Comprehensive Multi-Dimensional Analysis of Enterprise Financialization

Pengwen Kong*

Beijing-Dublin International College, Beijing University of Technology, Beijing, 10010, China

*pengwen.kong@ucdconnect.ie

Abstract. This paper comprehensively discusses issues related to financialization, covering causes, impacts, and governance. Regarding causes, the macro level involves theoretical drivers, changes in the economic environment, policy reforms, and other factors. Due to variations in their economic environments, different nations (like the US and Germany) have different reasons for financialization; the micro level is related to changes in capital intermediation methods, corporate investment motivations, investor behavior, etc. The impact of financialization is extensive. At the macroeconomic level, it has changed the source and composition of profits, affected the economic growth model and macroeconomic balance, triggered commodity price fluctuations, aggravated economic inequality, and threatened financial stability; For micro-enterprises, although it helps to ease financing constraints, optimize resource allocation and diversify risks, it also leads to "de-materialization", increased operating risks, and inhibited innovation. There is a diversity of impact between SOEs and non-SOEs. In terms of governance, enterprises should adjust incentives and optimize equity structures; at the macro level, the government can use tax policies to guide funds to the real economy and strengthen supervision of commodity futures markets to promote healthy economic development. Through multi-dimensional analysis, this paper seeks to thoroughly examine the causes, effects, and governance strategies of corporate financialization. It also offers a theoretical foundation and useful recommendations for policymakers and corporate managers to support the coordinated growth of the financial system and the real economy.

Keywords: Financialization; Causes; Impact; Governance; Enterprise Heterogeneity.

1 Introduction

As national economic development enters a new stage, the integration of industrial capital and financial capital has become a new form of industrial organization. The term "financialization" describes how financial markets and financial institutions have grown in size and significance within the contemporary macroeconomy. An in-depth exploration of the causes, economic consequences, and governance strategies of the financialization of real enterprises has important theoretical and practical significance

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for understanding the operation mechanism of the modern economy, preventing financial risks, and promoting the sustainable development of the real economy.

Previous research on corporate finance has focused on the measurement of its degree [1, 2], the causes of corporate financialization [3-5] and the economic consequences of corporate financialization [6, 7]. Related articles also put forward governance strategies and suggestions [8]. The existing literature is rich in results, but the research content is relatively scattered and lacks systematic integration, which makes it difficult for us to fully grasp the research context and core points in this field.

This paper will analyze the causes and impacts of financialization from a macro and micro perspective and will go into the heterogeneity analysis of state-owned enterprises and non-state-owned enterprises. Finally, it will summarize the suggestions of previous scholars on the governance of financialization.

The contributions of this paper are mainly reflected in two aspects: First, through a systematic review of existing literature, it integrates the causes, economic consequences, and governance strategies of financialization, making up for the lack of fragmentation in existing research and providing readers with a comprehensive research framework. Second, this paper not only summarizes the negative impact of financialization but also summarizes the specific governance strategies of previous scholars, providing theoretical support for national macroeconomic policies, while helping to prevent financial risks and promote the sustainable development of the real economy.

2 Cause of Financialization

2.1 Macro Level

Academics believe that financialization can be traced back to the research of early political economists and Marxist theorists. Marxist theorists believe that the lack of a wealth redistribution mechanism in advanced industrial capitalism has led to a decline in the consumption power of ordinary people. In order to maintain wealth accumulation, the rentier class participates in financial activities, giving rise to the financial capitalism accumulation model [4].

Economic sociologists note that a variety of factors, including changes in regulatory policies, technological advancements, and macroeconomic fluctuations, contribute to financialization. The dominant position of finance in enterprises is mainly due to the rise of the corporate acquisition market [4].

Differences in national economic environments also lead to different reasons for financialization in various countries. For example, the pursuit of short-term returns and market deregulation have an impact on financialization in the US; Germany is driven by financial policy reforms, changes in the labor market, and the rise of corporate governance theories [5].

2.2 Micro Level

Till van Treeck believes that the shift of capital "intermediaries" from financial institutions to financial markets has changed the financial landscape; the mathematical tools

of financial economics have improved the tradability of financial assets; the advancement of information technology has made the valuation and trading of financial assets more convenient; securitization has changed the relationship between financial institutions and borrowers, expanded the scale of financial market transactions, and promoted the development of financialization [5].

Wei proposed that corporate financialization stems from the "reservoir" and "investment substitution" motives. Enterprises manage idle assets through financial investment, which not only ensures liquidity but also realizes capital appreciation, and provides support when encountering funding problems. This is the "reservoir" motive; when corporate development stagnates, the focus of investment is shifted to the financial field to reduce the threat of asset depreciation and seek development. This is the "investment substitution" motive [3].

In addition, changes in investor behavior have also promoted corporate financialization. In the early 21st century, commodity index traders poured into the commodity futures market, changing the market participation structure and promoting the financialization of the commodity market [6]. The degree of corporate financialization is positively connected with customer concentration. When companies rely on a few large customers, they will increase their financial asset holdings based on "precautionary savings" and "profit-seeking" motives [1].

3 Impact of Financialization

3.1 Impact on Economic Growth and Macroeconomic Balance

Financialization has changed the source and composition of macroeconomic profits. Macroeconomic profits are closely related to investment, consumption, government deficits, and external surpluses. Financialization requires other demand combinations to compensate for the reduction in corporate investment, otherwise it will affect profits. At the same time, financialization has also led to changes in the financial balance of the private and public sectors. For example, the private savings rate in the United States has declined, the government deficit has increased, and a large amount of foreign capital inflows are needed to maintain balance; Germany has a high private savings rate, but domestic investment and consumption are insufficient, resulting in an increase in external surpluses. An in-depth analysis of the financialization process of the United States and Germany shows that in the process of financialization, economic growth in the United States has to a certain extent relied on wealth and debt-driven consumer prosperity. This growth model is unsustainable, causing macroeconomic imbalances and increasing the fragility of the financial system. Germany's financialization is accompanied by weak domestic demand, economic growth relying on exports, and the "decoupling" of investment and profits in a low-growth environment [5].

At the commodity market level, the financialization of the commodity market has caused large fluctuations in commodity prices. For example, in 2007-2008, a variety of commodities such as energy, metals, and agricultural products experienced synchronous boom and bust cycles, and prices fluctuated sharply [9]. Financialization is considered to be one of the factors causing price fluctuations, but there is controversy over

whether financialization distorts commodity prices [6]. Financialization has eased hedging pressure and improved risk sharing through the participation of financial investors, but changes in the risk preferences of financial investors will also transmit external shocks to the commodity market. At the same time, financialization has affected the information discovery function of the commodity market. Futures market transactions help to gather information, but they may also generate noise, interfere with commodity producers' judgment of the market, and affect commodity demand and spot prices [9].

At the social level, the substantial increase in salaries in the financial sector has become an important factor in exacerbating income inequality [9]. The real economy's ability to grow sustainably has also been hampered by over-financialization. A significant amount of money has poured into the financial sector, which has decreased investment in the real economy's production and innovation and slowed its expansion. Excessive financialization may also trigger financial risks, and threaten financial stability and economic security, and once a crisis occurs in the financial market, it will have a serious impact on the real economy [10].

3.2 Impact on Enterprises

Overview. Financialization of enterprises is reflected in non-financial firms increasing their investments in financial assets and decreasing their investments in the real economy. The number of enterprises participating in the purchase of financial products has increased, and some enterprises have shown a phenomenon of "decoupling from the real economy and moving towards the virtual economy", which may lead to the "hollowing out" of the manufacturing industry [8]. Over-financialization raises the operating risks of businesses, and changes in the financial markets have a direct impact on the value of corporate financial assets, which in turn affects the stability and overall financial health of businesses. If the price of financial assets falls sharply, corporate assets will shrink and they may face financial difficulties [10]. In addition, corporate financialization will also exacerbate the real estate price bubble and increase the probability of financial crises [3].

According to Wei, there are information asymmetry and agency problems in the process of financialization, and the transparency of internal information of enterprises is reduced. Large shareholders can use their information advantages for personal gain, interfere with the proper valuation and pricing of companies in the capital market, undermine the efficiency of the capital market and increase the difficulty and cost of corporate finance [3].

Wang Hongjian et al. found that, on the whole, the financialization of real enterprises is significantly negatively correlated with enterprise innovation, that is, it crowds out enterprise innovation. The crowding-out effect of financialization on enterprise innovation increases with the strength of the arbitrage motivation; the stronger the profitability, the weaker the crowding-out effect. There is a U-shaped curve relationship between financialization and enterprise innovation. Financialization has a positive impact on innovation when it surpasses 23 percent. The financialization of real enterprises in my country is mainly a market arbitrage behavior. Although it improves operating

performance in the short term, it suppresses the motivation for technological innovation in the long term [11].

However, financialization has its positive aspects. Financialization helps to ease corporate financing constraints. Enterprises can obtain funds through financial assets, reduce the pressure of capital shortage, inject vitality into development, expand production scale, and enhance investment capacity; it can achieve optimal allocation of resources. Enterprises of different sizes can use financial markets to achieve a reasonable flow of funds and improve the efficiency of capital utilization; it can also help enterprises diversify risks. Financial instruments provide more investment options. A reasonable investment portfolio of financial assets can stabilize corporate profitability and improve the level of management [3, 8].

Analysis of the Heterogeneity of Enterprises-SOEs and Non-SOEs. Zhang Chengsi and Zheng Ning carried out a comparative analysis of SOEs and non-SOEs in terms of return on financial assets, taking into account the investment structure and the differences in return, fixed asset investment returns, financial investment proportion, and core explanatory variables (risk and gap). They found that the difference in financial asset returns between state-owned enterprises and non-state-owned enterprises was small, with the former slightly higher and the volatility of the returns of the two being basically the same. The proportion of financial investment in state-owned enterprises is lower than that of non-state-owned enterprises on average, and from an individual perspective, Non-state-owned businesses are typically more financially oriented [12]

Jin et al. selected the fixed investment rate (FIR) as a variable, the explanatory variable is FIN, and measured it from the perspective of return using the return on financial assets (ROFA). Through the baseline regression model and the three-way interaction model, The results show that financialization of enterprises has a significant negative impact on the pace of fixed investment, and this negative impact is more pronounced in SOEs, supporting the "crowding-out effect" hypothesis and the hypothesis of heterogeneity in the relationship between state-owned enterprises and non-state-owned enterprises [13]. Shu et al. further believe that state-owned enterprises may have different performances from non-state-owned enterprises in financial investment due to resource advantages and policy support, but overall financialization still suppresses their fixed investment [14].

In terms of financing constraints and risk management, state-owned enterprises have fewer internal financing constraints than non-state-owned enterprises, and compared to non-state-owned businesses, state-owned businesses have a substantially higher leverage ratio [12]. Zhang and Zheng also come to the same conclusion that the financial investments of SOEs are clearly not driven by risk factors. In some models, the risk-adjusted return gap has a significant positive impact on its financialization; the financialization of non-state-owned enterprises is obviously driven by the fixed investment risk ratio. This is because non-state-owned enterprises face a more severe financing environment, prompting them to adjust their financial investment decisions according to investment risks [15].

In terms of corporate performance and innovation, Li Wenjing and Li Mangmang used indicators such as total asset return rate and corporate market value as explained variables based on four dimensions: operating performance, market performance, R&D

expenses, and total factor productivity, to test the economic consequences of industrial-financial integration on physical enterprises of different property rights. The results show that although industrial-financial integration cannot improve the operating performance of state-owned enterprises, it has a major impact on enhancing non-state-owned businesses' operational performance. At the same time, whether using PSM to match samples or using the Heckman model for analysis, the coefficient of industrial-financial integration is significantly negative in the full sample and the state-owned enterprise sample group, which demonstrates how state-owned enterprises' long-term innovation strategy is significantly hampered by industrial-financial integration [16]. At the same time, state-owned enterprises usually have better financing conditions, but managers may allocate financial assets for personal interests, affecting asset allocation, and they are more prone to over-financialization when there are fewer financing constraints, and the crowding-out effect on actual investment may be more obvious than non-SOEs [17, 18].

Monetary policy and financing constraints can control the negative relationship between financialization and investment in terms of market environment and policy regulation. In non-state-owned businesses, these factors have a negative effect on the relationship between financialization and fixed investment rates, but in state-owned businesses, the effect is less evident [13] Su et al. found that state-owned enterprises are less positively affected by customer concentration on financialization. State-owned enterprises have soft budget constraints, can obtain government support and bank funds, and have diversified business objectives. They do not simply pursue profit maximization. Therefore, they are less affected by customer concentration and have relatively weak financialization incentives [1].

4 Governance of Financialization

At the enterprise level, the incentive method centered on short-term financial indicators should be changed, the correlation between compensation and short-term stock prices should be reduced, and incentives such as stock options that are overly focused on short-term stock prices should be reduced, so that management does not over-focus on short-term financial indicators and excessive financial investments in pursuit of personal interests, thereby ignoring the long-term development of the enterprise [4, 7]. In the operation process, the equity structure should be continuously optimized, and through reasonable equity arrangements, the interests of internal personnel should be closely linked to the long-term development of the enterprise, prompting them to pay more attention to the long-term interests of the enterprise [3, 19].

At the macro level, according to Tang et al., structural tax reduction policies such as "business tax to value-added tax" can reduce corporate tax burdens, increase corporate profits and disposable funds, and enhance corporate confidence in investing in the real economy [8]. Additionally, the government and regulatory agencies should strengthen supervision of commodity futures markets, adopt more scientific supervision methods for index investment and other behaviors, keep abreast of market trends, prevent market price distortions caused by excessive speculation, and maintain market fairness and

stability [6]. Tax exemptions should be given to enterprises that upgrade their real industries and innovate their technologies. At the same time, through policy measures such as fiscal subsidies, the cost of real investment by enterprises should be reduced, the rate of return on real investment should be increased, and the motivation of enterprises to invest in the real economy should be enhanced [1].

5 Conclusion

The financialization of enterprises is a core issue in the current global economic transformation. This trend has profoundly changed the economic structure, causing problems such as imbalanced macroeconomic growth patterns, declining micro-enterprise innovation capabilities, and unequal social income distribution. The importance of studying the financialization of enterprises lies in analyzing the multidimensional impact mechanism of financialization, which has urgent practical significance for preventing economic "hollowing out" and optimizing resource allocation. The theoretical contribution of this paper is that it integrates fragmented financialization research and constructs a systematic analysis framework of "cause-impact-governance", which compensates for the existing literature's neglect of corporate heterogeneity and cross-national differences. In practice, this paper distinguishes the financialization motivations of state-owned enterprises and non-state-owned enterprises, providing a basis for further distinguishing management. In the future, it is necessary to deepen the research on the dynamic relationship between corporate heterogeneity and financialization to lay the foundation for building a more resilient economic system.

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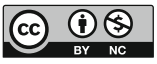
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