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Research on the Influence of Financial Investment of Listed Non-financial Companies on Industrial Investment

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Abstract

The level of financialization may have positive or negative effects on enterprise investment. According to the precautionary savings theory, compared with long-term assets such as fixed assets and intangible assets, which are characterized by long term, poor liquidity and irreversibility, financial assets have strong liquidity and low adjustment costs. Enterprises holding financial assets can act as a "reservoir". When the future main business investment is short of funds, real enterprises can obtain funds by selling financial assets with strong liquidity, Reduce dependence on external financing and alleviate the problem of insufficient investment. The main theoretical basis for the negative impact is that the rise of financial asset allocation will have crowding out effect on industrial investment. As enterprises are limited by the financing contract, the increase of the share of financial assets must be at the cost of the decline of industrial investment. At the same time, the improvement of the degree of financialization will increase the proportion of dividends and interest paid by enterprises to the financial market in the profits, which has an effect of crowding out investment. The improvement of corporate financialization has affected the development of industrial investment to a certain extent. In the financial market environment where China advocates "getting rid of the false and moving towards the real", it is necessary to study the balance between corporate financial investment and industrial investment, as well as the specific impact and function channels of financial investment on industrial investment.

Keywords

Corporate Financialization; Financial Investment; Finance.

1. Introduction

1.1. Realistic Background

The impact of enterprise financialization on the financial industry: First, the impact on the capital market. First, a large number of illegal funds entered the market due to speculative demand, forming a price bubble; Second, due to the financing demand, the issuer practices fraud and fraud to provide low-quality securities to the market. These two phenomena often complement each other, so the financial bubble formed has an accelerating effect when disillusioned, which will severely hit the market confidence and lead to the decline of market liquidity. Second, the impact on the corporate governance structure of financial institutions. Financial institutions are the main body of the financial market, which has its own characteristics, namely, security, liquidity and profitability. From the occurrence of all previous financial crises around the world, financial institutions, especially commercial banks, are the

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main source of risk. The reason is nothing more than to destroy the balance and unity of the above "three characteristics". Therefore, in order to prevent financial risks, no matter how its property right structure is, there must be an effective system to ensure that the utility function of financial institutions is not distorted.

In recent years, the development of listed companies in China is uneven. According to Wind data, 128 financial companies will account for 48.73% of the net profits in 2020, accounting for nine of the top ten companies. A large amount of funds will flow into the financial market, with a low willingness to invest in fixed assets. Many non-financial companies will change their business models and invest in the financial market, showing a decline in industrial investment, a surge in financial investment The rising proportion of financial income. With the expansion of the financial market, the view of "hollowing out the real economy, leaving the real to the virtual" has been heard all the time. Most non-financial companies pursue financial investment and deviate from the development of core business. Corporate financialization is a new phenomenon in China's capital market in recent years. With the improvement of corporate financialization, some people believe that moderate financial assets are conducive to broadening financing channels, but excessive financial investment will have crowding out effect and affect industrial investment, and the short-sighted nature of financial income may further inhibit industrial investment and economic development. The promotion of corporate financialization has affected the development of industrial investment to a certain extent. Under the financial market environment in China, it is necessary to study the balance between corporate financial investment and industrial investment, and the specific impact and function channels of financial investment on industry.

1.2. Theoretical Background

In theory, the level of financialization may have positive or negative effects on enterprise investment. According to the precautionary savings theory, compared with long-term assets such as fixed assets and intangible assets, which are characterized by long term, poor liquidity and irreversibility, financial assets have strong liquidity and low adjustment costs. Enterprises holding financial assets can act as a "reservoir". When the future main business investment is short of funds, real enterprises can obtain funds by selling financial assets with strong liquidity, Reduce dependence on external financing and alleviate the problem of insufficient investment. The main theoretical basis for the negative impact is that the rise of financial asset allocation will have crowding out effect on industrial investment. As enterprises are limited by the financing contract, the increase of the share of financial assets must be at the cost of the decline of industrial investment. At the same time, the improvement of the degree of financialization will increase the proportion of dividends and interest paid by enterprises to the financial market in the profits, which has an effect of crowding out investment.

2. Literature Review

The impact of corporate financialization on industrial investment has attracted much attention. Most scholars support the inhibition effect of corporate financialization, and a little support the promotion effect.

First, the concept of inhibition. Zhu Yinghui and Wang Jiuling (2017)[1] found that the continuous improvement of financial investment led to the "de materialization" of consultative allocation. Wen Chunhui et al. (2018)[2] found that in the new normal of the economy with high operational risks, listed companies involved in financial speculation showed less concern and enthusiasm for industrial investment, and the motivation of "turning away from reality to emptiness" was stronger. Davis[3] believes that the company's securities investment and external financing inhibit the capital investment of NFCs. Ohangazi proposed that the role of financialization as a channel to inhibit industrial investment. Pursuing financial profits has

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produced crowding out benefits for industrial investment. The first is to distort the incentive of managers, which leads to the deviation of funds from industrial investment. Second, the reduction of retained funds limits the vision of enterprise management planning, improves the degree of uncertainty, and the rise of financial investment hinders industrial investment. Zhang Zhao et al.[4]concluded that enterprise financialization has a "crowding out effect" on industrial investment, but the impact of enterprise financialization on industrial investment efficiency is nonlinear. Zhang Chengsi and Zhang Buxian[5], Xu Gang and Zhu Weidong[6] and other domestic scholars mostly support the view that corporate financialization has an inhibitory effect on the development of the real economy. On the impact of financialization on the development of the real economy, there is a view that will and promotion coexist. Most scholars support the inhibition of corporate finance, while a few support the promotion.

Second, the concept of promotion. There are relatively few research conclusions that corporate financialization can promote industrial investment in general. For example, Kliman and Williams[7] pointed out that improving financial payment and purchase did not sacrifice productive investment, indicating that companies need to balance different uses when using their own funds. When companies can use financing for industrial investment, No need to consider the negative impact of financialization: DeAngelo et al.[8] analyzed the opposite of financialization and the impact of corporate deleveraging. The empirical results support the theory that corporate deleveraging is to improve financial flexibility, even though many enterprises are difficult to achieve positive leverage goals. The impact of financialization on industrial investment also depends on the environmental conditions. Tori and Onaran[9] studied the U.S. NFCs from 1995 to 2015 and found that financial payments (interest and dividends) and financial returns have a restraining effect on fixed asset investment. However, considering the nonlinear characteristics of the company size, financial investment of large companies has squeezed industrial investment, but it is beneficial for small companies with high financial constraints. Looking at the relevant studies, the impact of corporate financialization on industrial investment is mainly that the inhibition effect is greater than the promotion effect.

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3. Theoretical Analysis

3.1. The Influence of Financial Asset Allocation on Business Performance

With the decline of operating profits in traditional production industries and the decrease of enterprise investment enthusiasm, more and more non-financial enterprises invest in financial products with high risks and high returns. The existing research shows that there are two opposite effects of non-financial listed companies' financial asset allocation on business performance, namely, the complementary effect and the crowding out effect. The allocation of financial assets among companies with a low degree of financial melting can improve the efficiency of capital use, enhance the enterprise's operating ability and ability to cope with risks, and optimize the enterprise's profit management. At this time, the complementary effect is greater than the crowding out effect, which is reflected in the financial asset allocation behavior to drive the enterprise's operating performance. However, the financial asset allocation behavior of companies with high gold melting degree is reflected in the crowding out effect on business performance. Financial assets have the advantages of fast turnover and high returns. After anticipating the benefits of financialization, corporate managers will continue to increase the allocation of financial assets to obtain short-term returns. However, with the increase of the proportion of financial asset allocation, enterprises will gradually occupy the investment funds of long-term fixed assets and other main businesses, which will squeeze the operational

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business, thus affecting the main business performance and development potential. It can be seen that the allocation of financial assets of companies with low gold melting degree reflects a complementary effect, and their operating performance improves with the improvement of the degree of financialization; The financial asset allocation behavior of companies with high gold melting degree is reflected as crowding out effect, and its operating performance decreases with the improvement of the degree of financialization.

3.2. The Influence of Financial Asset Allocation on the Investment Income of Enterprises' Physical Assets

On the basis of discussing the impact of financial asset allocation on business performance, this paper further examines the impact of financial asset allocation on the return on investment in physical assets. Physical asset investment is an important guarantee for enterprises to improve their core competitiveness in the industry, but it is generally characterized by slow capital turnover, long payback period and high adjustment costs; The financial asset investment has the advantage of improving the return on capital in the short term, which can bring rich benefits. When an enterprise allocates part of its capital to purchase financial assets, it can maintain a certain liquidity and liquidity of its assets, make up for losses in the main business, and provide financial support for investment in physical assets in the absence of funds. Compared with the financial asset investment, the income generated by the physical asset investment has a certain lag. Therefore, if the company wants to obtain the optimal physical asset investment income in this year, it needs to allocate appropriate financial assets and physical assets in the previous year. For this reason, this paper assumes that the degree of enterprise financialization is different, and the impact of financial asset allocation behavior in the past ten years on the return on investment in physical assets in this year is different. Companies with low gold melting degree allocated appropriate financial assets last year, which is conducive to invigorating the company's capital, optimizing resource allocation, and increasing the return on financial assets to feed back the company's industrial investment, which has a positive effect on the company's return on investment in physical assets in this year; The continuous increase in the proportion of the Company's financial assets to the west in the previous year means that the management may expect that this year is short of valuable physical asset investment projects, and the increase in the proportion of financial asset allocation in the previous year may also make the Company pay more attention to financial asset investment business and ignore physical asset investment business. Finally, the rate of return on investment in physical assets in this year decreased, that is, the increase in the proportion of financial asset allocation of companies with high degree of financialization in the previous year had a crowding out effect on the return on investment in physical assets in this year. In general, the last year's financial asset allocation behavior of companies with low gold melting degree has a positive impact on the current year's investment income of physical assets: the last year's financial asset allocation behavior of companies with high gold melting degree has a positive impact on the current year's physical assets

3.3. Influence of Financial Asset Allocation of Enterprises in Different Industries on Operating Performance or Return on Investment in Physical Assets

Different industrial enterprises have large differences in their main business, production and operation methods, product demand, etc. Their financial asset allocation behavior may have different impacts on business performance or investment income of physical assets. The products of enterprises in the primary industry are dry and rigid demand goods or public welfare products. The prices of the resources and products used by them are subject to government control. The product pricing and the return on investment in physical assets are relatively fixed and often low. Therefore, the proportion of financial assets allocated by

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enterprises in the primary industry may not have a significant impact on business performance or the return on investment in physical assets. The secondary industry takes the manufacturing industry as the main body. By allocating appropriate financial assets, it can provide more flexible and sufficient financial support for the investment in physical assets, which has an important impact on the development of enterprises in the secondary industry. That is, there may be an inverted U-shaped relationship between the proportion of financial assets allocated by enterprises in the secondary industry and their business performance or the rate of return on investment in physical assets. The tertiary industry is mainly a social service industry, and its real asset investment is often determined according to human needs and scientific and technological development, so its financial asset allocation ratio may not have a significant impact on the return on real asset investment.

3.4. Influence of Financial Asset Allocation of Enterprises with Different Natures on Operating Performance Or Return on Investment in Physical Assets

State owned enterprises and non-state-owned enterprises differ greatly in strategic position, political connection, control structure, social responsibility, operating constraints and profitability due to their different state-owned attributes, and there may also be different relationships between their financial asset allocation and operating performance or return on investment in physical assets. The non-state-owned enterprises have a high degree of marketization and less public welfare functions to undertake. They have a strong subjective initiative in the allocation of financial assets and physical assets. They can allocate financial assets according to their own needs. In this case, there may be an inverted U-shaped relationship between the proportion of financial assets of non-state-owned enterprises and their operating performance or return on investment in physical assets. State owned enterprises have a natural connection with the government. They may be more inclined to invest in the physical assets that balance the national economy and the people's livelihood due to strong government control and active social responsibility, thus keeping their financial asset allocation ratio at a relatively low level; At the same time, state-owned enterprises may also reduce their financing constraints due to easier access to government support, thus making the "crowding out effect" of their financial asset allocation less obvious. When the proportion of financial asset allocation is low, there may be a positive correlation between the financial asset allocation of state-owned enterprises and the return on investment in physical assets.

4. Policies and Suggestions

From the company's perspective, first, the management should clarify the primary and secondary relationship between the main business and financial business, position the purpose of obtaining financial investment income in capital accumulation rather than market arbitrage, seize the opportunity to participate in the capital market and real estate market, and avoid unstable performance Financial asset investment when dividend distribution is low "squeezes out" industrial investment; second, we should control the proportion of financial asset allocation and the opportunity to participate in the capital market and real estate market, so as to better play the "reservoir effect" of financial income on industrial investment And provide more abundant endogenous funds for the main business operation and investment. Timely and appropriate financial assets should not occupy the development space of operational assets, and it is appropriate to participate in market games to make information disclosure within the scope of enterprise risk control.

From the perspective of the government, first, improve the pertinence and implementation efficiency of monetary policy and financial reform. The financial "living water" needs to irrigate industrial investment rather than simply drive up asset prices. More precise and structural

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policy instruments are needed. We should continue to promote the market-oriented reform of interest rates and the construction of multi-level capital markets, and provide multi-channel and flexible solutions for direct financing of enterprises; We will strengthen the supervision of the banking industry and capital market, prevent and defuse systemic risks, and provide an institutional environment to ensure the development of the real economy. Second, the relevant regulatory authorities should strengthen the supervision obligation of information disclosure, improve the transparency of information, and allow the risks of enterprise financialization to be resolved in a timely manner through market fluctuations; We will prevent excessive financial investment behavior through institutional constraints, and gradually establish a strong and effective market entry prohibition and delisting mechanism. Third, local government departments should encourage enterprises to play a positive role in the allocation of capital structure, let the "reservoir effect" ease the financing constraints of enterprises, stimulate the internal power of technological innovation, promote the transformation and upgrading of enterprises to high-end manufacturing, improve the return rate of industrial investment, and finally achieve the healthy and sustainable development of China's real economy.

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