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Research on the impact of financialization of physical enterprises on enterprise value

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Abstract: In the 21st century, the global economic and financial situation has undergone significant changes, and the financialization of the economy has been integrated into multiple aspects of enterprise activities, producing a certain impact. At present, the speed of China's economic structural transformation is significantly accelerating, and the real economy is gradually declining due to multiple factors. Overcapacity has also increased the management pressure on enterprises, and the decline in operating profits is becoming increasingly apparent. In this situation, a large number of enterprises hope to invest in financial assets, and the proportion of internal financial fund allocation is also constantly increasing. In terms of the final profit and return obtained by the enterprise, the proportion of return achieved by financial asset investment is also increasing year by year. This article aims to comprehensively and deeply explore the complex relationship between the financialization of physical enterprises and their value. With the increasing importance of financial activities in enterprise operations, financialization has become a topic of great concern in recent years. Through a comprehensive analysis of existing research, this article attempts to reveal the mechanisms by which financialization affects corporate value, including potential advantages and disadvantages. In addition, this article will also explore the factors that promote the development of financialization, the multidimensional characteristics of financialization, and the broader impact on various stakeholders, in order to help enterprises overcome management difficulties and achieve scientific and rational allocation of internal funds and assets.

1. Introduction

Developed countries in Europe and America were the first to enter the era of economic financialization in the 20th century, and the financial industry has become an important pillar of their economic development in subsequent construction and development. Compared to other developed countries, in recent years, with the continuous intensification of global economic financialization, the trend of corporate financialization in China has become increasingly clear. By leveraging the advantages of economic financialization, European and American countries have significantly improved their domestic economic situation, presenting a thriving market economy environment. Driven by interests, they have implemented capital expansion on a global scale and used various financial strategies to seize profits worldwide. After entering the new normal of the economy in China, there has been a fierce collision between the virtual economy and the real economy, and the management concepts of enterprises have also undergone corresponding changes. Among them, the most noteworthy is the financialization strategy of enterprises, which means that the proportion of investment in financial assets within enterprises has been increasing year by year, and the proportion of profits and returns obtained from it is also significant[1]. In such an environment, enterprise managers can achieve ideal asset allocation by studying the relevant impact mechanisms, thereby effectively improving investment efficiency and achieving long-term stable development of the enterprise.

2. The definition and theoretical analysis of corporate financialization

2.1 The definition of corporate financialization

The financialization of enterprises is derived from the term "financialization". After financial scholars proposed the term "financialization", this concept has been gradually used. For physical enterprises, with the development of society, the external market environment has undergone significant changes. The original production and operation methods and business forms of physical enterprises have undergone significant changes, and the internal financial investment activities of enterprises have increased. For enterprises, the source of profit and income has also shifted from singular production and trade business to financial investment activities, obtaining more profits through various investment activities, and achieving the goal of improving the economic benefits of enterprises. Financialization, with its modern payment methods and convenient fundraising models, has gradually become a frequently used financial tool by enterprises[2]. With the continuous expansion of enterprise scale, the investment proportion of financial assets is also increasing year by year, and in the process of choosing financing methods, there is often a preference for external financing.

In the early studies of corporate financialization by Chinese scholars, the term "financialization" was less mentioned, and more words such as "virtual economy" and "financial investment behavior" were used instead of "financialization". After entering the 21st century, this situation has undergone a turning point, and the professional term "enterprise financialization" has received the attention of many scholars. Relevant scholars have conducted detailed analysis and research on enterprise financialization, and enterprise financialization has gradually entered the public's vision and received the attention of a large number of enterprises[3].

2.2 Theoretical analysis of enterprise financialization

2.2.1 Financial Structure Theory

The formation of the financial system requires specific elements to support it together. Financial instruments, financial institutions, and financial structure jointly construct the financial system, forming a relatively complete organizational structure. The process of financialization development is also gradually formed in the derivative transformation of the financial structure. Therefore, relevant personnel can analyze the subsequent development of the financial sector with the help of changes in the financial structure. The theory of financial structure was proposed by Raymond W. Goldsmith, a professor at Yale University, in 1969, and has become one of the most influential theories in studying financial development issues[4].

2.2.2 Financial repression and deepening theory

As is well known, the development of the financial sector will have a certain impact on the overall economy, and these impacts are the final result of the joint action of many factors, including the impact of government intervention in the market, as well as other factors such as changes in the market environment, which have strong uncertainty. From the perspective of financial deepening theory, in the process of spontaneous market regulation, the value of supply and demand can be maximized, and fiscal resources can be analyzed. Market policies are not easily influenced by the government and gradually enter a healthy development trajectory, promoting economic development and the healthy operation of financial markets, complementing each other and working together. In the theory of financial repression, there are many potential problems with the liberalization of financial markets. In more severe cases, it may lead to market failure, and the unreasonable allocation of resources can also cause economic development difficulties, hindering the normal operation of the economy. At this time, the government should take reasonable measures to adjust and ensure the fairness and rationalization of financial resource allocation, and the stable development of the internal economy[5].

2.2.3 Financial Constraint Theory

Compared to developed countries, the financial systems of developing countries urgently need to be improved. In order to promote the orderly development of related work, governments need to take corresponding measures to intervene appropriately and coordinate the market failure caused by market liberalization[6]. This also creates conditions for the emergence of financial constraint theory, and it can be seen that once the internal financial market is relatively imperfect, the government needs to issue warnings to the financial market based on the current market situation and take appropriate actions to remedy potential problems.

There is a significant difference between financial constraint theory and financial repression theory. The government has introduced corresponding policies to make the financing process within the market more relaxed[7]. This operation is similar to the integration of hidden funds into the market, which can alleviate various situations caused by ineffective government regulation of the market, thereby maintaining a good financial environment and promoting stable economic development. For countries with overall economic backwardness, financial constraints can help their internal economic situation move from downturn to recovery. In the process of implementation, developing countries can effectively improve their internal economic situation, which is a transitional policy conducive to economic development.

3. The motivation for corporate financialization

The following analyzes the motivation for corporate financialization from two major aspects: the first is the "reservoir" motivation; The second motivation is "investment substitution". Under the motivation of reservoir management, the purpose of implementing micro enterprise financialization is to better control transaction costs, maximize the utilization of internal resources, reduce obstacles caused by other external factors to enterprise production and operation, and improve internal production and operation efficiency. The implementation of daily work in enterprises requires financial support. Only by ensuring smooth and timely internal fund flow can production and operation activities be better carried out. However, operation itself carries certain risks, and the uncontrollability of risks increases the difficulty of enterprise operation. Managing internal idle assets through financial investment is a better investment choice for enterprises. Through this approach, not only can the liquidity of assets be ensured within a certain range, but also capital appreciation can be achieved, expanding the company's profit channels. Some enterprises have carried out financial investment activities in order to effectively avoid operational risks. The main internal projects of the enterprise occupy most of the energy and financial resources of the enterprise's business activities, and the long project cycle also increases the occurrence of risks. At the same time, the financing requirements of the enterprise have been increasing year by year, and financial assets invested mainly for savings have played a greater role[8]. Once the enterprise encounters sudden financial problems in subsequent investment projects, financial investment can be used to help it overcome difficulties. From the perspective of listed companies, large-scale and specialized financial investment activities are conducive to improving business performance, further boosting investor morale, and showcasing the comprehensive strength of the enterprise to the market. Once a company is in a stagnant stage of development, internal returns decline, and it is difficult to recover funds from long-term investment projects. Placing investment focus on the financial sector can reduce the threat of asset depreciation and seek greater development at the appropriate time.

4. The economic consequences of corporate financialization

4.1 The positive value of corporate financialization

In the process of analysis, the positive impact of financialization can be elaborated on from the following aspects. Firstly, alleviate financing constraints. Currently, enterprises are facing enormous market pressure, coupled with increasing competition within the same industry, and their demand for funds is increasing year by year. However, the situation of credit supply is not optimistic. In such an environment, the emergence of financial assets can help enterprises reduce their funding shortage and solve their financial difficulties. Adequate funds inject vitality into the development of enterprises, effectively reducing financing constraints and expanding productivity and scale while enhancing internal investment levels[9]. Secondly, achieve optimal allocation of resources. Enterprises of different scales and organizational structures have varying levels of financial strength. For large enterprises with abundant funds, they can use physical intermediaries to transfer idle funds to some financially constrained enterprises, achieving a virtuous cycle of funds and maximizing the value of idle funds. Thirdly, diversify enterprise risks. Financial instruments provide enterprises with more options, and the process of regulating and optimizing enterprises also enables them to achieve ideal investment returns in a certain economic context, ensuring that their overall profitability remains stable and minimizing operational risks[10]. At the same time, the investment portfolio of financial assets enhances the profitability of enterprises, expands their survival space, helps enterprises better cope with non market risks in production and operation activities, and promotes the stable improvement of their own management level.

4.2 The negative effects of financialization

Although financialization can greatly help enterprises accumulate wealth, there are significant risks involved in the accumulation process, which can easily lead to wealth illusions and further suppress corporate capital. The real economy is more vulnerable to threats, and economic stability cannot be discussed. In the process of participating in financialization, physical enterprises will inevitably have their own innovation ability and comprehensive development strength affected by the continuous increase in investment. The financialization of enterprises has caused a certain impact on their innovation drive, and the influence and credibility of physical enterprises in the market will decrease. At the same time, the financialization of enterprises has exacerbated the foam of real estate prices and increased the probability of financial crisis.

5. The relationship between corporate financialization and corporate value

5.1 Financialization promotes the enhancement of enterprise value

Different scholars have different understandings of the impact of corporate financialization on corporate value, with both favorable and unfavorable perspectives. In general, we can view corporate financialization as a strategy to promote the optimization of internal asset structure. Through this approach, companies can not only obtain profits and benefits from the financial industry, but also leverage their cash reserve advantages to alleviate their financial pressure, better cope with uncertain factors in future business management and poor business management caused by economic cycle fluctuations, effectively improve management effectiveness and comprehensive development strength, and achieve established strategic planning[11]. Overall, the financialization ability and competitive level of physical enterprises in China are lower than those of enterprises in other developed countries. In response to this situation, precise and scientific financialization behavior greatly enhances the comprehensive competitiveness of enterprises. Enterprises with different operating years can achieve different results [12]. For enterprises with high stock concentration and large scale, the implementation of financialization has a more significant effect and higher value for use. Financialization has achieved high returns on assets, which will inevitably attract many enterprises to participate, which also conforms to the natural law of capital seeking profit. Faced with better investment opportunities, enterprises can choose to increase their investment share and expand their capital scope in a timely manner, or timely stop losses in response to economic recession and industry conditions, which can achieve efficient use of funds and efficient flow of funds. This has also become an effective way for enterprises to achieve their own development and expand their business scope. A reasonable ratio of internal financial assets to industrial assets can effectively reduce business risks, better cope with various uncertainty factors in operational management activities, and enable enterprises to face difficulties and achieve greater returns. The financialization industry carried out by enterprises based on the motivation of "reservoir" has improved the efficiency of fund utilization, and the profits obtained from it can also be matched with internal cash reserves to promote the sustainable development of various business activities, ensuring that enterprises can enhance their own value and occupy market dominance in a fierce market environment.

5.2 There is a non-linear relationship between financialization and corporate value

Internet and intelligent scientific and technological means have not been widely and timely, and the business strategies and means adopted by enterprises are relatively conservative. With the development of the times, advanced information technology means have accelerated the links between countries, customers and enterprises. At present, enterprises can also rely on the financial market, a modern medium, to provide power for their own development while focusing on the real economy. Non financial enterprises often purchase a certain amount of financial derivatives to avoid commodity price and exchange rate risks caused by market changes, in order to achieve the preservation and appreciation of funds. This action also improves the efficiency of using idle funds internally, providing more possibilities for the accumulation of funds[13]. Therefore, even for non-financial enterprises, as long as it is determined that the internal investment decisions of the enterprise comply with certain scientific and normative principles, and based on this, financial activities can be carried out gradually to improve the effectiveness of fund utilization, so that investment activities serve the real economy itself and achieve a steady increase in enterprise value. It should be noted that if the financialization behavior within the enterprise is not strictly controlled and constrained, it may cause damage to the economic value of the enterprise. At the same time, financialization behavior helps to comprehensively improve the financial performance level of enterprises, and has a non-linear effect on market value. Many enterprises are eager to invest in the real estate industry, and investment real estate itself carries huge risks. Investment real estate beyond a reasonable allocation level increases the operational burden of enterprises[14].

In addition, some scholars believe that the relationship between financialization and corporate value depends on the differences in motivations for financialization. Scholar Zhang Renzhi believes that due to different motivations for financialization, the decisions and behaviors towards financialization will inevitably differ, and ultimately, the impact on corporate value will also be difficult to converge.

Usually, the manifestation of corporate financialization behavior is holding financial assets and profiting from financial channels. The behavior of holding financial assets by enterprises often only causes a "squeeze" on internal innovation investment in a short period of time, and does not affect the innovation development of the enterprise in the future period. On the other hand, financial channels are the opposite. The profits of financial channels are closely related to the innovation of the enterprise in the current stage or at a certain period in the future, and will show a negative correlation. From this, it can be seen that the motivation of "reservoir" reflects the cash reserve function of financial investment, while the profit from financial channels has a stronger "substitution" motivation, which may have a "substitute function" on the main business operation.

6. The impact of corporate financialization on corporate value

Modern portfolio theory provides guidance for corporate investment behavior. For enterprises, the asset structure formed at this stage is the final result of management's investment combination of internal financial assets and industrial assets. Based on this, the financialization behavior of enterprises can be analyzed, which can be seen as a behavior of management to adjust and optimize internal asset structure, use financial investment to gather funds, and improve investment efficiency. To achieve a balance between investment activities and business operations based on the actual situation of the enterprise, it is necessary to promote the stable improvement of internal economic benefits, help the enterprise truly integrate into the market environment, face various uncertainties, decompose different types of investment risks, and provide strong driving support for the healthy development of the enterprise.

If idle funds within a company can be properly utilized, it can effectively enhance internal revenue and benefit the long-term development of the enterprise. Enterprises can invest their funds in the financial market from both long-term and short-term perspectives, and the profit and return obtained may vary depending on the time limit. Compared to industrial assets with longer investment cycles, short-term investments can achieve internal turnover in a shorter period of time, and the profit rate of funds is also faster. The investment returns obtained by enterprises through financialization channels can be widely applied to various aspects of management activities, such as purchasing assets necessary for production to expand business scope, and can also be used for scientific research and development of a certain project to ensure sufficient funding supply, continuously improve internal innovation, and not be disconnected from the development of the times. The investment returns achieved through financialization can alleviate the enormous pressure brought by strong financing constraints on enterprises, gradually becoming an indispensable internal financing channel. In the long run, the "reservoir effect" dominates the financialization behavior carried out by enterprises, and this measure can achieve strategic adjustment to adapt to the economic cycle. The operational status and profitability of an enterprise are influenced by various objective factors and can change. Once unpredictable problems arise or local difficulties arise due to downward pressure, the enterprise can solve various management problems through preventive savings prepared in anticipation. Moreover, once the enterprise needs the injection of working capital, the high liquidity of financial assets can also be monetized in a timely manner, helping the enterprise seize investment opportunities and achieve ideal investment results.

In addition, fixed assets are the majority of industrial investments made by enterprises, making it difficult to realize them in the short term. Once an enterprise encounters unfavorable investment returns, it is also difficult to recover them in a short period of time, which also brings significant losses to the implementation of its investment activities. For internally held financial assets, once there are significant fluctuations or adverse situations in the financial market, enterprise managers can take corresponding measures based on their own judgment of the situation to control the losses within a certain range. If a company uses all its funds to purchase irreversible fixed assets, it further increases its operational risk. In response to this situation, the company can use financial assets to reduce the loss of industrial investment returns. By proportionally allocating financial assets to industrial assets, the stability of various investments within the portfolio is ensured, thereby mitigating corporate risks and improving the company's risk tolerance.

However, the assets actually controlled by the enterprise need to match its own capabilities. Once some of the internal funds of the enterprise are used in the allocation of financial assets, it indicates that the proportion of related industrial investment has been occupied. If a company always prioritizes the implementation of financialization activities in its overall business activities, its investment tendency will change, and most of its internal investment will gradually move towards the financial market. Industrial assets will also be severely affected, and the portion that ultimately benefits may flow back into the financial market, further intensifying the degree of financialization within the company. Over time, enterprises continue to move towards financialization. For those that were originally primarily engaged in physical operations, their ultimate operating benefits are mostly hijacked by the financial market, and their business models and investment priorities have undergone significant changes. Some innovative and industrial investments with long investment cycles and feedback times have lost their due value in the eyes of management. Enterprises are more inclined towards cross industry financial market arbitrage behavior, and their main business is gradually becoming dull. The overall ability of enterprises continues to decline, ultimately forming a "hollowing out of physical enterprises". The value creation ability of enterprises operating industrial assets is gradually declining.

The financial market is constantly changing, with numerous financial assets and derivatives within the market. The complexity and diversity of products themselves also pose certain difficulties for buyers. In this context, it is difficult to detect if the management of a company manipulates financial assets or if certain shareholders use their own rights and advantages to engage in favoritism and fraud in the process of financialization. The high degree of corporate financialization and serious principal-agent problems coexist. Whether the information related to the actual operating status of the enterprise can be fully reflected in financial reports, and the effectiveness of compensation contracts are becoming increasingly prominent. As a result, the information advantage of the larger shareholders is already ahead of other small and medium-sized shareholders. In addition, the increase in information opacity makes the advantage of the larger shareholders more obvious, and the effectiveness of the capital market is further weakened. The financial market itself has strong volatility, and these changes will be transmitted to the operation of enterprises through financial returns, resulting in significant changes in the profitability of enterprises. Large fluctuations will lead to a decrease in the robustness of enterprise operations, making it more difficult for the capital market to predict company performance and price assets. Information asymmetry and the deterioration of corporate information environment will ultimately be reflected on enterprises through external capital markets, causing them to suffer more serious consequences, which is closely related to excessive financialization of enterprises. If a company's own strength cannot attract the attention of capital, financing costs continue to rise, or some unexpected situations lead to market instability and stock price fluctuations, it will have a serious impact on the company's subsequent development.

7. Conclusions

In summary, the current economic situation is complex and diverse. The growth rate of China's real economy is slow, while the development momentum of the financial industry is increasingly rapid, with its growth rate and profit margin far exceeding that of the real industry. In order to obtain greater profits and benefits, physical enterprises gradually shift their business behavior towards the financial industry's business model. The increasing financialization of enterprises has had a profound impact on the value of physical enterprises. In response to this situation, at the micro level, enterprises should focus on their main business, clarify their own development priorities, strategically carry out financialization activities, and continuously optimize their equity structure during the operation process, enhancing the initiative of internal personnel to participate in corporate governance; At the macro level, while guiding the development of the financial industry, it is also necessary to stimulate the innovation of enterprise economic value and comprehensively enhance the comprehensive strength of enterprises.

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