germany can give enterprises a better economic environment.

4. Law

a) Investors legal protection

Harmonious and healthy development between enterprises can create more wealth for the country and the society. The harmonious and common development of enterprises also needs the protection of legal system. For example, when an enterprise analyzes its financial situation and makes some relevant decisions. To the implementation stage, we need to find investors to invest or bank loans to raise funds. Obviously, in such economic activities, investors are not protected. They will think that the enterprise may not fully return the investment funds and the income from the operation and production activities after putting the funds into the enterprise. In this way, investors may not be able to finance the enterprise from the beginning (Xu, Lai, & Wu, 2008).

It is the possibility of this vicious circle, which requires each country to have a legal system to protect investors and make financing possible. Among various investor protection mechanisms, the role of legal system is fundamental and has an important impact on other investor protection mechanisms.

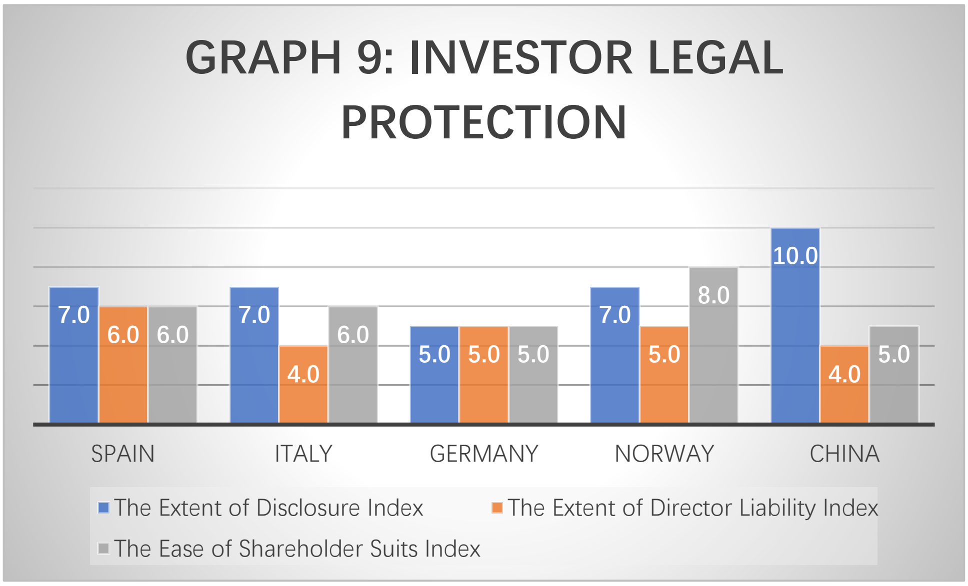
There are different sources of investor protection rules in different judicial systems. In different countries, even for the same investment protection rules, the enforcement mechanism may be different. To a large extent, the strength of investor protection is related to the legal system of a country, the provisions of law on investors' rights and the enforcement of laws (Porta, Rafael, Lopez-de-Silanes, Shleifer, & W.Vishny, 1998).

The world bank has formally measured the investors legal protection, it includes three indicators: the extend of disclosure index, the extend of director liquidity index, and the ease of shareholder suits index.

The extent of disclosure index. The score ranges from 0 to 10, and the higher the score, the more disclosure.

The extend of director liability index. The score range is 0 to 10. The higher the score, the greater the responsibility of the director.

The ease of shareholder suits index. The score ranges from 0 to 10. The higher the score, the greater the power of shareholders to challenge the transaction.



Source:https://www.doingbusiness.org/en/methodology/protecting-minority-investors

It can be seen from graph 9 that when considering the three indicators to measure the investors legal protection, the highest score is Norway (20.0), the lowest score is Germany (15.0), followed by Spain and China (19.0), Italy (17.0). That is to say, among the five countries analyzed, Norway's investors legal protection is the best compared with the other four countries. Germany has done the worst, but only relatively.

Norway has a perfect legal system. To operate in Norway, you must know the local laws. First of all, its law stipulates that the general manager and at least half of the board members of a limited liability company must be permanent residents of Norway or citizens or residents of countries in the European economic area, and special circumstances must be licensed by the Ministry of trade and industry. In addition, Norway has promulgated a series of laws and regulations to ensure the smooth operation or investment of enterprises. For example, Norwegian Tax Law, Norwegian Partnership Law, Norwegian Fund Law, Norwegian Bankruptcy Law, Norwegian Private Limited Company Law, Norwegian Public Limited Company Law, Norwegian Securities Exchange Law, Norwegian Accounting Law, etc.

Germany's judicial justice is fair, and recognizes the world trade practices and the general trade contract terms. Germany is a relatively open country to investors. It has no specific regulations for foreign-funded enterprises, and even can acquire German enterprises without any license (except for several special industries, such as arms industry, telecommunication industry, mineral development, etc.). Although this will bring some convenience to investors, it will also have some disadvantages, such as inadequate supervision, unclear regulations and standards.

Spain and China have the same level of investors legal protection. Spain's advantages lie in its sound legal system and high policy transparency. The disadvantage is that it has many standards and regulations, and the degree of internationalization and transparency is not high. China's legal system is basically sound, and China's biggest advantage for investors is that the information must be completely disclosed and can not be concealed, with a high degree of transparency.

Italy's weak points lie in the laws concerning the protection of investment, such as The Civil Code, The Company Law, The Tax Law and The Labor Law. There is no special law for investment and cooperation, which is easy to produce legal loopholes.

b) Enforcing contracts

The Enforcing contracts index is to measure the time consumption and economic cost of the judicial process to solve commercial disputes, as well as the quality evaluation of the judicial process. Among them, time (days) measures the time required to settle disputes. Cost (% of claim value) measures the monetary cost of resolving disputes through judicial proceedings. Quality of judicial processes index (0-18) is the sum of the scores of each economy in its courts and proceedings, case management, court automation, and alternative dispute resolution. The higher the score, the better the quality of the judicial system and the higher the efficiency of the judicial process.

TABLE 2: ENFORCING CONTRACTS (2019)					
	Enforcing Contracts rank	Enforcing Contracts score	Time (days)	Cost (% of claim value)	Quality of judicial processes index (0-18)
Spain	26	70.9	510	17.2	11.5
Italy	122	53.1	1120	27.6	13.0
Germany	13	74.1	499	14.4	12.5
Norway	3	81.3	400	9.9	14.0
China	5	80.9	496	16.2	16.5

Source:https://www.doingbusiness.org/en/data/exploretopics/enforcing-contracts

According to the data from the World Bank's doing business 2020 report (the data have been collected in 2019), Norway (81.3) has the highest comprehensive score among the five countries, ranking third. The lowest was Italy (53.1), ranking 122. In Norway, the judicial process takes 400 days to resolve commercial disputes, and the economic cost is relatively low, accounting for only 9.9% of the amount of claims. The score of quality of judicial processes is 14.0. It shows that the efficiency and quality of the judicial process in Norway can, to a large extent, guarantee the local enterprises. Coupled with Norway's advanced economy and transparent business practices, Norway is seen as a country where businesses can easily conduct business.

In China, enforcing contracts takes 496 days, and the economic cost accounts for 16.2% of the claim value. In Germany, enforcing contracts takes 499 days, and the economic cost accounts for 14.4% of the claim value. There seems to be little difference between the two indicators. But what's better for China is that its quality of judicial processes score is 16.5, the highest among the five countries. It is closely related to the active promotion of reform by Chinese judicial organs. At present, Chinese courts are vigorously promoting the construction of smart courts, and one of the goals is to establish a judicial big data platform with panoramic data. In addition, foreign mediators and online mediation have also appeared in the alternative dispute settlement mechanism (Qu, Liu, & Li, 2020). All of these make China's judicial process quality higher and higher, ranking fifth with a comprehensive score of 80.9, only slightly weaker than Norway. Germany's comprehensive score of 74.1, ranking 13th, is largely due to the fact that its quality of judicial process score is only 12.5. We should know that nearly 4% of global direct investment flows into Germany. If its judicial process is not optimized, it will still be a challenge for companies operating in Germany.

The challenge for businesses doing business in Spain is that enforcing contracts takes 510 days, enforcement of judgments takes a lot of time, and the legal costs of claims can be very high.

In Italy, it takes 1120 days to enforce contracts, more than twice as much as the average high-income country. And the economic cost is high, which needs 27.6% of the claim value. Some media even said that Italian courts are the slowest courts in Europe in terms of enforcing contracts. It also shows that Italy's judicial system is inefficient and slow to operate. This will be very detrimental to the local business.

In countries with poor legal protection for investors, in order to avoid being exploited by managers, investors only become large shareholders by holding a large number of shares to supervise the exploitation of managers and protect their own interests (Shen, Chen, & Huang, 2007). At the same time, small and medium-sized investors are only willing to buy stocks at a lower price in the face of greater risk of exploitation, which makes equity financing extremely difficult and promotes equity concentration (Xu & Wu, 2006). This highly centralized ownership structure will inevitably affect the financial decisions of enterprises. At the same time, in countries with poor legal protection for investors, external shareholders cannot force the management to spit out cash, and the management will hold a large amount of cash for future valuable investment projects (Yu, 2012).

In countries with good investor protection, corporate profits are not easy to be embezzled by insiders, but returned to external investors as interest and dividend. Outside investors are therefore willing to pay higher prices for stocks, allowing companies to raise funds at a lower cost. The better the legal protection of investors, the easier it is for companies to achieve the desired growth by raising external long-term funds (Xu, Lai, & Wu, 2008).

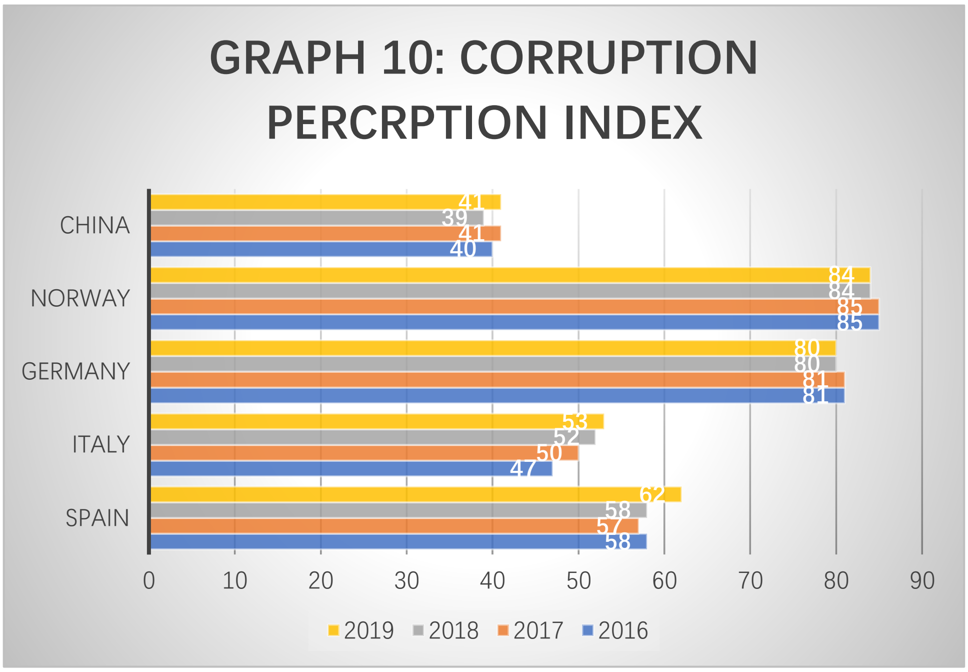
The high efficiency of the judicial system means that all the state institutions related to the public interest and the enterprises related to the cases can operate at a fast speed and economic cost, and obtain the maximum benefits with the minimum cost. The low judicial efficiency reflects the imperfect management of the judicial system, which easily leads to lax judicial enforcement at all levels and can not be implemented in place. It makes the public and enterprises question the justice and efficiency of the judicial system. Moreover, if the judicial system takes too long to investigate and verify each case, it will cause losses to the public and enterprises, and even cause social confrontation.

Therefore, in a comprehensive consideration, Norway's legal protection and well functioning judicial system are conducive to the development of enterprises.

5. Government

a) Degree of corruption

The Corruption Perception Index (CPI) is an index to measure the degree of corruption of governments. Published by Transparency International, using the percentage system. 0 is the most corrupt; 0-25 is extreme corruption; 25-50 is serious corruption; 50-80 is mild corruption; 80-100 is relatively honest; 100 is the most honest (Kenton, 2020).



Source: https://www.transparency.org/en/cpi/2019/results

According to graph 10, the Corruption Perception Index of Norway and Germany is above 80, which indicates that the government is relatively honest. Next was Spain, which had a 50-80 score range, with a mild corruption in its government. Italy's government was more corrupt in 2016, but improved after 2017, with mild corruption. The Chinese government has the most serious corruption among the five countries. The index fluctuates between 39 and 41, indicating that government corruption is relatively serious.

First of all, Norway is the most honest of the five countries. At the same time, it is one of the ten countries with the lowest level of corruption in the world. Norway is a constitutional monarchy with a parliamentary system. The monarch is the head of state and the government is headed by the prime minister. Norway's judiciary is completely independent of the executive and legislative branches. At the same time, it has a strict and effective anti-corruption law. Moreover, there is a monitoring committee composed of various parties in the parliament, which has considerable power. It can directly question the financial doubts of senior government officials and even the prime minister. In addition, there is also a non-governmental body, the Ombudsman's office, which has

36 members and is headed by an Ombudsman. It has a wide range of jurisdiction, and all government and public institutions, state-owned enterprises and institutions, and social service industries are subject to its supervision. Any citizen has the right to lodge a complaint with the Commissioner's office, and the acceptance is free of charge. These have effectively maintained Norway's development at a very high level and reduced the level of corruption (Zhu, 2019).

Germany is also a relatively clean country. The integrity of the German government is inseparable from its complete power restriction and supervision system. In many German state laws and regulations, the implementation of a more stringent inspection system. No matter whether illegal activities have taken place, the higher authorities should regularly check and assess the overall work of the lower level departments. At the same time, government departments at all levels have internal oversight bodies and anti-corruption commissioners. If corruption is found, it will report to the higher authorities, and more serious to the procuratorate. The audit office is a special supervisory organ of the German government. Its work is carried out in accordance with the law and is independent of legislation, administration and justice. It does not obey any instructions from higher authorities and is only responsible to the parliament. On average, audit institutions audit government departments and public institutions once every five years. To prevent corruption, Germany also implements the post risk assessment and rotation system of civil servants (Bei, 2018).

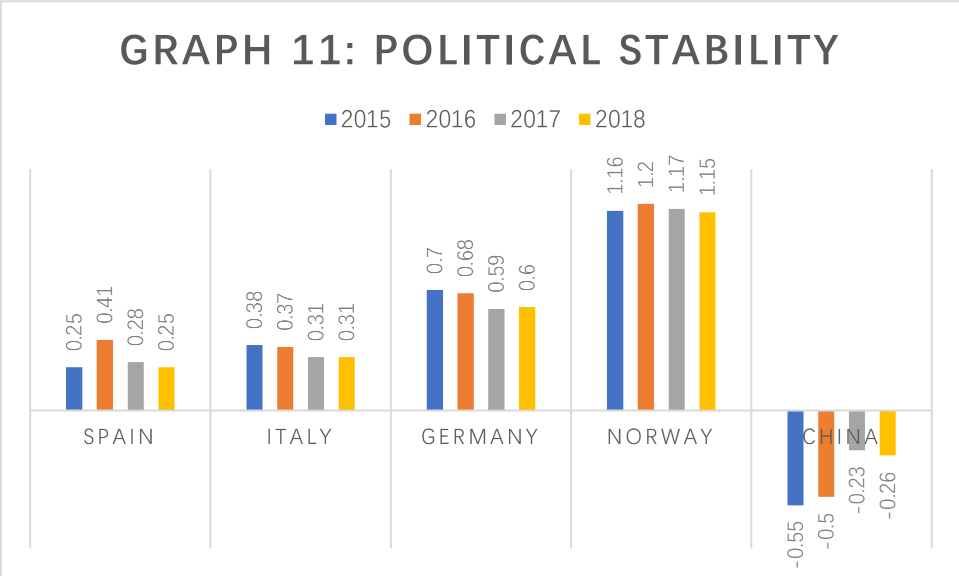
Spain is rated as mild corruption because its corruption is mostly concentrated in local governments and middle and lower level officials. Public works are the starting point of their corruption. It is often achieved in two ways: one is that the officials who control the project allocation power reach an agreement with the private contractor, the former helps the latter win the bidding, and the latter provides high commission to the former. The other way is that officials and contractors work together to win the project and illegally profit from the project funds. These ways of corruption are often widely implicated, officials are not clean, so they protect each other. This also makes officials more and more bold in taking bribes (Kosada et al, 2013).

Italy was serious corruption before 2017. The treatment of its politicians (public and private) was too generous, and people refused to leave like flies seeing rotten meat. Young people want to be civil servants, especially in politics. This signal hinders innovation and entrepreneurial risk-taking. Instead of innovating, designing, serving customers and managing enterprises, entrepreneurs spend a lot of time dealing with civil servants and politicians. In addition, the labor law is unreasonable and the power of trade unions is too strong. More than 15 employees will be subject to more constraints. As a result, a large number of enterprises limit the number of employees to 15. The resulting diseconomy of scale and serious corruption (Li, 2018).

The serious corruption in China is due to the income inequality and social corruption caused by its rapid economic growth (Chen & Li, 2010). In China, in order to let the state-owned enterprises or large-scale private enterprises that do not have comparative advantages to survive, the government has to give them protection subsidies. Financial repression is to take big banks and stock markets as the core of the financial system. Big banks basically provide financing services to these large enterprises. These big enterprises will be subsidized, so who will subsidize them? It is these small farmers and small enterprises who put their money into the financial system and can not get financial services. Some of them are in the service industry, some in the manufacturing industry. Relatively poor people or enterprises subsidize relatively rich people or enterprises, and the income gap will become larger and larger. In order to get this subsidy, of course, some people will pay bribes (Lin, 2014). As a result, the income distribution gap is getting bigger and bigger, and the corruption phenomenon is getting bigger and bigger.

b) Political stability

The Political Stability Index measures the perception that governments may be destabilized or overthrown by unconstitutional or violent means, including politically motivated violence and terrorism. The score ranges from - 2.5 to + 2.5, - 2.5 for extreme instability and + 2.5 for very stable (Ake, 1975).



Source: https://www.theglobaleconomy.com/rankings/wb_political_stability/

Politics is an important macro factor in an enterprise's environment, and it is also the external wind vane of most enterprises' financial decision-making. Politics standardizes the behavior and rights of the state. Whether it is the development of the national economy or the development of enterprises, if there is no stable social environment and an orderly market to support, the relationship between enterprises will not be standardized, and the economy will not develop. The stability of political situation is to ensure the order and security of the state society. Therefore, political stability is an important factor in the long-term development and financial decision-making of enterprises (Yi, 1997).

From graph 11, we can see that in Spain, Italy, Germany, Norway and China, Norway has the best political stability, while China has the worst political stability. Although Germany's political stability index is between 0.6 and 0.8, it has declined in recent two years. The political stability index of Italy and Spain is between 0.2 and 0.4, which has also declined in recent two years. Although China is a developing country, it has only the leadership of the Communist Party, so the political situation from 2017 to 2018 has improved compared with 2015-2016.

Why is Norwegian politics universally recognized as stable? One is that the Norwegian government is parliamentary rather than presidential. It has better checks and balances.

Second, there are eight political parties in the Norwegian legislature, not just the Republican Party and the Democratic Party, and the system means that no party can gain power alone. Instead, they must try to form coalitions with enough support to form a government (Liu, 2018). "There is more cooperation and less confrontation between Norwegian political parties, and the atmosphere of political debate is mild," said Carl Knutsen, a political science professor at the University of Oslo.

In recent years, the decline of political stability in Germany is due to the more widespread domestic political polarization and the increase of national support for the far right populist alternative German scheme (AFD) and the green party. It makes the competition between the parties more intense (Roberts, 2020). In 2019, the CDU leader, Annegret Kramp-karrenbauer, rejected calls from the SPD's new left-wing leadership team to renegotiate the terms of the ruling coalition, and tensions in Germany peaked.

Political stability in Spain and Italy has declined in recent years. The cause of the Spanish political turmoil seems to be closely related to the independence movement in Catalonia. Italy's political situation has been unstable since the 2018 general election (Dong, 2018). Alliance and five-star movement bipartisan support for the government of prime minister Giuseppe Conte until it collapses on August 20, 2019. There has always been conflict over the reform plan.

One of the reasons for China's political instability is the problems left over by history. In modern times, Taiwan, Hong Kong and Macao of China once became the retreat of the Chinese Kuomintang because of the war, and the latter two became colonies. It was not until the last century that they successfully returned to China. Now China implements the "One country, Two systems" system for these three special administrative regions. So far, the issue of Taiwan's independence has led to the issue of safeguarding national sovereignty and territorial integrity (Chang, 2016). The second is the destruction of violent protests in 2019 over the past few months, which has brought Hongkong to a difficult position, which has intensified the relationship between Hongkong and the mainland of China. The government is unlikely to meet the demands of the protestors by 2020. If the unrest continues, the greater the risk of China's military intervention in the Hong Kong Special Administrative Region (Lo, Hung, & Loo, 2020).

Corruption is usually regarded as a cancer of economic development. Countries and regions with high incidence of corruption seldom have vigorous economic development (Ma, 2016). It is in China that there is a surprising phenomenon: Although the corruption situation in China is shocking, private enterprises are growing rapidly. The "predictability" of corruption is a crucial factor. If corruption is inevitable, predictable corruption is better than uncertainty. Because foreseeable corruption can at least ensure that enterprises get the desired results and reduce the transaction costs of enterprises. In order to invest in the market where the protection of the rule of law is not perfect, enterprises must maintain a good relationship with the government. In China, local governments have the right of life and death to enterprises, and enterprises have to seek their protection. In order to get the necessary protection or avoid harassment, enterprises often need to "hook up with the government" in the form of bribery. Governments that benefit will in turn protect businesses (Ma, 2016). Corruption in market countries has become a factor that must be considered in the financial decision-making process of the company.

The political factors of a country will affect its market environment to a great extent. If the political situation of the country is unstable, there may be no time to take into account or influence the regulation of the market, which will lead to the non-standard of the market. The operation and operation of enterprises can not be guaranteed, investors or banks will not provide financing for enterprises, and enterprises can not develop without funds. There are also differences in political goals between parties, which may affect the orientation of the economic market. Therefore, political factors have great influence on the market operation environment of enterprises. Especially in the financial decision-making process of enterprises, we must consider the possible impact of political stability or political objectives between parties, and seriously evaluate them (Yi, 1997).

The Norwegian government is the most honest among the five governments, and its political stability is also the highest. Honest government and stable political situation make its market environment better and more standard. Therefore, in terms of government, Norway is the most conducive to the development of enterprises.

6. Deeply study the influence of financial market factors on corporate financial decision-making

Through various decisions, entrepreneurs manipulate enterprises to run as efficiently as precision instruments to pursue potential profits in the market. American scholar asvos Damodaran pointed out that "every decision made by an enterprise has its financial meaning, and the decision that any enterprise's financial situation has an impact is the financial decision of the enterprise. Therefore, in a broad sense, anything an enterprise does belongs to the category of corporate finance.

a) Financial market and its characteristics

The financial market refers to the place where financial commodities are traded, such as the place where money is borrowed and lent, where stocks and bonds are issued and traded, and where gold and foreign exchange are traded (Heffernan, 1990). It is the basis for the central bank to use monetary policy tools to indirectly control the economy. It is also the institutional premise for the rational allocation of limited capital resources within the whole society and the improvement of capital and capital utilization efficiency. It is also a channel and place for the central bank to play the role of water storage pool of capital stock and convert savings into investment by means of rapid and flexible financing. The state and the central bank shall, according to the information issued by the financial market, conduct macro-control over the national economy. At the same time, financial institutions and enterprises can make corresponding decisions based on the information of financial market (Wurgler, 2000).

Financial markets have two basic characteristics. First, the trading object of the financial market is that the fund supplier transfers the capital to the fund demander directly or through the intermediary, and obtains certain financial instruments. Second, financial markets can be tangible markets, such as banks, stock exchanges, etc. It can also be an invisible market, such as the use of computers, telex, telephone and other equipment through brokers for financing activities (Xu, 2002).

b) The importance of financial market to corporate financial decision

Enterprises always need funds to engage in investment and business activities. There are many ways to raise money in the financial market, and they are flexible. When enterprises need funds, they can go to the financial market and choose the way to raise funds suitable for their own needs. When enterprises have surplus funds, they can also flexibly choose ways to find a way out for their funds. And in the financial market, enterprises can realize the transformation of long-term and short-term funds. The financial market provides effective information for enterprise financial management. Interest rate changes in the financial market reflect the supply and demand of funds. The stock market reflects the investors' evaluation of the enterprise's operation status and profit level. And the change of financial policy will inevitably affect the financing, investment and capital operation of enterprises (Huang & Zhao, 2018). Therefore, the financial market environment is one of the most important factors affecting the financial decision-making of enterprises.

c) The influence of financial company on financial market decision

The financial market is the place of financing, and the acquisition of enterprise funds is also inseparable from the financial market. The financial market plays the role of financial intermediary and regulating the surplus and shortage of funds. Familiar with the financial market environment for enterprises, can effectively raise funds and capital investment activities (Meng, 2020).

First of all, enterprises will consider financing or investment for the company when making financial decisions. From the analysis of China and four European countries: Spain, Italy, Germany and Norway, the European financial market has a long history, flexible operation and perfect banking system. Then there are various convenient and flexible financing methods in the financial market. When the company needs funds, it can choose the appropriate financing method to raise the required funds in the financial market to ensure the smooth operation of production and operation. When enterprises have surplus funds, they can choose flexible and diversified investment methods to find a way out for funds. China's finance is still in the development stage, and enterprises tend to raise funds indirectly. However, the financial development is not reasonable and is still dominated by the banking system, so the financing risk is highly concentrated in the banking system, even if securities companies and fund companies play a huge role in financial activities, and the business is becoming more and more diversified (Zhang & Dong, 2000).

The financial market provides relevant information for enterprise financial management. The interest rate changes in the financial market and the price changes of various financial assets reflect the supply and demand of funds, macroeconomic conditions, and even the operating conditions and profitability of companies issuing stocks and bonds. This information is an important basis for enterprises to make financial decisions. China and European countries are in different financial environments. As a developing country, China is still deepening its reform. The regulation and regulation of financial market also tends to be controlled by the government, and the degree of administration is higher than that of marketization (Peng, 2019). Financial personnel should timely receive the relevant information about the macro-control and guidance of the national financial authorities on the financial market. The economic orientation and goals of developed countries in Europe are different from those of developing countries. Financial personnel receive market information and are affected by the macro-economy of market countries (Zhou, 2020). Therefore, the information provided by different financial markets for enterprises will vary greatly, which will have a significant impact on the financial decision-making of enterprises.

The fluctuation of interest rate in financial market will affect the financial activities of enterprises. Financial market interest rate is the percentage index of interest to principal. From the perspective of capital lending relationship, interest rate is the transaction price of using capital resources in a certain period of time. As a special commodity, capital takes interest rate as the price standard, and its financing is essentially the redistribution of resources through interest rate. Interest rate changes, enterprises in raising funds, may face the risk of interest rate changes. The level of interest rate directly determines the size of enterprise capital cost (Dong, Yi, & Song, 2007). The financial market interest rate of each country is different. Enterprises in Europe and enterprises in China should consider the interest rate of their own market country and its changes. When the State implements the "double loose" policy, that is, the expansion of fiscal policy and loose monetary policy, the money supply increases and the interest rate of loans decreases. At this time, the capital cost of the enterprise is lower, and the operating cost borne by the enterprise is reduced, which reduces the financing risk of the enterprise. On the contrary, when the "double tight" policy is implemented, that is, the tight fiscal policy and monetary policy, the money supply shrinks and the interest rate of loans increases. When the enterprise raises funds, the capital cost increases, and the operating cost borne by the enterprise increases, so the enterprise has to bear greater financing risk. Therefore, interest rate plays an important role in capital allocation and financial decision-making (Wu, 2018).

The supervision of financial market affects the financial decision-making of enterprises. If the regulation and control of the financial market fails or has defects, then the allocation of resources by the financial market is ineffective. If the market country in which the enterprise is located is effective and efficient in financial supervision, then the enterprise can largely avoid being hit hard (Chaudary, 2014). This is because with the evolution of the market transaction mode, as early as from the single physical transaction to the present credit form transaction. Now it's not only tangible but also intangible. The product or service of financial institution is a kind of credit creation in essence. On the one hand, it can reduce the opportunity cost of enterprises, on the other hand, it will make enterprises face greater capital risk. Because there will be domino effect in the financial market. Enterprises or financial institutions, no matter which one of them is unable to cash, will produce a series of chain reactions. The sudden run will make enterprises or financial institutions into economic crisis in a very short time. Serious will lead to paralysis of the entire financial market. With the continuous development of national economy, the financial environment faced by enterprises is more complex, and the number of financial instruments is increasing. This urges enterprises to strengthen financial management. In addition to being familiar with the types and management rules of financial market, the supervision of financial market is also a challenge to their work. If the enterprise is in an imperfect or backward financial market, it will increase the difficulty of financial decision-making. Enterprises can not completely rely on the market, but also need to combine their own characteristics to establish financial objectives suitable for their own development (Peng, 2004).

In the mature financial market, some investment activities will also affect the financial decisions of the company. That is because in a mature financial market, financiers and investors are not limited by the time and place, and can make investment and asset redemption at any time. On the surface, this seems to support and encourage the activity of financial markets. But in fact, it will affect the healthy development of the financial market (Li, 2016). For example, it is not conducive to the development of enterprises with long-term demand for funds, and does not use the investment of asset owners. At this time, the enterprise should carry out financial management and prepare a certain amount of working capital to face the crisis brought about by the unrestricted, ready to invest and redeemable assets. Also set aside a certain amount of funds to avoid debt due to special reasons unable to repay. Then the financial decision-making of the enterprise can be carried out on the basis of establishing the reserved funds.

7. Conclusion

To sum up, finance, economy, law and governance are very important to the financial decision-making of enterprises. The differences between China and the EU have a profound impact on them. When comparing these countries and factors, we also see that the factors to be considered in making financial decisions are different due to the different situations of different countries. The correct financial decision is the premise of the enterprise to carry out production and operation activities, which has a profound impact on the production and operation of the enterprise.

Due to the increasingly complex and changing financial environment of enterprises, financial decision-making is more difficult. However, with the development of the world, the external environment faced by enterprises in various countries is bound to be more and more perfect market. Therefore, in the process of enterprise financial decision-making, we have to follow the market rules, constantly focus on the external environment of the enterprise and its changes, and make accurate and rapid judgment on the financial environment it faces. In order to adapt to the change of external environment, we should constantly adjust the financial objectives and Strategies of enterprises, and improve the ability to adapt to the financial environment, so as to make correct decisions. Only in this way can enterprises survive and develop in such a competitive market.

8. Personal suggestion

In addition to the impact of the system on financial decision-making, I think the adaptability of the company itself is also an important factor. Every company needs to know what level of financial resources it should reserve. Different levels apply to different companies, and adaptability may affect profits in different ways. The cost of developing adaptability may reduce profits. However, adaptability can contribute to the company's continued survival. To select a specific level of strategic adaptability of the company, it is necessary to make corresponding judgment regularly to balance its value and cost.

When a company chooses investment projects, decisions about financial needs and capital structure will affect the company's adaptability, which requires strategic consideration. For example, resilience decreases as financial leverage increases, because a large amount of debt imposes a burden on cash flow, which reduces flexibility. This is especially bad for small businesses that usually rely on debt financing.

With the fluctuation of bank loan interest rate and the related stock and bond price fluctuation, enterprises are faced with both opportunities and challenges. When choosing the investment plan for the surplus funds, we can get extra income outside of business by taking advantage of this opportunity. For example, after purchasing long-term bonds, due to the decrease of market interest rate and the rise of bond price with fixed interest rate, enterprises can sell bonds to obtain more cash inflow than expected. This is similar in the selection of sources of financing. When interest rates are expected to continue to rise, issuing long-term bonds at current lower interest rates can save capital costs.

The financial market is complex. The more complicated and complicated things are, the more they need to be explained and handled in a systematic way. Financial decision-making is also a complicated and complicated activity. In addition to the complexity of price fluctuation, there are also various unstable factors from enterprises or investors themselves. In order to survive in the financial market for a long time and maintain stable profits, an effective systematic hand must be established on the basis of full understanding of the market Section. In order to help eliminate the price and sentiment of various interference factors on the exchange. Make sure every transaction is low risk and high return. The concept of trading system is summed up by traders' long-term wrestling and groping in the market. It is the understanding of the market regularity and the overall formation of the trading behavior system. The principle of trading system: the price changes rapidly. It is counterproductive to describe the complexity with complexity, and it is not conducive to enterprises or investors to make timely and effective response. Only with the principle of mechanization and systematization, all data must be quantified, and accurate and efficient trading system can be used to describe the market, so as not to be blinded by a large number of random factors on the surface of the market.

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