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Study on the Driving Forces, Implementation Process, and Effects of Financialization from the Perspective of Youngor's Corporate Life Cycle

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Abstract

The effect of financialization on nonfinancial corporations changes depending on the corporation's life cycle stage. In the case of Yagor, the paper analyzes reasons, means, and implications of financialization at different life cycle stages. The research results in an identification of the fact that Yagor went through three separate phases of financialization-"reservoir", "investment substitution", and "strategic course correction". A moderate degree of financialization was helpful during the growth stage. However, excessive financialization took place during the maturity stage and diverted money from R&D activities, thereby increasing risks. The policy of definancialization, which involves reducing financialization on purpose, was applied during the decline stage. It is demonstrated in the study that the influence of financialization varies depending on the stage in the life cycle, and that success hinges on a resource allocation strategy based on prioritizing the core business while finance plays an enabling role. It is imperative for companies to adjust their strategies according to their life-cycle stage and for regulators to provide them with appropriate advice. The findings of this paper help understand how industrial firms can combine their industrial and financial activities, although additional case studies would be required.

Keywords

Corporate Financialization; Enterprise Life Cycle; Motivators and Outcomes.

1. Introduction

The current economy around the world presents many difficulties for conventional enterprises, among which are low growth in their basic business and reduced profit margins. In response to this, more and more enterprises are focusing their efforts on the financial sector in order to explore more potential in financialization. Nevertheless, financialization can be described as a “double-edged sword”-on the one hand, reasonable financialization can help enterprises establish a “pool” of capital and increase their income; on the other hand, excessive financialization can cause enterprises to neglect their core business and create financial risks.

In this paper, the object of case study is Yagor Group. Since it is one of the key players in the Chinese market of male clothing, it is possible to use it as an example to prove financialization of a company. From a relatively modest approach to the financialization in the phase of company growth, through large financialization in the phase of company maturity and then through the change of the strategy of financialization and exit from it in the phase of company decline, Yagor demonstrated its own motivations, strategies and results regarding financialization in different phases of company development. The present paper will focus on the strategies of financialization of Yagor Group in different phases of company development, their motivation and ways of implementation, as well as consequences.

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2. Relevant Foundational Theories

2.1. Reservoir Theory

Thus, the "reservoir" theory is basically the financial liquidity management strategy. More precisely, the "reservoir" theory is built on the basis of production companies making profits out of their idle resources, which arise in the process of production activities and turning those resources into highly liquid financial assets. In this way, the company will be able to form an "reservoir" of money. The application of such a strategy implies that in case of financial difficulties and cash flow problems, the company can get rid of its working capital problems by selling its financial assets, whereas in case of profitable investment possibilities in the field of its core business, the company will be able to withdraw the money from the "reservoir." The liquidity of financial assets is of primary importance here. However, the goal of the "reservoir" theory is not making money through financial speculation, but developing the core business of the company.[1]

2.2. Substitute Theory of Investment

As per the notion of diversification of investments, it can be stated that the capital appreciation motive is quite visible and more pronounced because of the growing significance of the return on investment of big institutional investors, rather than asset management, which leads to 'path dependency,' where funds flow from large-scale asset management to asset management. This is a result of various findings; on one hand, there is an increase in arbitrage opportunities in financial market transactions, which makes the low growth of real estate investments very attractive; for instance, the annual growth of financial assets of companies is much greater than the net growth of real economy investment projects;on the other hand, asset restructuring generates defensive momentum where there will be diversion of funds for operations and will impede the process of technological advancement, including R&D. This is evident from the consistently downward trend in terms of investment. The crux of this entire debate can be summed up in terms of the conflict between the requirements of short-term gains and the need for healthy market growth in the long run. Excess investment will lead to the absence of the required incentives.

2.3. Diversification Strategy Theory

The Diversification Strategy Theory represents the problem where firms violate the constraints of their business and explore the possibility of new growth and development by introducing new products or markets. The essence of this theory is based on the principle of making good use of the advantages of an organization by creating a diversified portfolio of its businesses in order to develop its competitiveness and sustainability. Within the framework of the theory of financialization of the real economy firm, the theory transforms into a concept of resource allocation not only within core businesses but also in finance and becomes the so-called "financialization strategy". Depending on the relation between the new business and core business, we can divide diversification strategy into two types: related and unrelated. The essence of the related diversification lies in the focus on technological, channel or market synergies between the new business and core business, making the efficient resource utilization possible and increasing the industrial synergy.

2.4. Theory of Corporate Value Maximization

The essence of the theory of maximizing the value of the company is to help firms realize their sustainable development in the long term by adopting an optimal financial strategy. The essence of the theory is the evaluation of the cash flows in every phase of the lifecycle of the firm in consideration of the time value of money. It highlights the fact that the value of a company is not an accumulation of profits, but a dynamic value that indicates its growth

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potential in the future with considerations like innovation and market potential being key aspects of the core value of a firm.

3. Case Overview

3.1. Company Profile of Youngor

In relation to the history of Yagor Fashion Co., Ltd., the company's strategy has been characterized by cycles that move from being a one-segment clothing company to multi-segment and back to clothing segment once again.

Yagor has a history that goes as far back as 1979 when Ningbo Youth Garment Factory was founded, which was focused mainly on garment production. After launching the Yagor brand in 1990, the company emerged as the leader in men’s clothing market, especially in shirts, occupying the top market position for seven years in a row. With Yagor becoming a public company in 1998, it started applying a diversification strategy and ventured into property and financial areas. The financial business continued growing, taking up 32.86% of total company’s assets. Yagor moved into the property business in 2002 through the acquisition of Yagor Property Company, making an entrance into Yangtze River Delta market. In 2006, Yagor identified investment as a key business area and created three main business segments – apparel, property, and investment. In the present case, the growth of the firm for some time was achieved through the process of reinvestment, as the revenues received through the investment accounted for over 80% of growth; however, overcapitalization is extremely negative for investment into Research and Development (R&D) in the garment manufacturing industry. In 2007, having adopted the "Three-Year Plan", the company became very finance oriented; however, with 50.91% of growth in assets, this benefit turned into just 0.19% of R&D expenses; as a result, the company stopped producing its core products – textiles. Furthermore, in 2015, Yagor was not as successful as Hailan Home, because the latter paid much attention to its core operations, while the former failed in the competition in the apparel industry and diversified its product line and, therefore, lost its leading position in the men's apparel industry. During that period of time, the market share of the company fell from 5.2% in 2011 to 3.8% in 2017.

Beginning with 2018, Yagor began restructuring itself strategically in order to recover from the losses made in investment and sold financial assets to recover more than 10 billion yuan, which resulted in reducing the share of financial assets to 21.79%. Yagor has slowly divested non-core financial assets and started working on empowering technology of apparels through creating a fashion technology firm and developing smart supply chain. Thus, with its successful strategy of technology empowerment, Yagor has managed to shift to core manufacturing business. Its name change to Yagor Fashion Co., Ltd in 2023 is an indication of its focus on the upgrading of the apparel industry. From 2020 to 2023, Yagor has recovered its market value leadership in order to reappear as one of the leading firms of the industry.

3.2. Analysis of the Motives for Youngor's Financialization

3.2.1. External Drivers

On a macroeconomic level. Following the global financial crisis of 2008, the actual Chinese economy was faced with the problems of increasing production costs, poor demand, and reduced profit margins. The profit margin for manufacturing is usually below 5% and that for finance above 8%; this high gap in yield between the two industries has created “capital arbitrage opportunities.”[2]. However, increased uncertainty regarding the economy made the need for saving more important, making businesses invest in very liquid financial securities to safeguard themselves from any possible threats in the actual economy[3]. The introduction of amendments to the Financial Instruments Standards in 2017 influenced Yagor in a number of

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ways. First of all, it entailed the emergence of financial instability for the firm. However, at the same time, it obliged the company to change its strategy and to concentrate on something else.

The change in the accounting standards has been the primary driver of the situation from the perspective of policy and regulations. Hence, the accounting standards introduced in 2007 categorized investments as financial assets, resulting in the increase in the carrying amount of corporate financial assets. Thus, in 2007, the percentage of financial assets in Yagore stood at 49.2%. However, in 2017, following the amendment to the rules for financial instruments, the “available-for-sale financial assets” account was dropped, and a portion of fair value gains was reported in income statement.

As far as competition in the industry goes, it can be described using the term “red ocean competition.” Between 2011 and 2017, the CR5 in the men’s apparel market decreased from 35% to 28%. The reduction of CR5 implies a drop in the level of market concentration and an increase in competition with the market share of Yagor slowly shrinking as a result of rivalry from other firms such as Hailan Home. In 2011-2016, revenue from the sales of apparel remained at zero. The low growth rate of the core business was sharply contrasting to the consistently falling average profit margin in the industry.

3.2.2. Internal Drivers

The inner motivations that have brought about the financialization strategy employed by Yagor mainly originate from the three factors of intrinsic motivation for profit making, management's attitude, and the organization's need for risk reduction.

The primary incentive for repeatedly reallocating capital is the highest tax on capital gains. From 1998 to 2005, profits in the core apparel segment fell by 22%, while in those years financial investors' per-unit returns were much higher than those in the apparel business. In 2007, the return on Yager's investment in CITIC Securities rose to as much as 518%. This difference in returns makes the source less profitable than financial investments, which are more profitable, especially at the business's mature stage. The share of financial income in Yagur's total profit rose from 3.48% in 2006 to 803.69% in 2017.

The short-sightedness of the management and their growing preference towards finance have been major decision-making factors. Having proposed the "Three-pronged Strategy" in 2007, the management raised the significance of the investment segment to that level which is equal to the significance of its apparel business segment. In 2009, 107.24% of the financial income of Yagor made its total profits; lured by the short-term growth in financial income, Yagor continued making further investments in securities and private equity[4], In 2015, Yagor invested 17 billion yuan to acquire more shares of CITIC Limited. Following the profit-oriented decision-making approach, Yagor decreased the ratio of its expenditures for research and development from 0.42% to 0.09% of its income between 2011 and 2017. This decision-making approach led to a strategic deviation "finance over manufacture."[5].

This happens because there is need for risk aversion that involves the “reservoir” function. In its growth phase, it increased its financial assets to 32.86% by investing in equities of other companies like the Bank of Ningbo and therefore reduced profit volatility from 2.73% in 2003 to 0.19% in 2005, hence diversified the risks associated with this industry. However, in its maturity phase, things turned bad because of financialization: In 2017, the z-score of the company fell to 0.86 due to impairment loss on its investment in CITIC Limited[6].

These three internal factors form a closed loop: a decline in core business profits triggers a profit-seeking motive; management’s preference amplifies financial investments; and the need for risk control, in turn, drives the allocation of financial assets. As the life cycle progresses, the focus shifts from “risk diversification” during the growth phase to “return-seeking” during the maturity phase, and ultimately, during the decline phase, risk exposure triggers a deleveraging adjustment.

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3.3. The Implementation Process of Youngor's Financialization across the Life Cycle

3.3.1. Growth Stage (1998–2005): Moderate Financialization Exploration

As Yagor grew, the main thrust was toward the growth of its core business in apparels because its venture in the financial services business was at an early stage and was simply a supplement to its core business. During this time, the textile and apparel industry of China witnessed increased competitive pressure owing to the entry of China into the World Trade Organization along with an increase in the price of raw materials and labor. This situation resulted in a reduction in the margin of profitability in the industry which went from 12% in 1998 to 1% in 2004. Even though Yagor held the market leadership in shirts, growth pressures were emerging in its core business with revenue growth going down to 17% from 42%. In an effort to make his business more diversified for purposes of risk management and exploiting the "buffer" role that financial assets play, Yagor decided to acquire minority interests in financial institutions: in 1999, Yagor made an investment worth 320 million yuan to take up 9.61% of the equity interest in CITIC Securities and became the second-largest investor in this firm; in 2001, he acquired 14.91% of Tianyi Securities through an investment of 150 million yuan, and also started investing in Ningbo Bank; with further investments in 2004, he held 6.359 million shares. The amount of financialization at this stage was rather small, as financial assets were less than 30% of the total assets (as little as 8.14% in 2005), and financial income less than 20% of operating profit. The key aim here was to make use of financial investments to channelize unutilized money into earning more money to invest back in the apparel industry. Financialization at this stage served to effectively reduce the operational volatility - with regards to the calculation of volatility in profits over a period of three years, profit volatility of Yagor reduced from 2.73% in 2003 to 0.19% in 2005, while the share of income from operations in net profit increased from 58% in 2001 to 89% in 2005. Financial investments performed the role of a “reservoir.”

3.3.2. Maturity Stage (2006–2017): Excessive Financialization Expansion

As it approached maturity, Jagor used a “three-pronged strategy” that focused on its three key businesses-clothing, real estate, and investments-and hastened the financialization process, thereby overloading the company. In this context, the competition in the apparel industry was growing increasingly fierce, and the market share of Yagor in the men’s apparel category was declining because of stiff competition from rival firms, including Heilan Home. Between 2011 and 2017, the market share of Yagor in the men’s apparel category declined from 5.2% to 3.8%. On the other hand, the lucrative financial business acted as a “profit center” for the real economy firms since, from 2013 to 2017, finance and insurance industries comprised more than 75% of the 30 most profitable firms in China.in 2017, the sector’s average net profit margin was more than five times that of the textile and apparel industry. Driven by the motive of capital arbitrage, Yagor significantly expanded the scale and scope of its financial investments. In terms of strategy, in addition to continuing to increase its equity holdings in financial institutions, the company also actively engaged in securities and private equity investments: in 2007, it invested 3.588 billion yuan to acquire shares in Haitong Securities; in 2011, it invested a total of 2.725 billion yuan in private placements for 13 companies, including Guangbai Co., Ltd.; and in 2015, it spent 17.062 billion yuan to acquire an additional 1.455 billion shares of CITIC Limited. During this phase, the level of financialization rose significantly, with financial assets consistently accounting for 30%–50% of total assets-reaching 50.91% in 2015. Financial income frequently exceeded 50% of operating profit; in 2017, due to a 3.3 billion yuan impairment charge on CITIC Co., Ltd., this ratio surged to 803.69%. However, excessive financialization also triggered serious problems: investment in financial assets created a “crowding-out effect” on the real economy. From 2010 to 2017, investment in financial assets rose from 15.556 billion yuan to 31.296 billion yuan, while R&D spending fell from 80 million

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yuan to 19 million yuan, and the number of patent applications in the apparel business declined year by year; Financial risks have intensified, with the Z-score consistently falling below the safety threshold of 1.81; in 2017, it even dropped to 0.86-far lower than that of Hailan Home, which focuses on its core business. Net profit has fluctuated dramatically: while the net profit growth rate reached 207.48% in 2007, it plummeted by 92.03% in 2017, with profitability stability far exceeding that of the period when the company was dominated by its core business.

3.3.3. Decline Stage (2018–2023): De-financialization and Core Business Reorientation

During its period of decline, Yagor initiated the process of de-financialization in response to internal and external pressures, refocusing on its core apparel business. On the one hand, the new financial instruments standards introduced in 2017 eliminated the "available-for-sale financial assets" classification, meaning fluctuations in the value of financial assets were directly recognized in profit. This, combined with a 91.95% plunge in net profit due to an impairment charge on CITIC shares in 2017 and the bleak outlook for financial investments, the share of the finance and insurance sectors among the top 30 companies by profit margin from 2018 to 2023 fell from 77% to 27%; on the other hand, Yagor lost its leading position in the apparel business-its market capitalization was surpassed by Hailan Home after 2015, and in 2016, when the total value of the men's apparel market contracted, its market capitalization was only 60% of Hailan Home's-forcing the company to shift its strategic focus back to its core business. De-financialization policy entailed the sale of non-core financial assets and the cessation of financial investments: in 2018, the company sold such non-core financial assets as shares of CITIC and Shanghai Pudong Development Bank worth 4.343 billion yuan; in 2019, the company sold its share of CITIC, recovering 3.114 billion yuan; in 2020, the company sold its shares of Bank of Ningbo, recovering 8.405 billion yuan; and during 2021-2023, the company refrained from making any significant new financial investments, except for strategic investments associated with its core business. This change in the company's policy resulted in noticeable effects: revenues from the core apparel business increased progressively from around 5 billion yuan in 2018 to almost 8 billion yuan in 2023, and, at the same time, the decrease in investments in financial assets led to a rebound in expenditures on research and development amounting to 80 million yuan in 2022; Financial risks were noticeably reduced by the company because the Z-score grew from 1.06 in 2018 to 1.58 in 2022, gradually reaching the safe level of the industry; The capacity of the firm to generate value has been significantly improved as the EVA (Economic Value Added) of the company was reported to be 6.103 billion yuan in 2020, much higher than those reported in negative figures during the financialization period. Although there has been a little drop in 2023, it has continued to remain positive.

3.3.4. Concluding Summary

To summarize, financialization of Yagor has been observed to have significant resemblance to the features of the phases of its life cycle. In the growth phase, financialization of moderate level acts as a "booster" of the development of the core business through the "reservoir" effect of the financial assets; Over financialization of the mature firm leads to the deterioration of the financialization as a "tool" which serves the purpose of short-term profit maximization through capital arbitrage, neglecting the development of the core business; In the declining phase, definancialization acts as a "reset button" in the restructuring of the core business through the reactivation of competitiveness by means of divestment of the non-core financial assets. This example shows that the financialization of real-economy enterprises should be consistent with the resource demands and strategic targets of the life cycle phases. The development of a sustainable firm can only be achieved through the focus on the core business and moderate utilization of the financial assets; otherwise, financialization beyond the core business will only destroy it.

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4. Core Analysis of Youngor's Financialization

The phenomenon of financialization of Jagor has a lot in common with its 46 years' experience, expressed in the formation of a logical three-stage process: "reservation – investment replacement – strategic reorientation," that can be considered as the efficient allocation of the company's resources in different stages of their life cycle[7]. It is not a coincidental process but an effect of the interaction of the company's environment and capabilities according to the logic of "core business financing – financing at the expense of the core business – core business vs. financing."

4.1. Operational Mechanism of Financialization: Logical Differences from a Life-Cycle Perspective

The advantages accrued from the start-up period of the textile industry became threatened due to the shock caused by China joining the World Trade Organization. From 1998 to 2004, there was a drastic decline in revenues earned by the textile and apparel industry.Yagour adopted the idea of capital cushion through investments in financial institutions in that in 1999 they invested 320 million yuan in CITIC Securities while in 2004 they increased their stake in Ningbo Bank by 9.37%. This strategy helped to turn cash reserves, which were lying idle in the garment industry, into liquid cash. This strategy worked effectively during the most difficult times for the industry in 2003, where the return on financial investment amounted to 11.12% of operating profit while the firm's profit volatility decreased from 2.73% to 0.19%. At the same time, 1.7 billion yuan could be allocated for textiles R&D and channels across the nation. Thus, a cycle of "cash flow from the apparel business – financial investment – improvement of the core business" was created. At that time, financial diversification worked as a "reserve fuel tank" and helped to balance out industry cycles while giving the necessary financial means to apparel business to make it national leader.

In 2011, Yagor's market share was taken away by Hailan Home, and between 2011 and 2017, the share of Yagor in the men's apparel industry dropped from 5.2 percent to 3.8 percent. Nevertheless, between 2013 and 2017, the net profit margin in the financial industry stood at over 10 percent, which was five times more compared to the apparel industry. In pursuit of these two aspects, i.e., the attainment of growth limit in the clothing industry and high profitability of the financial industry, the financing policy of Yagor adopted "yield seeking replacement." From 2007 after implementation of the "Triple Strategy," the share of financial assets rose from 7.37 percent to 50.91 percent. From 2010 to 2017, the investment in the finance sector increased by 101% to become 31.296 billion yuan, whereas the amount of expenditure on research and development in the textile industry decreased by 76% and amounted to 0.19 billion yuan. The "bleeding effect" occurred in 2017 when the 3.3 billion yuan impairment of CITIC Limited's assets resulted in 92% decrease in the net profit. The revenue of the finance sector grew by 803.69% because of the reduction in core operations as well as the development of the cycle of "lack of innovation in core financial operations." Thus, in 2017, the "finance" operation became the "revenue lifeline." In 2015, the value of the finance sector made 66.2 billion yuan that equals the total profit in the textile industry within 12 years and the policy of "priority to the real economy" broke the whole logic of resource allocation.

The removal of the phrase "available-for-sale financial assets" in the accounting standards for financial instruments in 2017 was a significant development. The fair value changes of the financial assets have been recorded directly in the income statement.Compounded by impairment charges at CITIC Limited and restrictions on share sales at Bank of Ningbo, Yagor was forced to launch "De-financialization 2.0": Between 2018 and 2023, the company sold over 20 billion yuan in financial assets, reducing the proportion of financial assets to 31.31%. The financial gains were invested back into its main apparel segment: 3.8 billion yuan was invested

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to form a fashion technology company in 2020, and 2 billion yuan was spent on the construction of a national fashion experience center network in 2022, thus allowing for the apparel sales revenue to be raised from 5 billion to 8 billion yuan. The research and development expenditure level returned to 80 million yuan as well. However, what is much more important is the strategic repositioning that the company undertook: in 2023, Yagor Corporation changed its name to "Yagor Fashion," thus forming a clear strategic vision for itself in the form of a "high-end business + multi-brand." The corporation's move toward acquisitions of a French children's clothing brand Bonpoint and the creation of partnerships with Intime Department Store helped it develop a new value chain, called "investment returns-brand matrix-channel upgrades." This way, financialization was transformed into a "strategic tool," and in 2022, the share of strategic investments in Bank of Ningbo reached 73%. Another idea which could be included in the definition of life cycle theory includes the following statement: financialization may be considered as a resource allocation tool which is effective if it coincides with the development stage of the core business. In this way, "reservoir" as a tool of resource allocation during the growth stage helps the development in relation to the development of the core business; "investment replacement" during the maturity stage does not work well since it is not related to the core business; "strategic restructuring" during the decline stage helps revitalize the core business. The lesson from Yagor demonstrates that the boundary of financialization for real-economy enterprises lies in the original intent of "finance serving the real economy." When the EVA of its apparel business exceeded that of its financial investments for the first time in 2023, it signaled that this "Warren Buffett of the apparel industry" had finally come to understand: the ultimate value of financialization does not lie in the inflation of balance-sheet figures, but in equipping the real economy with a "shock absorber" to withstand economic cycles.

4.2. Analysis of the Effects of Youngor's Stage-wise Financialization Implementation

In regards to the process of financialization within the textile and clothing sector, the case of Yagor indicates the characteristics of phases of financialization depending on the stage of the company life cycle, from a positive phase at the growth stage, then the negative phase at the maturity stage, and finally the corrective phase at the declining stage[8].

While growing, Yagor's financial diversification played a highly positive role. Indeed, the textile and apparel industry at that point was facing declining growth and falling margins. As a result, through financial diversification, Yagor successfully diversified its risk, as its profit volatility was reduced from 2.73% in 2003 to 0.19% in 2005, thus significantly decreasing risks related to the exclusive dependence on the core business. In addition, financial diversification gave a highly supportive boost to the core business, since the share of operating income in profits increased from 58% to 89%. The returns from financial operations gave necessary money for R&D and development of the core business. For example, breakthrough in the technology of production of hemp fabric as well as the expansion of sales networks across the country were only possible due to financial reserves. This created the so-called "virtuous circle of finance feeding into the core business". Financially, the firm's Z score consistently fell within the 1.8 to 2.5 spectrum during this period with financial risks lower than the industry average. The operations were stable in general, proving that the "reservoir" concept was applicable during the growth stage.

With the firm having now reached its maturity stage, the excessively financialized activities of Yagor had become an apparent source of crowding out. As the firm faced increasingly tough competition within the textile and apparel industry and was losing market share because of competing companies like Hailan Home, its profit margin in the core business dropped from 15% to 8%. However, at the same time, owing to the high returns within the financial industry where average net profit margins exceeded 10%, the firm was investing increasing amounts of

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resources into the financial business area, thus continuing with the process of "finance crowding out the core business." In the core business of the firm, R&D spending decreased from 0.42% in 2012 to 0.09% in 2016, whereas revenue generated by the apparel sales did not grow and stayed below 6 billion yuan between 2012 and 2017; financial risks grew, and the Z-score decreased from 2.46 in 2007 to 0.86 in 2017, which is below the risk level of 1.81. The reduction in net profit in 2017 due to an impairment charge of 3.3 billion yuan relating to investments in CITIC Limited resulted in a 92.03% fall in net profit compared with that of the previous year[9]; this resulted in higher earnings volatility; market value declined, and the acceptance of the company's strategy of "moving from real to financial economy" further declined, resulting from the loss of long-term value through financialization.

As the economy started going through tough times, the strategy adopted by Yagor of reducing emphasis on finance started paying dividends to the firm. In view of the uncertainty created for the firm due to changes in the accounting rules for financial instruments and impairment losses from its financial investments as well as its loss of the dominant position in the clothing industry, the firm was able to sell off its non-core financial investments, including those in CITIC and Shanghai Pudong Development Bank, thus making a total gain of more than 10 billion yuan. The change led to an increase in income generated from the clothing line from 5.5 billion yuan in 2018 to 8.2 billion yuan in 2023, and the ratio of the cost for R&D activities improved to 0.3% in 2023, implying that there is a recovery in the performance of the core business; the risk management capacity of the firm enhanced significantly, and the Z-score increased from 1.06 in 2018 to 1.58 in 2022, thus reducing the financial risks considerably. EVA increased from 1.547 billion yuan in 2018 to 6.103 billion yuan in 2020[10]. In conclusion, the financialization model employed by Yagor was highly consistent with the nature of its life cycle phase[11]; i Its positioning in the industry has been restored as well. In the past year since 2020, it has once again regained its market share advantage over Hailan Home, securing its status as one of the leading players in the men's apparel industry, which demonstrates the success of the "strategic course correction."

4.3. Contextual Analysis of Youngor's Financialization

From the angle of context adaptation, Yagor's financialization policies at various stages of life cycle fit the internal and external context very well. In the period of growth, the market share of Yagor's fashion industry was more than 14%, and the core business of Yagor was competitive. But the slow growth rate in the industry restricted the investment opportunity in the real economy whereas the organization had a lot of excess capital. At this stage, "moderate financialization + focus on core business" policy was both risk-diversification tool and also kept money aside for future expansion of core business. This was precisely what was needed at this stage; in the period of maturity, competition became tough in the textile and fashion industry and the earnings from the core business were declining whereas earnings from financial sector were much higher than real economy. The difference in yields has driven the firm to speed up the financialization, but at the same time, it has revealed the dangers of "excessive financialization"-in case financial assets exceed 50% of total assets, resource crowding effects have much greater weight than the yield effects, thus ultimately lowering the core business performance; during the economic slowdown, losses in financial investments and loss of the core competencies of the main business make the firm face the danger of the survival threat caused by the "transition from the real economy to the financial business." Thus, "de-financialization and restructuring of the main business" become the only way out. By recouping funds from financial assets and increasing investment in the main business, companies can reestablish a "main business first" logic for resource allocation and correct their strategic course.

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Similarly, Jaguar's experience has shown the general situations where financial support is necessary for conventional firms. As per the cost benefit analysis, the benefits derived from the financing process should be able to offset the cost of utilizing the assets. While Jagar had been able to reap enough short-term benefits from its financial investments through maturity stage, in the long term, the diversion of assets from the research and development activities and core business areas into other fields was bound to reduce the competitive ability of the firm and finally its overall worth. This shows that a financial system which does not take into account the long term costs cannot sustain; as per stage appropriateness principle, firms have to adopt financial policies depending upon the stage of their life cycle. In the case of the growth phase, emphasis has to be placed on "finance used to support core business," using financial assets to invest further into core activities. When it comes to the maturity phase, the level of financialization should be tightly regulated to prevent over-dependence on financial gains. For the decline phase, emphasis has to be placed on rejuvenation of the core business through de-financialization in order to use the available resources for revitalization of the core competitiveness. In terms of industrial appropriateness, financialization will apply more to traditional industries such as textiles and apparel. These industries usually have slow growth in their core businesses, although they have relatively stable cash flows, which makes financialization appropriate at some point in time. High growth innovative industries do not suit financialization, as this would result in diversion of resources from innovation.

In summary, from the case study of Yagor's financialization process, it is evident that financialization is not "a one-size-fits-all approach" for manufacturing firms since its success is contingent upon whether it matches the firm's lifecycle stage and its environment, both internal and external. Only through the application of the above-mentioned principles and regarding financialization as a complementary instrument of core business development will manufacturing firms realize synergy between financialization and core business development.

5. Conclusion

The case is based on Jager, and through analyzing the case, the paper tries to figure out the forces driving financing, implementation and results from the standpoint of the life cycle of the company and to uncover the hidden financing model in the manufacturing industries: The impact of financing has great differences in various stages of the life cycle. In the growth stage, Jager's average financing distinguished the risks related to the decline of the growth in the textile industry. On the other hand, financial earnings financed research and development of cannabis clothing and channel expansion, leading to a positive feedback loop whereby "capital flows back into the core business." However, when Jager entered the mature stage, excessive financialization worked against the growth of the company because revenues from the clothing business were exhausted, and the financial risks and the 'crowding out' effect became clear. And when the company was in decline, 'definalization' strategy was vital for restoring core competitiveness. Through divestiture of the non-core financial assets in order to recover the capital and reinvesting in the core business, the market share of Yagor surpassed that of Hailan Home, showing the high correlation between financialization strategy and results during the life cycle phases.

The financialization process of Yagur presents important lessons and insights for real-economy enterprises and their regulators. For real-economy enterprises, financialization is not only considered as an "all-purpose profitability tool," but one more tool that has to be developed along with the entire life cycle of the company: during the growth stage, financialization can help in risk management and raising money; whereas at the maturity stage, financialization level has to be controlled in order to avoid "redirecting resources from the real economy to the financial economy." "redirecting resources from the real economy to the financial economy";

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and finally, at the declining stage, the reverse process, i.e., de-financialization should be performed in order to stay concentrated on the core business, remembering the rule "core business first, then financing."This is the most critical lesson Yagor has learned in its journey from "excessive financialization dragging down the core business" to "de-financialization to restore competitiveness." In terms of industry regulation, it is necessary to break away from a "one-size-fits-all" regulatory approach and formulate differentiated guidance policies tailored to the corporate life cycle: for companies in the maturity phase that are prone to excessive financialization, monitoring of indicators such as the proportion of financial assets and fluctuations in financial income should be strengthened to prevent the accumulation of risks; for companies entering the decline phase that need to restructure their core businesses, policy guidance-such as streamlining the disposal process for non-core financial assets and supporting R&D and channel development in their core businesses-can help them return to their real-economy roots and avoid missing transformation opportunities due to path dependence on financialization.

It is necessary to note that the presented article is the result of analysis of a single firm Yagor and its findings have a number of limitations. Being a private firm working in the textile and clothing business, the company is affected by such things as industry specifics and ownership structure when making and implementing financial decisions. In order to implement these findings into practice in other cases, they need to be additionally verified in the light of the specifics of other firms operating in different industries and having another form of ownership.

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