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Corporate Finance: Investment Decisions and Capital Structure Causes of the Financial Crisis

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Abstract: This article examines investment decisions and capital structure issues within the field of corporate finance. As a result of the study, the causes of financial crises, their development mechanisms, and their consequences were comprehensively analyzed. Ways to prevent crises are proposed by identifying the weaknesses of the economic system, analyzing risks, and assessing the negative impact of decisions related to the capital structure.

Keywords: corporate finance, investment decisions, capital structure, financial crisis, risk management, financial stability, liquidity, financial markets, corporate governance, diversification, enterprise value.

INTRODUCTION

Corporate finance plays an important role in the modern developing economy and financial system. Investment decisions and capital structure issues are of particular importance to improve the activity of enterprises, increase their competitiveness, and ensure their sustainable development. However, the financial crises observed in recent years have revealed the existing problems in the corporate finance system.

It is in the field of corporate finance of the financial system that a large part of the income distributed to various sectors of the economy is collected, and these incomes serve as the main source of economic development and social development. In this case, the income of corporate structures is distributed for self-financing, workers, and state obligations (Table 1). Based on the above, it can be seen that corporate finance occupies a central link in the financial system. It should not be forgotten that the effective organization of corporate finance requires constant attention in the socio-economic development of society.

Table 1. The volume of investments in fixed capital by region (annual, million soums)[1]

Areas	2020	2021	2022	2023
Republic of Uzbekistan	210195,1	239552,6	266240	356071,4

[1] https://stat.uz

Republic of Karakalpakstan	7089,8	8110,7	10254	12959,2
The city of Nukus	1248,5	1681,8	2414,8	3028,1
Amudarya district	317,1	449,2	540,6	382,9
Beruni district	383,6	425,4	449,9	350
Bozatov district	103,6	99,5	118,6	104,1

Corporate finance today serves as the basis of the international financial system. Effective organization of corporate finance in our country allows for an increase in the economic development of our country and increases the process of international economic integration. Because in foreign trade relations, along with states, corporate structures also actively participate.

Capital structure occupies a central place in corporate finance and is a key element of a company's financial strategy. Capital structure represents the ratio of debt to equity in the company's total capital. Also, in corporate finance, the capital structure manages financial risk, optimizes the value of capital, and affects profitability.

Analysis and results:

It should be noted that even though corporate governance reforms are being rapidly implemented in Uzbekistan, there are a number of unsolved problems in the corporate governance system. The main problem is the increasing level of joint stock companies and the financial crisis in which the state is the main shareholder. In turn, there are reasons for this (Fig. 1).

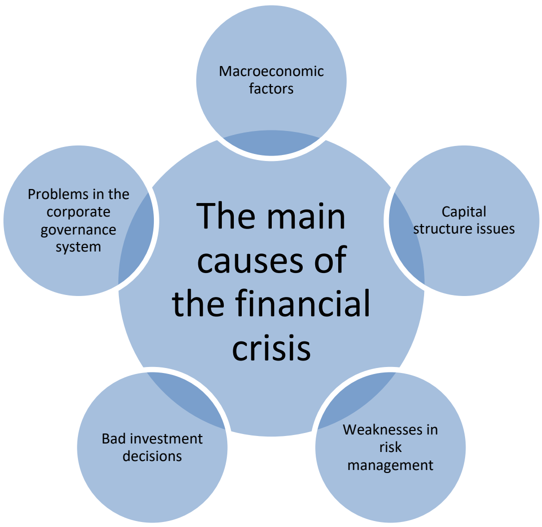

Figure 1. The main causes of the financial crisis

Financial crises often develop in conditions of macroeconomic instability, i.e., high inflation, sharp changes in interest rates, exchange rate fluctuations, and a decrease in economic growth. Examples include the global financial crisis of 2008-2009 and the recent COVID-19 pandemic. Excessively soft or, on the contrary, excessively strict policies of central banks, economic imbalances, and deficiencies in monetary policy also cause financial crises.

An excessive increase in external debt funds in the capital structure of enterprises is one of the most important reasons for the financial crisis. The need to make payments on debt obligations puts pressure on the firm's liquidity. As a result, enterprises with a high percentage of debt capital face more financial difficulties in times of crisis.

In corporate finance, investment decisions should mainly be aimed at maximizing the value of the enterprise. However, in practice, in many cases, investment decisions turn out to be inefficient and sometimes harmful as a result of incorrect information, incorrect assessment of the level of risk or self-interest by management, errors in forecasting cash flows, and failure to consider risks.

Another important cause of financial crises is the lack of risk management. Many enterprises do not fully assess the risk system, do not develop risk diversification strategies, or the existing risk monitoring system is not effective. During the global financial crisis of 2008, many large financial institutions suffered significant financial losses due to their failure to correctly assess and manage risks in the mortgage market.

Financial crises are also often associated with deficiencies in the corporate governance system. Conflict of interests between management and shareholders (agent problem), lack of transparency in financial statements, ineffectiveness of control mechanisms, inefficient functioning of the board of directors, insufficient development of internal control system, and deficiencies in audit processes hurt the quality of financial decisions.

The introduction and active application of the basic principles of corporate governance in the practice of the country can have a direct economic effect. By improving the existing corporate governance system, local business entities can expect to receive an additional 20 to 50% premium on their share price.

Conclusion:

In conclusion, capital structure and investment decisions are important tools for making strategic decisions in corporate finance, ensuring financial efficiency, and maximizing company value.

In the field of corporate finance, investment decisions, and capital structure issues are the main factors in ensuring the financial stability of enterprises. In order to prevent financial crises, it is advisable to carry out a number of measures in the following directions: enterprises should not only pay attention to external macroeconomic conditions but also improve the internal financial management system, and develop the investment decision-making process and comprehensive evaluation of projects.

Optimizing the capital structure, improving the quality of investment decisions, developing a risk management system, improving corporate governance mechanisms, and paying special attention to effective liquidity management are among the most important conditions for ensuring financial stability.

To develop the results of this research, it is desirable to conduct an empirical analysis of the factors affecting financial crises on the example of enterprises operating in various fields in the future, as well as to study the possibilities of ensuring financial stability based on the use of modern digital technologies and artificial intelligence.

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