MAPPING THE PATHWAYS OF CORPORATE FINANCIALIZATION: A CRITICAL REVIEW OF THE LITERATURE

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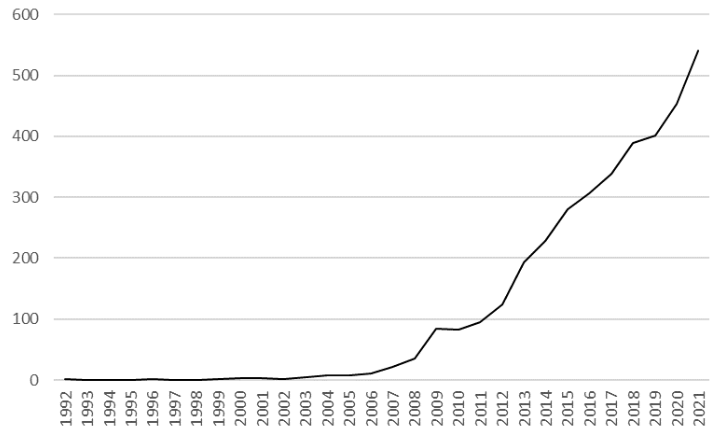
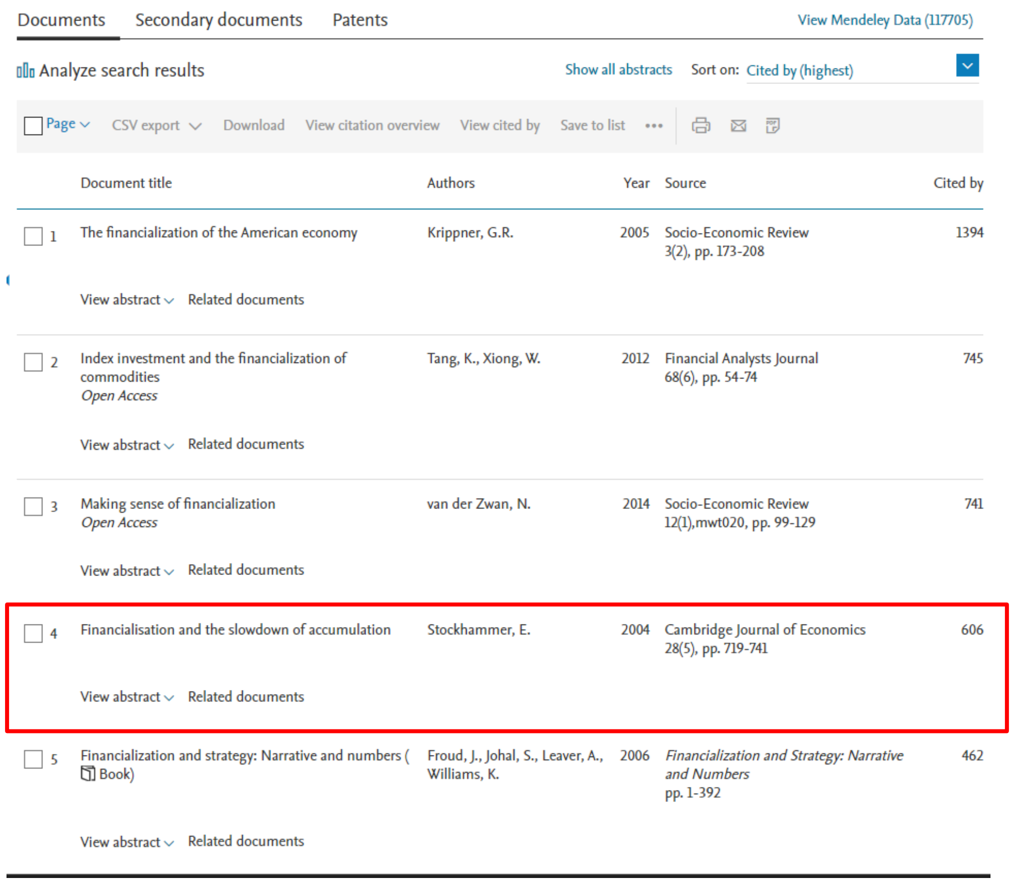
MOTIVATION

- Three (Epstein, 2015; Lapavitsas, 2013; van der Zwan, 2014) or even more main uses of the **financialisation** term (Aalbers, 2019; Fine, 2017; R. Lee et al., 2009).
  - Change in nonfinancial firms always appear as one.
  - Engelbert's groundbreaking contributions to the field
- Corporate financialisation as a road map for the study of ≠ aspects of corporate strategy
- Different and complements Davis (2017) and Klinge et al. (2021)

Books and articles with 'financialisation' or 'financialization' in title or abstract. Source: Scopus

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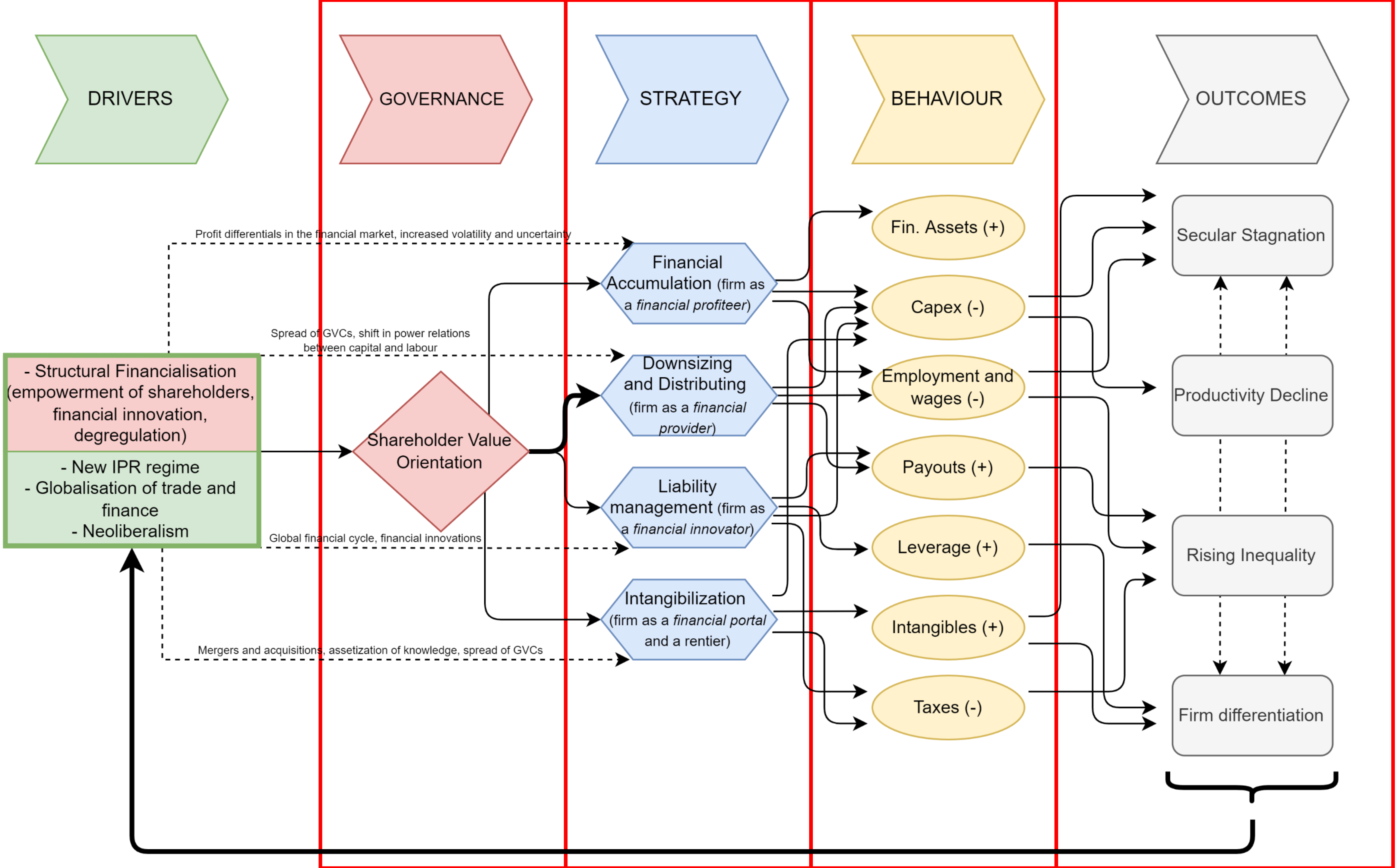
	Document title	Authors	Year	Source	Cited by
1	The financialization of the American economy View abstract Related documents	Krippner, G.R.	2005	Socio-Economic Review 3(2), pp. 173-208	1394
2	Index investment and the financialization of commodities *Open Access* View abstract Related documents	Tang, K., Xiong, W.	2012	Financial Analysts Journal 68(6), pp. 54-74	745
3	Making sense of financialization *Open Access* View abstract Related documents	van der Zwan, N.	2014	Socio-Economic Review 12(1),mwt020, pp. 99-129	741
4	Financialisation and the slowdown of accumulation View abstract Related documents	Stockhammer, E.	2004	Cambridge Journal of Economics 28(5), pp. 719-741	606
5	Financialization and strategy: Narrative and numbers (Book) View abstract Related documents	Froud, J., Johal, S., Leaver, A., Williams, K.	2006	*Financialization and Strategy: Narrative and Numbers* pp. 1-392	462

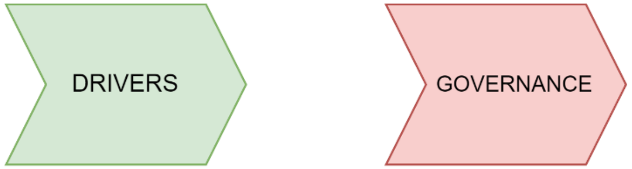

DRIVERS
GOVERNANCE
STRATEGY
BEHAVIOUR
OUTCOMES
- Structural Financialisation (empowerment of shareholders, financial innovation, degregulation)
- New IPR regime
- Globalisation of trade and finance
- Neoliberalism
Profit differentials in the financial market, increased volatility and uncertainty
Spread of GVCs, shift in power relations between capital and labour
Global financial cycle, financial innovations
Mergers and acquisitions, assetization of knowledge, spread of GVCs
Shareholder Value Orientation
Financial Accumulation (firm as a *financial profiteer*)
Downsizing and Distributing (firm as a *financial provider*)
Liability management (firm as a *financial innovator*)
Intangibilization (firm as a *financial portal* and a rentier)
Fin. Assets (+)
Capex (-)
Employment and wages (-)
Payouts (+)
Leverage (+)
Intangibles (+)
Taxes (-)
Secular Stagnation
Productivity Decline
Rising Inequality
Firm differentiation

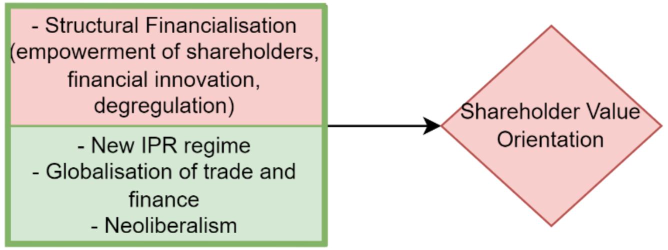
SHAREHOLDER-VALUE ORIENTATION

- Governance regime in which the interests of shareholders are prioritised above other stakeholders (≠ managerialism).

- Key factor driving four major trends in firm strategy (but not the only one + different relevance in each of them).

- Subsumed under financialization.
  1. ‘Shareholder revolution’ rooted in the deeper structural process of financialization.
  2. Involves the ascendance of financial interests within the firm.
  3. Involves an elevation of financial ideologies and metrics within the firm.





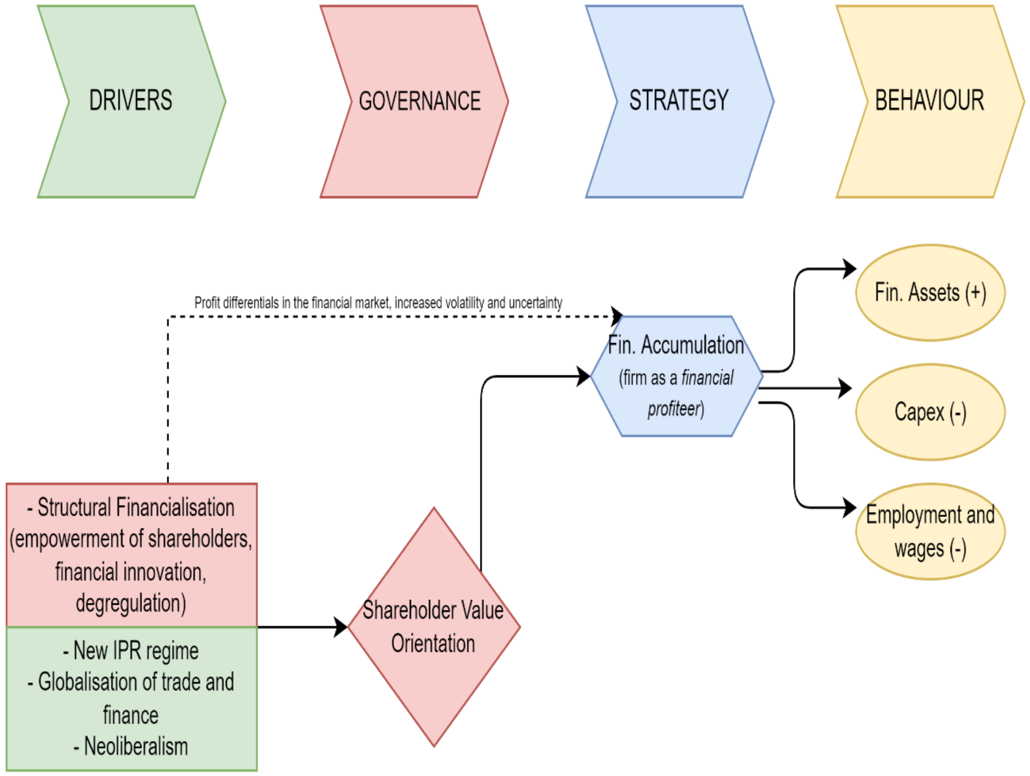
FINANCIAL ACCUMULATION
THE FIRM AS A *FINANCIAL PROFITEER*

- Krippner's original definition applied to the nonfinancial sector.

- SVO promotes such strategy:
  1. Financial conception of the firm
  2. Financial assets seen as quicker yielding and more easily reversible.

- Empirically and methodologically weak at the macro level: assets + financial income/total profit

  ⇨ financial income/total income (low) or financial profit/total profit (negative).



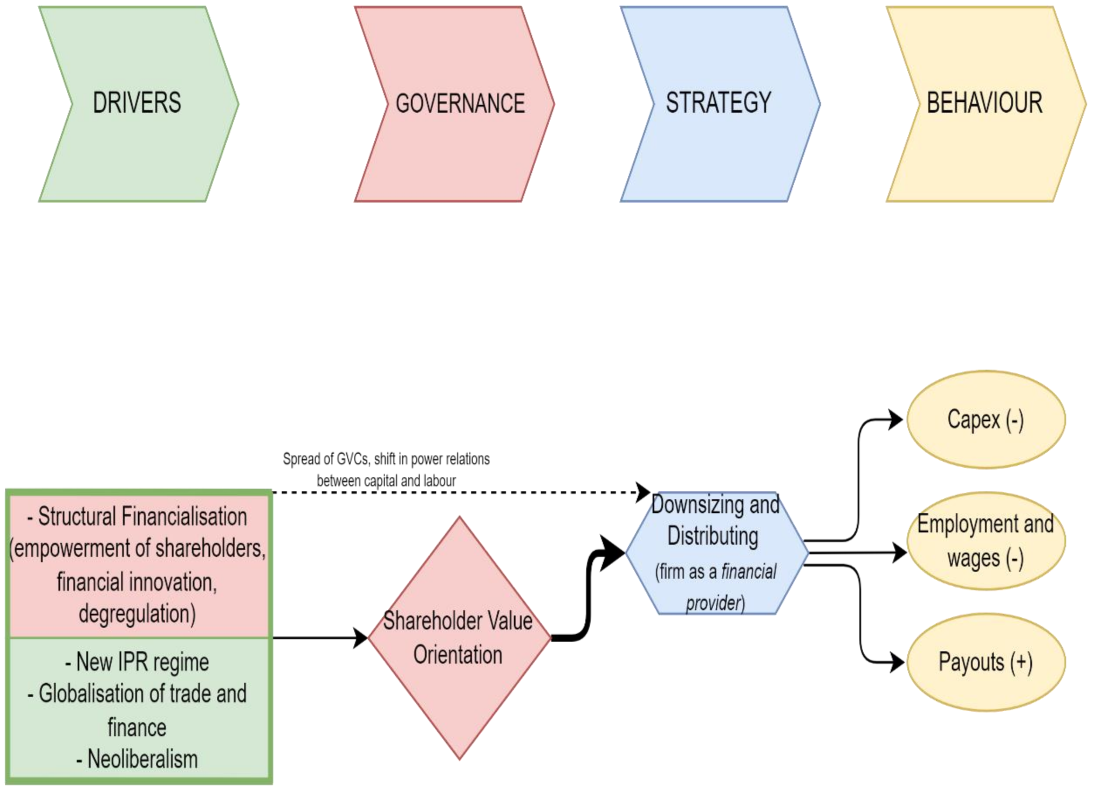
DOWNSIZE AND DISTRIBUTE

THE FIRM AS A *FINANCIAL PROVIDER*

- Largest group of studies among all strategies + strategy closest associated with SVO
  - Returns on capital employed are boosted in a specific way: stringent labour and capital discipline.

- PK theory of the firm: trade-off between growth (preferred by managers) and profits (preferred by shareholders).

- Three limitations:
  1. Firms haven't stopped growing (in sales) → increasingly decoupled from physical investment (intangible capital, global value chains, more intensive M&A)
  2. Endogeneity concerns between payouts (SVO proxy) and investment (causality running both ways).
  3. Specific - *short-termist* - interpretation of 'downsize & distribute' and SVO.



LIABILITY MANAGEMENT

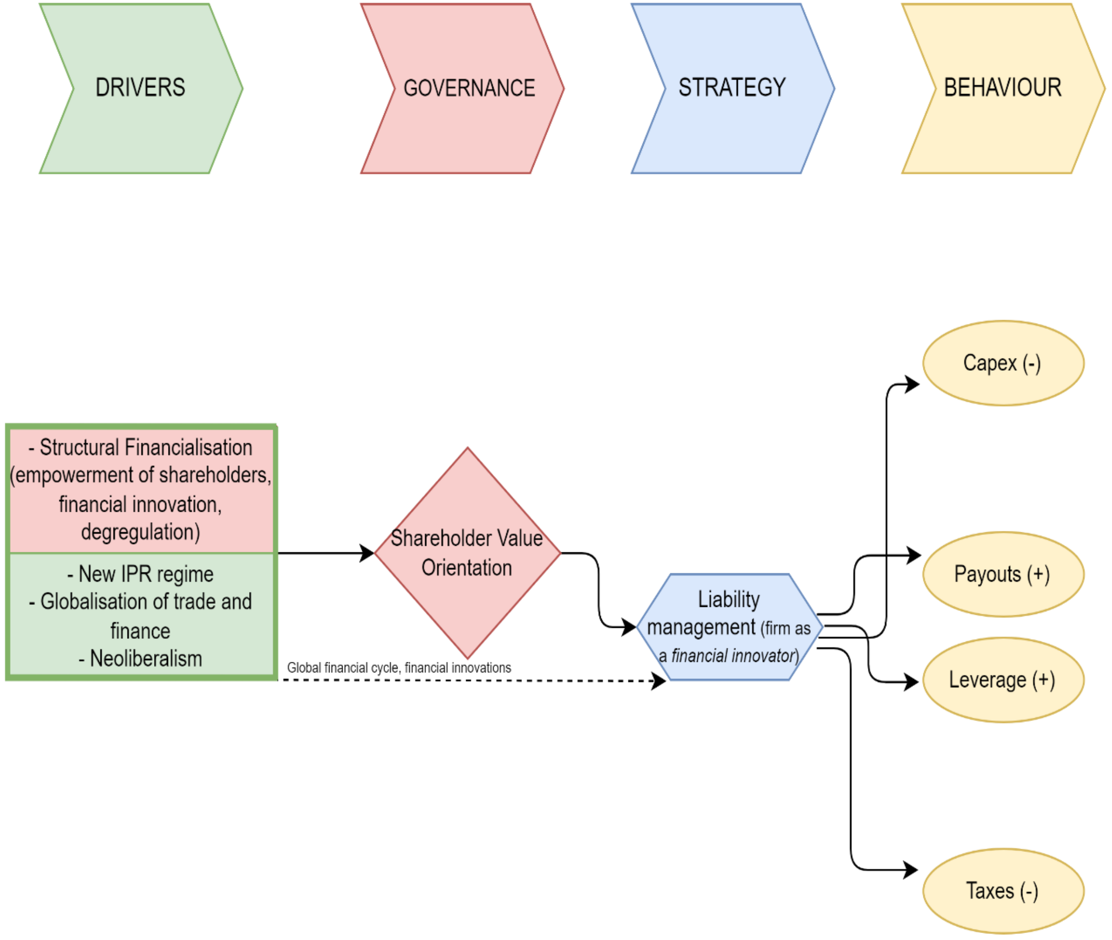
THE FIRM AS A *FINANCIAL INNOVATOR*

- Firms have adapted the ways they raise (market based), manage (increase) and use debt (away from investment).

- Two groups of studies, two faces of debt: 'the seductive allure of present credit and the crushing burden of future debt' (Mehrling, 2011)

1. Minskyan tradition: debt used as proxy for the financial fragility of the firm (i.e. the *crushing burden*).
   - Different from Minsky, debt has not been used for investment (SVO: reduce taxable profit, increases ROE, used many times for buybacks)

2. Institutionalist tradition: power dimension of debt
   - Financialisation of the firm as "the story of the construction of new forms of corporate power that involved systematically capitalizing on financial markets." (Knafo and Dutta, 2020, pp. 482–483).
   - Difference between debt and leverage (Sgambati, 2019).



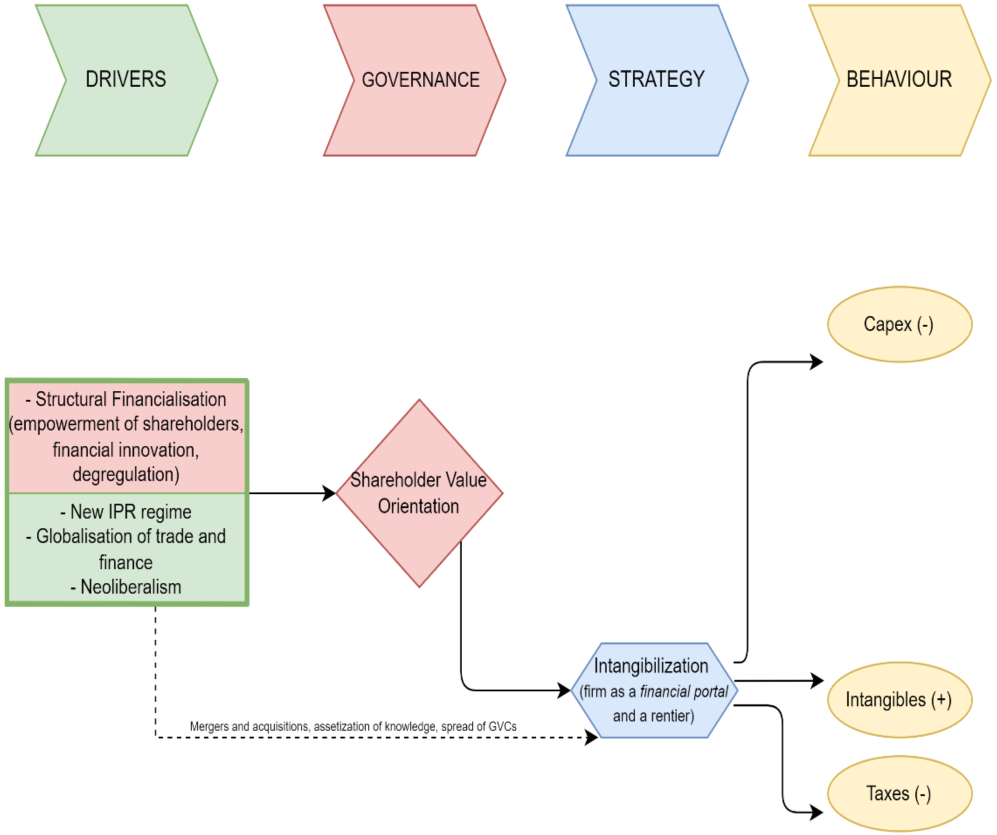
INTANGIBILISATION

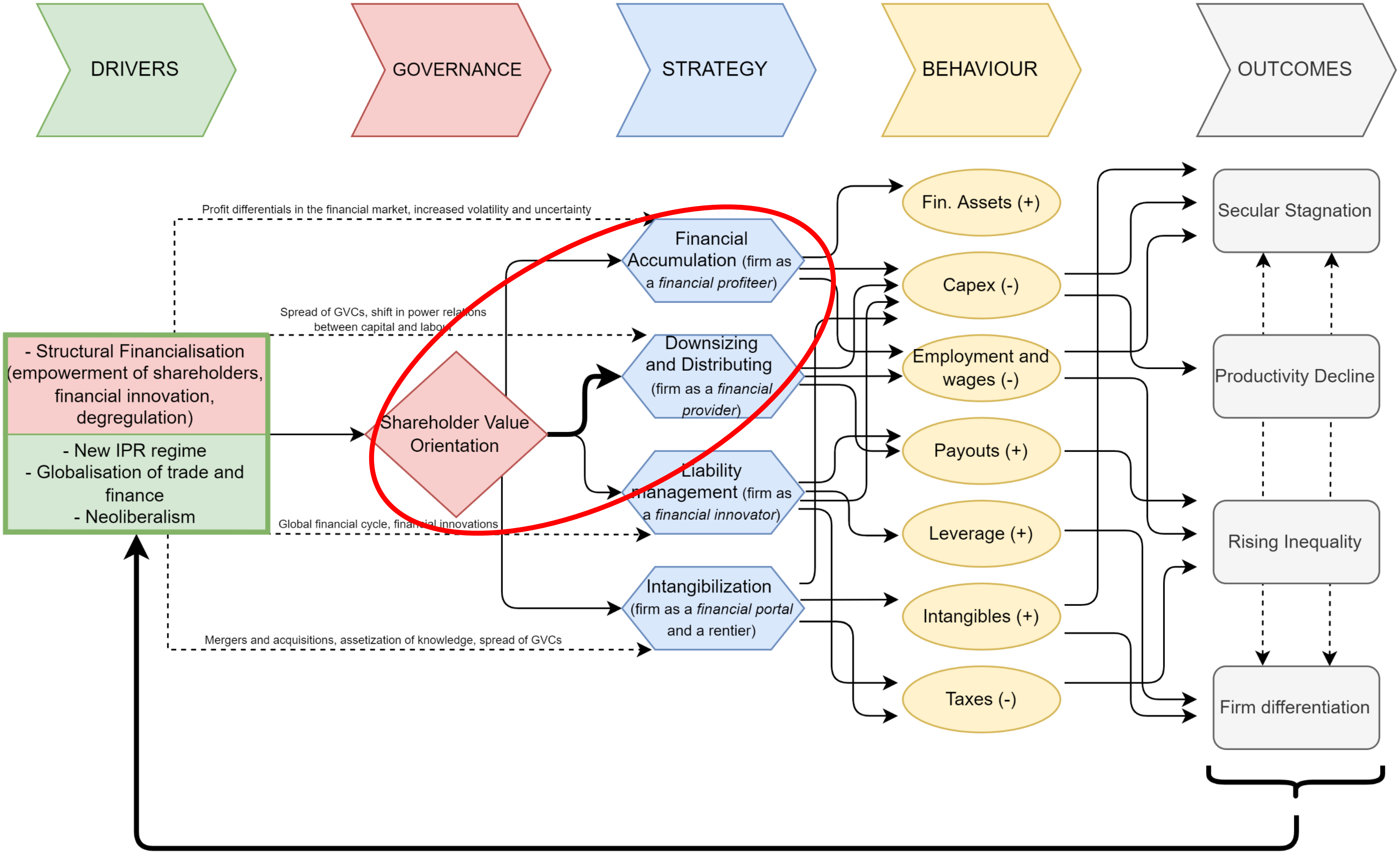
THE FIRM AS A *FINANCIAL PORTAL* AND A RENTIER

- Two different stories, two different type of intangible assets

1. Critical accounting + institutionalist tradition: financialisation of the firm is about "staggering the temporalities of asset-based income and liability-based costs to produce a yield in the present" (Leaver, 2018).
   - Financialization as the 'colonization of the future' (Lysandrou, 2016). 'Futurity' (Palan, 2015), 'capital as power' (Nitzan and Bichler, 2009).
   - General phenomenon that partly materialises in goodwill (impaired/marked-to-market rather than amortised)

2. Marxian and institutionalist tradition: more general types of intangible assets and associated rents
   - Defining characteristic of the financialisation of the firm (Baranes, 2017; Baranes & Hake, 2018; Klinge et al., 2020).
   - Extrinsic to finance.
   - 'Intellectual monopoly' (Pagano, 2014; Rikap, 2021) and 'franchise economy' (Schwartz, 2021).





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DISCUSSION
1. *SVO I* AND *SVO II*

- SVO can be hard to distinguish from simple profit maximisation - call this SVO I.
- SVO in corporate financialisation refers not to either profit, or share price maximisation in general, but to *short run* share price maximisation - call this SVO II.
  - This involves not to a prioritisation of shareholders *as such* but of impatient shareholders.
- Numerous writers identify SVO with a focus on the short-term when introducing the term (Orhangazi 2008, p. 864, van Treeck 2008, p. 383, Hein and Treeck 2010, van der Zwan 2014, p. 108, Davis 2017b, p. 280, Fasianos *et al.* 2018, p. 45, Tori and Onaran 2018, p. 1397).
- However, short-termism has been almost entirely ignored by the field (we deal more with this at length in Reddy and Rabinovich, 2022)

DISCUSSION
2. WHAT ABOUT SVO MORE GENERALLY?

- Motives to suspect of SVO itself.
  - Downsize and distribute across different regions (Soener 2020; Valeeva et al 2022) and different types of institutional ownership in the USA (Reddy and Rabinovich, 2022).
- SVO might have given managers new incentives to squeeze workers - it can’t account for why they were *able* to do so, or why workers failed to resist.
  - Distributional outcomes within the firm are primarily determined by power relation (Stockhammer, 2015)
- Structural changes generate new business models with the own incentives.
- SVO *matters* - but its impact may be more on the speed of adjustment to a new distributional equilibrium, rather than in determining the equilibrium itself.

CONCLUSIONS

- Advanced our knowledge of corporate strategies and behaviours
  - But the evidence of the associations among governance, strategy and behaviours remains inconclusive.
- An increasingly *behavioralist* approach of corporate financialisation: expansion of financial balance sheets and to the increase in financial payouts… Even if drivers are *different* to what financialisation theorists first assumed
  - E.g.: 'financialisation of Big Tech' (large cash balances, high payouts in some cases - not others -, large issuance of debt) but founders have generally retained substantial or absolute control.
  - E.g. 2: increase in financial assets across regions (no financial profits, no SVO, mostly for precautionary motives)
- Back to other structural forces: uncertainty, deregulation of financial markets, welfare state retrenchment, rollback of unions, globalisation (Stockhammer 2008, 2013, 2015, 2017).