The Impact of Ownership Concentration on Corporate Financialization: The Mediating Effect of Financing Constraints

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Abstract: This article selects small and medium-sized listed companies (with stock codes starting with 002) as the research subjects, constructing a panel dataset spanning from 2017 to 2021, resulting in a total of 4324 observations. Through an extensive review and analysis of existing literature and relevant theories, it comprehensively explores the effects of equity concentration on corporate financialization and whether these effects differ in state-owned enterprises. Additionally, it investigates the moderating effects of financing constraints as a variable. After empirical analysis and robustness tests, the following conclusions are drawn: Equity concentration has a significantly negative impact on corporate financialization. Moreover, equity concentration exacerbates financing constraints, which, in turn, suppress corporate financialization. Furthermore, compared to state-owned enterprises, equity concentration has a more pronounced inhibitory effect on corporate financialization in non-state-owned enterprises. In the context of this study, state-owned enterprises in China are those in which ownership or control belongs to the state. The research on the impact of corporate financialization in this article can provide a theoretical basis for government and financial regulatory agencies to formulate financial policies in practical terms.

Keywords: Equity Concentration; Corporate Financialization; Financing Constrain

1. Introduction

1.1 Research Background

The term "financialization" originated in the United States in the 1970s. It was first introduced by Arrighi (1994) to denote the increasing scale of global financial institutions such as banks, insurance companies, funds, and securities firms, and the growing proportion of economic benefits obtained from the financial sector within the total economic benefits of economic entities (Zhao & Tian, 2015). Furthermore, financialization is also reflected at the micro level as "corporate financialization," meaning the shift of non-financial corporations towards financial activities. This includes an increasing proportion of corporate financial investments, more financing channels relying on financial means for profit, and the securitization of corporate assets. As a hot issue in academic research, financialization has received considerable attention from the industry. As a microcosmic reflection of economic financialization, corporate financialization has become a focus of attention in recent years.

Regarding the current situation in China, the development of economic globalization and the gradual perfection of the financial market have led to a gradual weakening of corporate profitability. This trend has caused the center of economic activity to shift gradually from the real sector. Despite gradual improvements in Japan's economic and fiscal outlook, the overall situation remains severe. Against this backdrop, the phenomenon of "industrial hollowing out" has gradually emerged, with capital moving from the real to the virtual sector. This "shift from real to virtual" has attracted close attention and evaluation from the CCP and its leaders. The development of economic globalization and the improvement of financial markets have brought a series of impacts. One of them is the weakening of corporate profitability, possibly due to intensified competition and the influence of other economic factors. At the same time, this change has also led to a structural shift in economic activities, from traditional real industries to the financial industry, possibly reflecting the
development of financial markets and the adjustment of related policies. In 2016, revitalizing the real industry was included as a main task in the supply-side structural reform at the Central Economic Work Conference.

Based on the analysis of the above data, it clarifies that the investment scale of Chinese non-financial corporations in financial markets continues to expand, and the phenomenon of Chinese enterprises moving from reality to virtuality is intensifying. Tong and Ma (2013) found that most listed companies in China exhibit excessive financialization, which not only damages the long-term operation of enterprises and shareholder rights but also, more seriously, when investors realize the "bubble" phenomenon, it can lead to an immediate tragedy of enterprise value decline in the stock market due to the crowding-out effect, resulting in irreparable losses.

In summary, identifying the factors that exacerbate corporate financialization and discussing targeted mitigation solutions from a theoretical level have become of utmost importance. Existing studies on the factors affecting the financialization of real enterprises have mostly explored from aspects such as the macro-monetary environment, economic policy uncertainty, customer concentration, corporate social responsibility, and margin trading mechanisms. Although many studies have also paid attention to the impact of internal factors such as management characteristics on the financialization of real enterprises, the research on equity structure as a micro-driving factor, particularly equity concentration, is relatively insufficient. Therefore, this paper will explore whether equity concentration has an impact on the financialization of real enterprises and what kind of impact it has. Moreover, it will investigate how the above relationship changes under the mediating effect of financing constraints. Additionally, this paper will also attempt to explore the impact relationship between different enterprise ownership properties and corporate financial conditions.

1.2 Research Significance

1.2.1 Theoretical Significance

Previous scholarly research has mainly focused on the "financialization of the economy" at the national macro level. At this macro level, the main focus is on the overall economy and the impact of fiscal policies on the economy. These studies are dedicated to investigating the development level and future trends of China's virtual economy. Additionally, some research compares China's economic and financial conditions with those of developed financial markets abroad to reveal the characteristics and advantages of China's financial market. Through these studies, some policy recommendations and directions for development can be proposed. However, despite certain progress at the macro level, studies on the micro-level of finance are still relatively scarce. The current theoretical studies predominantly focus on learning, with less understanding of the actual financial markets, financial institutions, and microeconomic behaviors of enterprises. Therefore, there is a significant research gap in this area.

Past research on the factors affecting corporate financialization has mostly explored aspects such as the macro-monetary environment, economic policy uncertainty, customer concentration, corporate social responsibility, and margin trading mechanisms. Although many studies have also paid attention to the impact of internal factors such as management characteristics on the financialization of real enterprises, research starting from the equity structure, particularly equity concentration as a micro-driving factor, is relatively insufficient. This paper comprehensively studies the impact and internal mechanisms of equity concentration on corporate financialization from the perspective of financing constraints and conducts a heterogeneous analysis on different types of enterprises, enriching the relevant research.

1.2.2 Practical Significance

From the macro perspective, currently, China's real economy itself has shown clear signs of financialization, which is deepening. If not controlled, this could easily erode the development of the real economy, thereby endangering the lifeline of the national economy as a whole. Hence, this paper's insights on corporate financialization can provide a theoretical basis for governments and financial regulatory bodies in formulating financial policies at the practical level. It holds significant importance in correctly guiding the healthy development of the real economy, guarding against financial risks, and aligning with the spirit of "improving the national financial regulatory system and guarding against systemic financial risks" mentioned at the 19th National Congress.

From the micro perspective, this is of great significance for the healthy and sustainable development of China's non-financial enterprises.
Exploring how corporate finance is influenced by equity concentration can deepen enterprises’ understanding of corporate financialization, clarify the consequences of corporate financialization, correctly recognize the current trend of “moving from reality to virtuality,” and guide enterprises to rationally determine the scale of financial asset allocation according to their own characteristics and operational status. They should fully utilize financial resources, play the “reservoir” role well, and prevent the negative impacts of excessive financialization. In addition, the findings of this paper can also help regulate the investment behavior of institutional investors, promote close cooperation between non-financial enterprises and institutional investors, and play the role of external supervision of institutional investors, thereby introducing capital to serve the development of the real economy.

2. Literature Review

2.1 Hypotheses on the Impact of Equity Concentration on Corporate Financialization

In Chinese non-financial listed companies, the phenomenon of dispersed ownership is not common; instead, a portion of shareholders hold the majority of corporate equity. Companies with a high degree of equity concentration are more capable of effectively pursuing maximization of shareholder interests and supervising and managing corporate behavior. According to the theory of maximizing shareholder interests, corporate managers should prioritize shareholder interests, utilizing the company’s resources and capabilities to create shareholder value. They should adopt effective business strategies and decisions to achieve long-term growth and profitability levels, thus increasing shareholder wealth. A relatively concentrated equity structure encourages shareholders to pay more attention to corporate operations, aligning with the company’s long-term development. Real businesses must actively develop their main operations, enhancing market competitiveness and innovation. Major shareholders are more proactive in identifying the risks of financial investment, constraining cross-industry arbitrage behaviors (Chen, 2019). In companies with concentrated equity, the major shareholders, being the actual controllers and unable to change their equity position at will, cannot artificially inflate stock prices for short-term capital gains like agents. Instead, their value gains come from the company’s long-term growth, so they value the company’s long-term stable and sustainable development and are more cautious about business risks, demonstrating more rational investment choices (Chen, 2021). Non-financial enterprises, which are fundamentally part of the real economy, would mean that an excessive level of financialization, given limited resources, translates into reduced investment in real operations. The lack of financial investment inhibits the enterprise’s long-term development performance by preventing upgrades, transformation, and innovative R&D. In this scenario, not only does the company’s main business not improve, but its operational and financial risks also increase. As equity concentration increases, more risks and responsibilities need to be assumed by major shareholders. Investing too much principal business capital into the financial market is undoubtedly a high-risk behavior. With a mindset for prudent and continuous operation, major shareholders urge the company to reduce high-risk financial investments through their influence. Based on this, the following hypothesis is proposed:

H1: Equity concentration has a significant negative impact on corporate financialization.

2.2 Hypotheses on the Mediating Effect of Financing Constraints

For a country like China, where the financial market development is lagging, corporate financing channels are relatively simple and heavily reliant on bank credit. Banks exhibit a severe policy bias in the review and implementation of credit processes. Hence, Chinese enterprises face not only insufficient external financing scale but also financing constraints due to credit allocation, particularly affecting private and small and medium-sized enterprises. When there are differences in financing constraints among companies, on one hand, enterprises tend to hold short-term financial assets to avoid future capital shortages. On the other hand, enterprises lacking funds turn to the shadow banking system for financing, causing shadow banking yields to exceed those in the banking sector and prompting surplus enterprises to invest in the shadow banking system for higher profits, increasing the degree of corporate financialization (Zhang & Yang, 2021). Meyer and Kuh (1957) first mentioned the issue of financing constraints in their discussion on corporate business investment, suggesting that if enterprises face financing constraints, it would affect their investment
expenditures. This issue can only be resolved when profits or profit expectations reach a certain level. If the financial sector can offer higher investment returns than the real economy, the high profit rate of the financial sector will attract more real capital to invest in the financial field, potentially substituting financial and real investments for each other. When the return rate of financial assets exceeds that of real investments, non-financial enterprises will allocate more funds to the financial sector, causing a decline in real economy investment, especially in high-risk innovative investments, due to the existence of financing constraints. Enterprises with external financing set, investing more funds in the financial sector, will inevitably crowd out investment in the real economy (Zhang & Zheng, 2018). When real enterprises face severe financing constraints, with weak external financial support, they pay more attention to the return rate and duration of current investment returns. Enterprises with high financing constraints, to maintain cash flow and normal operation, will have a short-term investment perspective, favoring financial assets with strong liquidity, high returns, and short return periods. Conversely, enterprises with fewer financial constraints are more likely to balance resources between industrial and financial investments (Xie, 2018). Based on the above, the following hypotheses are proposed:

H2: Equity concentration has a significant positive impact on corporate financing constraints.

H3: Corporate financing constraints have a significant negative impact on curbing corporate financialization.

H4: Equity concentration significantly negatively impacts curbing corporate financialization by exacerbating corporate financing constraints.

2.3 Heterogeneity Hypotheses of Equity Concentration on Corporate Financialization

State-owned enterprises (SOEs) in China are those whose ownership or control rights belong to the state. There has always been discrimination in shareholding ownership in China, and in the current financial system, the government plays a crucial role in resource allocation. To a large extent, the nature and political background of the actual controllers determine the ease of corporate financing. Different ownership rights bring different resources; SOEs often operate in state-monopolized industries with stable and robust financial support, facing fewer financing difficulties. In contrast, non-state-owned enterprises, such as private ones, often face financing difficulties and lack the funds for operation and development, which is fatal for long-term healthy development. Therefore, financialization investment in state-owned enterprises is more severe, and its state-owned nature can significantly weaken the inhibitory effect of equity concentration on financialization investment behavior. State-owned enterprises, relying on a special state background, have a more complex principal-agent relationship, with the government possessing strong intervention and control capabilities over their production and operation, leading to a "weak shareholder, strong management" situation where the probability and cost of discovering asset erosion behaviors are low. Moreover, the decision-making and control rights of SOEs are often concentrated in the hands of chairpersons and general managers. State-owned enterprises also face weaker financing constraints, supported by ample cash flows, lacking efficient and effective fund use and allocation. They are prone to flow into capital markets, real estate, and other high-yield non-core areas. In contrast, private enterprises, due to relatively tight funds and financing constraints, are less likely to allocate large-scale financial assets. Based on this, the following hypothesis is proposed:

H5: Compared to state-owned enterprises, the role of equity concentration in curbing corporate financialization is more significant for non-state-owned enterprises.

3. Research Method

3.1 Sample Selection

Sample selection: Small and medium-sized listed companies (with stock codes starting with 002) were selected as the research subjects to construct a panel dataset from 2017 to 2021. The data were obtained from the GTJA, WIND databases, and manually extracted from public websites.

Sample screening: The screening principles were as follows: First, financial and real estate companies were excluded. Second, companies labeled as ST or with a debt-to-asset ratio exceeding 1 (insolvent) were excluded. Third, companies missing relevant data were excluded. After screening, data for small and medium-sized listed companies over five years were obtained, with a total sample size of 4324, involving 944 companies.
3.2 Variable Definitions

3.2.1 Dependent Variables

Ma and Wang (2021) pointed out that there is currently no consensus on the specific definition of corporate financialization, and scholars have considerable differences in measurement standards and methods. Most scholars measure the degree of corporate financialization based on the external manifestations of non-financial corporate financialization at different times, which can generally be categorized into the following aspects:

Financialization of the asset structure of real enterprises: An external manifestation of corporate financialization is the large-scale investment of companies into the financial sector, eventually leading to an increasing scale of financial assets held by the company. The ratio of financial assets to total assets or other assets increases. Calculating the ratio of financial assets to total or other assets is the earliest and most widely used method to measure the degree of financialization in academia.

Financialization of corporate profits: Research on profits mainly includes two aspects: sources and distribution. Naturally, research on measuring the financialization of corporate profits is also conducted from these two perspectives.

The relationship between financial assets and financial liabilities of real enterprises: The pecking order theory is the theoretical basis for this measurement method, i.e., companies prefer to use internal funds for investment, followed by debt financing, such as long-term loans or issuing bonds. This indicates that when real enterprises invest for production and operation, financial assets and financial liabilities are negatively correlated on the balance sheet; when real enterprises invest in financial intermediation activities such as re-lending, financial assets and financial liabilities are positively correlated on the balance sheet. This paper draws on the indicators of Zheng and Zhang (2022), Du et al. (2017), including trading financial assets, derivative financial assets, net amount of loans and advances, net amount of available-for-sale financial assets, net amount of held-to-maturity investments, and net amount of investment properties in the category of financial assets. It is noted that although cash is also a financial asset, operational activities also generate cash, so financial assets in this paper do not include cash.

3.2.2 Independent Variables

Equity concentration (TOP1): The more shares a shareholder owns, the higher the operating risk and profit returns they bear. This study will follow the research method of Wang et al. (2017), using the number of shares held by the largest shareholder of listed non-financial companies / total number of shares as a measure of equity concentration, and using the number of shares held by the top five shareholders / total number of shares as an alternative variable in testing the robustness of empirical results.

3.2.3 Mediating Variables

This study refers to the research method of Hadlock and Pierce (2010), calculating the SA financing constraint index using the company's age and the size of its assets.

3.2.4 Control Variables

Referring to the research of Du and Sui (2021), Shen and An (2022), Liu (2020), Liu et al. (2022), Gu et al. (2020), and others, this paper also includes a series of control variables: 1. Corporate governance variables, including ownership nature (SOE), leadership structure (DUAL), board size (BOARD), institutional investor shareholding ratio (INSH). 2. Company characteristic variables, including company size (SIZE), return on assets (ROA), debt-to-asset ratio (LEV). Additionally, this paper controls for annual fixed effects (YEAR) and company size (SIZE). On one hand, the larger the company, the more investment opportunities it has, greatly increasing the possibility of changing the level of corporate financialization through investment. On the other hand, real enterprises value the development of their main business, and when the company has surplus, it tends to expand productive investment to achieve business scale expansion, which reduces the holding and investment in financial assets, changing the level of corporate financialization.

Ownership nature (SOE) is a dummy variable, assigned as 1 for non-state-controlled listed companies and 0 for state-controlled listed companies. This variable is related to the heterogeneity study and research hypothesis 3. Leadership structure (DUAL) is a dummy variable, assigned as 1 if the chairman and general manager are the same person, otherwise 0. This element affects internal control and decision-making within the company. Board size (BOARD) is related to corporate financial investment and innovative development decisions made by the board of directors.
Institutional investor shareholding ratio (INST) is considered by some scholars to have a positive impact, as Xiao (2020) found a significant positive correlation between institutional investor shareholding and the degree of corporate financialization, but a significant negative correlation with excessive financialization, indicating that institutional investors play an effective supervisory role in corporate financial asset allocation. Other scholars, such as Yu (2022), found that as the shareholding ratio of institutional investors increases, the degree of corporate financialization decreases, especially in companies monitored by analysts, and that commercial credit and internal control quality can promote this inhibitory effect.

3.3 Research Model

3.3.1 Baseline Regression Model

This study primarily investigates the impact of equity concentration on corporate financialization. Referring to the research on corporate financialization by scholars such as Yu et al. (2020), Chen (2019), Wu and Yi (2021), this paper establishes the following baseline regression model:

Model 1 Baseline Regression Model:

\[ FIN_{it} = \beta_0 + \beta_1 TOP1_{it} + \sum \beta_n control_{it} + \sum YEAR + \epsilon_{it} \]

where \( i \) represents the company, \( t \) represents the year, \( FIN_{i,t} \) denotes the degree of financialization of company \( i \) in year \( t \), \( TOP1_{i,t} \) represents the equity concentration of company \( i \) in year \( t \), \( control_{it} \) represents all control variables for company \( i \) in year \( t \), including ownership nature (SOE), leadership structure (DUAL), board size (BOARD), institutional investor shareholding ratio (INSH), company size (SIZE), return on assets (ROA), debt-to-asset ratio (LEV), and \( \epsilon_{it} \) is a random error term. Additionally, this paper controls for fixed effects by year.

3.3.2 Mediation Effect Test Model

Drawing on the research of Liu et al. (2021), Li (2022), and others, this paper employs the Baron and Kenny stepwise regression method to test the mediating effect of financing constraints on the relationship between equity concentration and corporate financialization:

Model 2 Mediation Effect Test Model:

\[ FIN_{it} = \beta_0 + \beta_1 TOP1_{it} + \sum \beta_n control_{it} + \sum \beta_3 YEAR + \epsilon_{it} \]
\[ SA_{it} = \alpha_0 + \alpha_1 TOP1_{it} + \sum \alpha_n control_{it} + \sum \gamma YEAR + \epsilon_{it} \]
\[ FIN_{it} = \alpha_0 + \alpha_1 TOP1_{it} + \alpha_2 SA_{it} + \sum \alpha_n control_{it} + \sum \gamma YEAR + \epsilon_{it} \]

where \( \alpha, \beta, \) and \( \gamma \) as coefficients, \( control_{it} \) includes all control variables for company \( i \) in year \( t \), and \( \epsilon \) is the residual term.

4. Research Results

4.1 Descriptive Statistics

This study selected small and medium-sized listed companies (with stock codes starting with 002) as research subjects to construct a panel dataset from 2017 to 2021, obtaining a total of 4324 records. A descriptive statistical analysis was conducted on all model variables under study, as shown in Table 1.

4.2 Correlation Analysis

The results of correlation analysis are commonly represented by the Pearson correlation coefficient and its significance. Based on the statistical results, the positivity or negativity of the correlation coefficient allows us to determine whether two variables are positively or negatively related, as well as the closeness of their relationship. The closer the coefficient is to 1, the greater the probability of mutual influence between the two variables, and the greater the possibility of collinearity between them. As shown in Table 2, the correlation coefficients between variables are not large, which suggests the possibility of multicollinearity among variables can be excluded. Observing the signs of the coefficients reveals that corporate financialization (FIN) is negatively correlated with equity concentration (TOP1), financing constraints (SA) are positively correlated with equity concentration (TOP1), and financing constraints (SA) are negatively correlated with corporate financialization (FIN). Additionally, the debt-to-asset ratio (LEV) and board size (BOARD) are negatively correlated with corporate financialization (FIN). However, the relationships between these variables need to be further analyzed in conjunction with the empirical results of the regression model.

4.3 Empirical Regression Results

4.3.1 Results of the Baseline Regression Model Test

This study has conducted descriptive statistics and correlation statistics of various variables, providing a preliminary understanding of the relationships among them. Next, through regression model analysis, the relationships between various variables and the degree of financialization and control variables are analyzed.
of corporate financialization are quantitatively verified to explore the specific impact of various variables on corporate financialization. By inputting the related data into the baseline regression model established in this paper, the results are as shown in Table 3. According to Table 3, the coefficient for equity concentration (TOP1) is -0.049 with a p-value of 0.000<0.05, indicating a significant negative relationship. Thus, Hypothesis 1 is supported, i.e., overall, equity concentration has a significant negative impact on corporate financialization.

4.3.2 Mediation Effect Model Test Results

The related data were input into Model 2 established in this paper: the mediation regression model, with results as shown in Table 4. In the regression results for Equation (2), the regression coefficient of equity concentration (TOP1) is 0.103, significantly positive at the 5% level, confirming Hypothesis H2: equity concentration exacerbates corporate financing constraints. In the regression results for Equation (15), the regression coefficient for financing constraints (SA) is -0.009, with P=0.036, less than 0.05, significantly negative at the 5% level, proving Hypothesis H3: corporate financing constraints inhibit corporate financialization. In the column for Equation (1), the regression coefficient for equity concentration (TOP1) is -0.049, significantly negative at the 5% level, and in the column for Equation (3), the regression coefficient for equity concentration (TOP1) is -0.048, also significantly negative at the 5% level.

Table 1. Descriptive Statistics.

<table>
<thead>
<tr>
<th>Variables</th>
<th>N</th>
<th>Mean</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>FIN</td>
<td>4324</td>
<td>0.050</td>
<td>0.000</td>
<td>0.713</td>
<td>0.088</td>
</tr>
<tr>
<td>TOP1</td>
<td>4324</td>
<td>0.313</td>
<td>0.024</td>
<td>0.824</td>
<td>0.138</td>
</tr>
<tr>
<td>SA</td>
<td>4324</td>
<td>3.859</td>
<td>5.318</td>
<td>2.974</td>
<td>0.222</td>
</tr>
<tr>
<td>SIZE</td>
<td>4324</td>
<td>22.181</td>
<td>19.035</td>
<td>26.544</td>
<td>1.018</td>
</tr>
<tr>
<td>LEV</td>
<td>4324</td>
<td>0.404</td>
<td>0.010</td>
<td>0.998</td>
<td>0.186</td>
</tr>
<tr>
<td>ROA</td>
<td>4324</td>
<td>0.035</td>
<td>-0.486</td>
<td>0.328</td>
<td>0.082</td>
</tr>
<tr>
<td>BOARD</td>
<td>4324</td>
<td>2.091</td>
<td>1.386</td>
<td>2.708</td>
<td>0.185</td>
</tr>
<tr>
<td>DUAL</td>
<td>4324</td>
<td>0.339</td>
<td>0.000</td>
<td>1.000</td>
<td>0.473</td>
</tr>
<tr>
<td>INST</td>
<td>4324</td>
<td>0.337</td>
<td>0.000</td>
<td>0.948</td>
<td>0.231</td>
</tr>
<tr>
<td>SOE</td>
<td>4324</td>
<td>0.159</td>
<td>0.000</td>
<td>1.000</td>
<td>0.366</td>
</tr>
</tbody>
</table>

Table 2. Results of Correlation Analysis.

<table>
<thead>
<tr>
<th>Variables</th>
<th>FIN</th>
<th>Top1</th>
<th>SA</th>
<th>SIZE</th>
<th>LEV</th>
<th>ROA</th>
<th>BOARD</th>
<th>INST</th>
<th>DUAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>FIN</td>
<td>1</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TOP1</td>
<td>-.063**</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SA</td>
<td>-.043**</td>
<td>.067**</td>
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<tr>
<td>SIZE</td>
<td>.052**</td>
<td>0.002</td>
<td>0.026</td>
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<tr>
<td>LEV</td>
<td>-.216**</td>
<td>-.066**</td>
<td>0.022</td>
<td>.434**</td>
<td>1</td>
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<td></td>
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</tr>
<tr>
<td>ROA</td>
<td>.072**</td>
<td>.183**</td>
<td>.041**</td>
<td>.067**</td>
<td>-.346**</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>BOARD</td>
<td>-.090**</td>
<td>-.047**</td>
<td>-.066**</td>
<td>.190**</td>
<td>.076**</td>
<td>.056**</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>INST</td>
<td>-.045**</td>
<td>.338**</td>
<td>-.029</td>
<td>.348**</td>
<td>.119**</td>
<td>.093**</td>
<td>.159**</td>
<td>1</td>
<td></td>
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<tr>
<td>DUAL</td>
<td>.076**</td>
<td>.041**</td>
<td>.082**</td>
<td>-.059**</td>
<td>-.060**</td>
<td>.035**</td>
<td>-.139**</td>
<td>-.098**</td>
<td>1</td>
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<tr>
<td>SOE</td>
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<td>.113**</td>
<td>-.083**</td>
<td>.170**</td>
<td>.120**</td>
<td>.004</td>
<td>.217**</td>
<td>.307**</td>
<td>-.203**</td>
</tr>
</tbody>
</table>

Note: ***, **, and * respectively indicate significance at the 1%, 5%, and 10% significance levels.

Table 3. Baseline Regression Model.

<table>
<thead>
<tr>
<th>Variables</th>
<th>Coefficient</th>
<th>t</th>
<th>p</th>
</tr>
</thead>
<tbody>
<tr>
<td>TOP1</td>
<td>-0.049**</td>
<td>-4.884</td>
<td>0.000</td>
</tr>
<tr>
<td>SIZE</td>
<td>0.006**</td>
<td>4.071</td>
<td>0.000</td>
</tr>
<tr>
<td>LEV</td>
<td>-0.119**</td>
<td>-14.225</td>
<td>0.000</td>
</tr>
</tbody>
</table>
5. Conclusions

5.1 Equity Concentration Has a Significant Negative Impact on Corporate Financialization

The regression results show that the concentration of ownership (TOP1), with a coefficient of -0.049 and a p-value of 0.000 < 0.05, indicates that, overall, equity concentration has a significant negative impact on corporate financialization. Small and medium-sized listed companies, which primarily operate in the real economy, may reduce their investment in operational activities due to an excessive level of financialization under limited resources. This lack of funding for operational investments can hinder long-term development performance by preventing upgrades, transformations, and innovative R&D. In such cases, not only is the company’s main business not enhanced, but its operational and financial risks also increase. As equity concentration continues to rise, more risks and responsibilities need to be assumed by major shareholders. Investing too much primary business capital in the financial market is undoubtedly a high-risk behavior. With a mindset for prudent and continuous operation, major shareholders encourage
companies to reduce high-risk financial investments through their influence, which helps protect the company's long-term interests and promotes sustainable development.

5.2 Equity Concentration Significantly Negatively Affects Corporate Financialization by Exacerbating Financing Constraints

Financing constraints inhibit corporate financialization, and equity concentration exacerbates corporate financing constraints in inhibiting financialization. Higher concentration of ownership indicates a higher percentage of shares held by a minority of shareholders. These minority shareholders are usually major or controlling shareholders with significant decision-making and control over the company. In this context, major shareholders are often able to satisfy their interests through control over company operations and decisions, possibly at the expense of other shareholders' interests. This may lead to higher constraints in financing processes. The control of major shareholders may limit financing channels for other shareholders or potential investors, preferring internal financing or financing channels associated with themselves, rather than opening up financing avenues to external investors. Due to the high concentration of ownership, major shareholders exert significant control over the company, possibly leading to higher financing costs demanded by other shareholders or potential investors due to concerns over the company's risks. This can result in higher interest rates, stricter conditions, or more guarantees required in the financing process, increasing corporate financing constraints. Major shareholders' control may direct company funds towards themselves or associated enterprises, rather than fulfilling the company's financing needs, potentially causing liquidity shortages in financing processes and increasing financing constraints. Companies facing high financing constraints tend to have lower degrees of financialization as financing becomes more challenging, limiting their ability to finance through financial markets and thus reducing their level of financialization. Financing constraints indeed play a mediating role, but its contribution to the mechanism by which equity concentration affects corporate financialization is relatively weak at 1.9%.

5.3 The Inhibitory Effect of Equity Concentration on Corporate Financialization Is More Pronounced in Non-state-owned Enterprises

For non-state-owned enterprises, the inhibitory effect of equity concentration on corporate financialization may be more pronounced. In China's financial system, government support for state-owned enterprises makes it easier for these companies to access resources and market share. Non-state-owned enterprises, lacking such support, rely more on market financing and external investments. In non-state-owned companies, higher equity concentration often leads to significant influence by major shareholders, who may allocate funds for internal investments to maintain existing capital structures and control, thereby inhibiting enthusiasm for financial investments. Additionally, the relationship between operators and shareholders in non-state-owned enterprises may be more complex, leading to increased agency and decision-making costs, further inhibiting financialization. Moreover, non-state-owned enterprises may face higher financing constraints due to the lack of government support, focusing more on short-term interests and liquidity management than on long-term investments and financialization.

6 Policy Recommendations

6.1 From the Corporate Perspective

Equity structure, indicating the relationships of rights and control among shareholders, plays a crucial role in corporate governance, directly affecting decisions and operations. To strengthen governance of equity structure, companies can take measures to enhance major shareholders' oversight, reduce the degree of corporate financialization, and optimize internal control systems. This forms a more balanced supervision mechanism and reduces managerial self-dealing. First, companies can enhance the degree of equity concentration to improve major shareholders' control and oversight. Increasing major shareholders' shareholding can ensure their influence in decision-making and protect their interests. Major shareholders, often more concerned with long-term development than short-term gains, have stronger oversight awareness. Thus, enhancing equity concentration can effectively boost their oversight. Secondly, companies can continuously optimize internal control systems.
A robust internal control system is crucial for corporate governance, regulating operations and decision-making processes to prevent managerial self-interest. Establishing comprehensive internal controls, including clear division of responsibilities, effective decision-making procedures, and thorough risk management and internal audits, can reduce managerial discretion and abuse of power, protecting long-term interests.

Financial Asset Allocation. Rational allocation of financial assets involves balancing investments between financial assets and the real economy to maximize returns while considering liquidity. In the process of financialization, companies can effectively utilize financial asset allocation as a "reservoir" rather than merely seeking high-risk, high-return "speculation" tools. Financialization requires balance; excessive pursuit of high-risk, high-return speculation may pose significant risks. Therefore, when allocating financial assets, companies should make informed choices based on their operational status and risk tolerance to avoid excessive speculation. Simultaneously, companies should focus on investments in the real economy to maintain stable development. Only with a healthy real economy can financialization truly play a role.

6.2 From the Financial Regulatory Perspective

With further opening of financial and real estate markets, non-financial enterprises face more opportunities and challenges in financialization. While higher levels of financialization can provide more financing channels and investment opportunities, they also increase the risks faced by companies. Excessive financial investment may lead companies to overly rely on financial markets, neglecting the real economy and triggering systemic risks. Regulatory bodies play a crucial role in this process, needing to monitor the financial development of non-financial enterprises, especially those with financialization levels significantly above the industry average. By monitoring companies' capital accumulation, regulators can identify signs of excessive financial investment and take corrective measures. Strengthening supervision and monitoring of non-financial enterprises, establishing comprehensive risk assessment and monitoring mechanisms, and timely detecting whether the level of financialization exceeds reasonable ranges are essential. Regulators can require companies to regularly report their financialization levels and capital accumulation, and by analyzing financial statements and operational data, assess financial risks. Additionally, enhancing macroprudential supervision of non-financial enterprises by enacting relevant policies and regulations can guide companies in using financial tools and financing channels wisely, preventing overreliance on financial markets. Regulators can also require companies to establish robust risk management systems, strengthen internal control and risk management capabilities, and improve their ability to withstand risks.

6.3 From the Government Perspective

In the current economic situation, maintaining market stability is key to sustaining economic growth. Market stability implies balanced supply and demand, stable prices, and orderly market conditions. To achieve this, the government should take measures to reduce policy uncertainty, which can impact corporate investment decisions and market behavior. Strengthening communication and consultation with enterprises, clarifying policy directions and goals, and preemptively preparing for unforeseen force majeure events can reduce corporate uncertainty. Additionally, the government should address the difficulties in capital turnover and overcapacity faced by non-financial enterprises. Capital turnover difficulties refer to the challenges in raising funds during operations, affecting normal business and development. To alleviate these difficulties for non-financial enterprises, the government can appropriately lower interest rates, reduce borrowing costs, and provide targeted support based on actual company situations to help develop the real economy. Encouraging participation of social capital can alleviate the motives for enterprises to allocate financial assets from the source. Social capital participation can provide more financial and resource support, helping enterprises overcome capital turnover difficulties. Through policy formulation and incentive measures, the government can attract social capital participation and promote the development of the real economy.

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References


