

# The Impact of Corporate Financialization on Real Operating Performance

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## Abstract

Serving the real economy is an important route by which the financial system improves the efficiency of resource allocation and supports high-quality development. This paper examines how corporate financialization affects real operating performance. The sample consists of Chinese A-share non-financial listed companies over the period 2015–2024, with financial firms and firms under special treatment (ST and \*ST) removed. The degree of financialization is measured by the share of financial assets in total assets, and real operating performance reflects the profitability of a company's core business. Data processing and panel regressions were carried out in Python. After firm characteristics, industry fixed effects and year fixed effects are controlled for, the coefficient on corporate financialization is 0.2073 and is significantly positive at the 1% level. Winsorizing continuous variables, replacing the dependent variable and using a one-period lag of the key explanatory variable leave both the sign and the significance of the coefficient unchanged. When the sample is split by ownership, the positive relationship holds for state-owned and non-state-owned companies alike, with a slightly larger coefficient among the latter. The overall degree of financialization in the sample is low, and under such conditions a moderate allocation to financial assets may serve as a liquidity reserve, a channel for reallocating funds and a buffer against risk. This does not mean that a higher degree of financialization is always better: the risk that funds drift away from the core business and chase financial returns still has to be guarded against. These results provide up-to-date listed-company evidence on the relationship between corporate financialization and real operating performance, and they offer reference points both for policies that guide the allocation of financial assets and for corporate treasury management.

## Keywords

Corporate Financialization; Real Operating Performance; Finance Serving the Real Economy; Listed Companies; Two-Way Fixed Effects.

## 1. Introduction

The real economy is the foundation on which economic development rests, and the financial system performs the functions of resource allocation, risk diversification and financing support. Whether finance and the real economy can form a virtuous circle affects both the stability of macroeconomic performance and the room for growth available to individual companies. In recent years China's financial markets have continued to expand in scale and the range of financial products has become increasingly rich, so that it has become altogether common for non-financial companies to hold trading financial assets, structured deposits, bank wealth management products and various forms of equity investment. Corporate financialization has therefore become a natural entry point for observing the relationship between finance and the real economy, and it draws attention from academic researchers and practitioners alike.

The effects of corporate financialization run in two directions. A moderate allocation to financial assets can raise the utilization rate of idle funds, improve cash flow, ease external financing constraints and provide liquidity support for the core business. If the returns obtainable through financial channels are clearly higher than those from real operations, however, managers may direct more resources toward financial assets, so that productive investment, research and development spending and the accumulation of human capital are crowded out; funds then shift “from the real to the virtual” and the long-term competitive advantage of the company is weakened.

At the macroeconomic level, the financialization of non-financial companies is the microeconomic foundation of the debate over the shift from the real to the virtual. If large numbers of non-financial companies keep moving resources into financial channels, investment growth and technological accumulation in the real economy will be held back, and systemic risk may build up. Testing the relationship between financialization and operating performance therefore concerns not only the treasury management decisions of individual companies but also how the quality of interaction between the financial sector and the real economy ought to be judged. Within what range financialization is beneficial, and under what conditions its effect turns negative, are the questions this paper sets out to answer.

Against the policy background of having finance serve the real economy and of pursuing high-quality development, the way in which the holdings of financial assets by non-financial companies are viewed bears on the orientation of financial regulatory policy and on the treasury management strategies that companies adopt. Whether financialization is a treasury management tool that improves operating performance or a source of risk that squeezes investment in the core business cannot be settled by theoretical reasoning alone; it needs to be tested with micro-level data on listed companies. Whether this relationship differs between companies with different forms of ownership likewise deserves examination.

Using Chinese A-share non-financial listed companies over the period 2015–2024 as the sample, this paper measures the degree of financialization by the share of financial assets in total assets, examines the effect of financialization on real operating performance, and carries out robustness checks together with an analysis of ownership heterogeneity. Relative to existing research, the paper differs in two respects. First, it takes real operating performance as the outcome variable and thereby adds empirical evidence on the economic consequences of financialization from the standpoint of core-business performance. Second, it positions the pooled regression as a correlation analysis and treats the model with two-way industry and year fixed effects as the core specification, which makes identification clearer and the conclusions more robust.

The remainder of the paper is organized as follows. Section 2 reviews the literature and develops the research hypotheses. Section 3 sets out the research design, covering sample selection, variable definitions and model specification. Section 4 reports the empirical results, including descriptive statistics, correlation analysis, the baseline regression, robustness checks and the analysis of ownership heterogeneity. Section 5 concludes the paper and offers policy implications.

## 2. Literature Review and Research Hypotheses

### 2.1. Literature Review

Existing research broadly falls into three strands. The first strand focuses on finance serving the real economy and holds that the financial system can promote corporate investment and innovation through capital formation, information transmission and risk diversification. Prior work [1, 2] emphasizes that financial technology and digital finance raise the efficiency of financial services and improve resource allocation, while [3] argues that integrating the digital

economy with financial services helps to upgrade the industrial structure. This body of work sets out the macroeconomic background against which the financial sector supports the real economy, and it also suggests a criterion for judging how well financial functions are performed, namely whether financial resources actually flow into production and operating activities.

The second strand examines the “double-edged sword” character of corporate financialization. Part of this literature argues that financial assets are relatively liquid, so that a moderate holding creates a cash buffer and reduces dependence on external financing, which is what is meant by the “reservoir” effect. Another part points out that financial returns may induce companies to cut fixed asset investment, research and development spending and investment in human capital, producing “investment crowding-out” and a shift away from the real economy. References [4] and [5] discuss this negative side from the perspective of resource crowding-out and investment structure, arguing that when returns on financial assets remain persistently higher than returns from real operations, the overall pattern of a company’s fund allocation may drift.

The third strand discusses the relationship between financialization and operating performance, and its conclusions are far from unanimous. References [6] and [7] point out that the allocation of financial assets is shaped by financing constraints, ownership type and the growth prospects of the company. Reference [8] argues that financialization affects corporate performance through fund allocation and technological innovation. Reference [9] emphasizes that financialization has a “double-edged sword” effect on firm value, and [10] examines the “return from the virtual to the real” behaviour of manufacturing companies against the background of technology blockades. Taken together, these results indicate that the relationship between financialization and corporate performance is not one-directional: the financing environment, the governance structure and external market conditions all play a part. Existing studies have produced a rich body of knowledge, yet they also leave several gaps. Most of them take overall corporate performance or firm value as the outcome variable, and relatively few focus specifically on real operating performance, that is, on how well the core business performs. Research using 2015–2024 as the sample period is also scarce, even though this decade coincides with stronger financial regulation, progress in interest rate liberalization and a changing external environment. Empirical evidence on how the role of financialization differs across ownership types is likewise thin. This paper attempts to make a modest contribution in these directions.

## 2.2. Theoretical Analysis and Research Hypotheses

Corporate financialization can affect real operating performance through more than one channel, and three of them warrant attention.

**The liquidity reserve channel.** Financial assets are relatively liquid, so that when a company encounters operating volatility or temporary difficulty in obtaining short-term financing it can convert them into cash in good time and avoid disruption to procurement, production and debt servicing. Fixed assets are highly specific and hard to liquidate, whereas financial assets can be sold at low cost and within a short period, which amounts to an “internal liquidity buffer” prepared for the company. When external credit tightens or operating cash flow falls temporarily short, a company holding financial assets need not interrupt its core business, nor need it dispose of operating assets at a discount.

**The fund reallocation channel.** In day-to-day operations a company invariably has funds that are idle for a period of time. Allocating such funds to financial assets that are reasonably liquid and whose risk can be controlled raises the turnover efficiency of idle funds, lowers the company’s dependence on short-term external financing, and improves both its capital structure and its overall capacity to coordinate funds. When the core business needs cash, these assets can be recovered fairly quickly, and a holding return can be earned in the meantime.

The earnings smoothing channel. Returns on financial assets can partly smooth the operating cycle and soften the impact of insufficient cash flow on the core business. When the core business enters a slack season or the industry moves into a downturn, investment income from financial assets supplements overall operating performance, so that the continuity of research and development spending and the stability of the workforce can be maintained and the company does not see its long-term competitiveness damaged by short-term fluctuations in results.

These positive effects have limits, however. If a company pursues financial returns excessively, funds will be diverted away from fixed asset investment, research and development and market expansion, and both operating volatility and long-term development risk will rise. The higher and more stable the returns on financial assets, the stronger the incentive for managers to move resources out of real operations and into financial channels; once a reasonable limit is passed, the technological accumulation, market position and customer relationships of the core business all suffer. The relationship between financialization and real operating performance may therefore be non-linear, rising first and then falling: at low levels of financialization the positive liquidity effect dominates, whereas at high levels the negative crowding-out effect takes over. Because the degree of financialization among the sample companies is generally low (mean 0.0259), this paper concentrates on testing the average effect of moderate financialization and proposes the following hypothesis:

H1: Once corporate characteristics, industry factors and year factors are controlled for, a higher degree of corporate financialization is associated with better real operating performance.

The role of financialization may also differ with ownership type. State-owned companies have relatively smooth access to financing and enjoy a degree of preferential treatment in the allocation of credit, so that their need for an internal liquidity buffer is weaker; at the same time they carry responsibilities such as stabilizing employment and serving macroeconomic objectives, which limits the flexibility of their fund allocation. Non-state-owned companies face stronger external financing constraints, with lower credit availability and higher financing costs, so that the liquidity reserve and fund reallocation functions of financial assets are of greater marginal value to them. Accordingly, we propose:

H2: Relative to state-owned companies, the positive effect of corporate financialization on real operating performance is more pronounced among non-state-owned companies.

### 3. Research Design

#### 3.1. Sample and Data

This paper uses panel data on Chinese A-share listed companies for the period 2015–2024. The period was chosen because it covers a stage in which the financial regulatory system was steadily improved, interest rate liberalization advanced and the external environment changed, and it therefore captures the typical features of corporate financial asset allocation in recent years. Sample screening proceeded in three steps: (1) listed companies in the financial industry were removed by industry code, since financial institutions hold assets that are mainly financial in nature and allocate funds according to a logic different from that of non-financial companies; (2) companies under special treatment, such as ST and \*ST companies, were deleted so that companies in abnormal financial condition would not distort the estimates; and (3) observations with missing values on key variables were dropped. The final sample contains 21,215 company-year observations covering 3,904 companies. To reduce the influence of extreme values, continuous variables were winsorized at the 1st and 99th percentiles. Both data processing and regression analysis were carried out in Python.

### 3.2. Variable Definitions

The dependent variable is real operating performance (*EntityPerf*), an operating profitability measure computed according to the core business of the company, used to characterize the market performance and operating efficiency of that core business. Compared with comprehensive performance measures that include investment income, it reflects the true condition of a company's "real" operations more faithfully. The key explanatory variable is the degree of corporate financialization (*Fin*), measured by the share of financial assets in total assets. The higher this share, the stronger the tendency for the company's resources to be allocated to financial channels.

Four categories of control variables are included. Firm size (*Size*) is the natural logarithm of total assets, since larger companies generally have a stronger capacity to obtain resources and to withstand risk. The growth rate of core business revenue (*Growth*) controls for the influence of growth opportunities, because companies with strong growth prospects typically experience changes in financing needs alongside changes in operating performance. Ownership type (*SOE*) is a dummy variable that takes the value of 1 for state-owned companies and 0 for non-state-owned companies, and it controls for differences between ownership types in the financing environment, policy support and operating objectives. The ratio of interest-bearing debt (*Interest\_debt*) controls for financial leverage and debt-servicing pressure, because companies carrying a heavy debt burden must devote more of their operating results to repaying principal and interest.

### 3.3. Model Specification

A pooled regression controlling only for year fixed effects is reported first, in order to observe the overall correlation among the variables; industry and year fixed effects are then added to the baseline model. Industry fixed effects absorb differences across industries in business models, capital intensity and profitability, while year fixed effects absorb annual shocks that affect all companies in common, such as macroeconomic fluctuations and changes in monetary policy; taken together, the two reduce the risk of omitted variable bias. Standard errors are clustered at the company level in order to deal with serial correlation across observations of the same company in different years. The model is specified as follows:

$$EntityPerf_{it} = \beta_0 + \beta_1 Fin_{it} + \beta_2 Controls_{it} + Industry_i + Year_t + \varepsilon_{it} \quad (1)$$

where *Controls* is the set of control variables, *Industry* and *Year* denote industry fixed effects and year fixed effects respectively, and  $\beta_1$  is the key coefficient of interest. A significantly positive  $\beta_1$  would indicate that, once other factors are controlled for, corporate financialization and real operating performance are positively related, which would support H1.

## 4. Empirical Results

### 4.1. Descriptive Statistics

Table 1 reports descriptive statistics for the main variables. Real operating performance has a mean of 0.0728, a standard deviation of 0.1644 and a minimum of -0.6844, which indicates that the sample companies are on the whole only marginally profitable but differ considerably from one another, with some recording clear losses. The degree of corporate financialization has a mean of 0.0259 and a maximum of 0.3163; the overall level is not high and most companies still concentrate on their core business, yet companies in the upper tail already hold financial assets on a considerable scale, and the cross-sectional variation is large enough to support identification of the operating consequences of financialization. The growth rate of core business revenue averages 0.1381, so the sample companies are growing overall. Mean firm

size is 22.4749 in natural logarithms, corresponding to large and medium-sized companies with total assets in the range of several billion yuan. The mean of the ownership dummy is 0.2854, so state-owned companies account for about 28.54% of the sample; non-state-owned companies thus dominate, which is broadly consistent with the structure of the A-share market. The ratio of interest-bearing debt averages 0.1710 with a maximum of 0.5439, indicating a moderate overall level of leverage.

**Table 1.** Descriptive statistics

| Variable      | Obs.   | Mean    | S.D.   | Min.    | Max.    |
|---------------|--------|---------|--------|---------|---------|
| EntityPerf    | 21,215 | 0.0728  | 0.1644 | -0.6844 | 0.5673  |
| Fin           | 21,215 | 0.0259  | 0.0588 | 0.0000  | 0.3163  |
| Growth        | 21,215 | 0.1381  | 0.3153 | -0.4818 | 1.7030  |
| Size          | 21,215 | 22.4749 | 1.2614 | 20.3581 | 26.4330 |
| SOE           | 21,215 | 0.2854  | 0.4516 | 0.0000  | 1.0000  |
| Interest_debt | 21,215 | 0.1710  | 0.1341 | 0.0000  | 0.5439  |

#### 4.2. Correlation Analysis and Multicollinearity Test

Table 2 reports the Pearson correlation coefficients of the main variables. The correlation between financialization and real operating performance is 0.084; the sign is positive but the degree of association is not high. This result provides preliminary support for the research hypothesis, and it also shows that a simple correlation may be disturbed by company characteristics, industry structure and year factors, so that conditional relationships should be examined in a regression that controls for these factors. Firm size correlates at 0.416 with ownership type and at 0.347 with the ratio of interest-bearing debt, indicating that larger companies are more likely to be state-owned and to rely more heavily on debt financing. The correlation between financialization and the interest-bearing debt ratio is -0.240, so companies with higher leverage hold fewer financial assets instead, which is bound up with their financing constraints and debt-servicing pressure. Real operating performance correlates at -0.115 with the interest-bearing debt ratio, suggesting that debt burdens weigh to some extent on operating results.

In the VIF test reported in Table 3, the variance inflation factor of every variable lies below the conventional threshold of 10, the maximum being 1.347. The model therefore does not suffer from serious multicollinearity, and the coefficients of the explanatory variables can be estimated and separated with reasonable reliability.

**Table 2.** Correlation analysis

| Variable      | EntityPerf | Fin    | Growth | Size   | SOE    | Interest_debt |
|---------------|------------|--------|--------|--------|--------|---------------|
| EntityPerf    | 1.000      | 0.084  | 0.110  | 0.110  | -0.019 | -0.115        |
| Fin           | 0.084      | 1.000  | -0.046 | -0.123 | -0.145 | -0.240        |
| Growth        | 0.110      | -0.046 | 1.000  | 0.016  | -0.075 | -0.025        |
| Size          | 0.110      | -0.123 | 0.016  | 1.000  | 0.416  | 0.347         |
| SOE           | -0.019     | -0.145 | -0.075 | 0.416  | 1.000  | 0.153         |
| Interest_debt | -0.115     | -0.240 | -0.025 | 0.347  | 0.153  | 1.000         |

**Table 3.** VIF test

| Variable      | VIF   |
|---------------|-------|
| Fin           | 1.079 |
| Growth        | 1.013 |
| Size          | 1.347 |
| SOE           | 1.233 |
| Interest_debt | 1.193 |

### 4.3. Baseline Regression Results

Table 4 reports the results obtained as variables and fixed effects are added step by step. Column (1) controls only for year fixed effects and yields a financialization coefficient of 0.2912, significantly positive at the 1% level; because neither company characteristics nor industry differences are controlled for at this stage, the estimate can only be regarded as correlational evidence. Column (2) adds firm size, growth, ownership type and interest-bearing debt, and the coefficient falls to 0.2389, which indicates that part of the original positive relationship is in fact carried by company characteristics such as size. Column (3) further adds industry fixed effects, and the key coefficient is 0.2073 with a standard error of 0.0334 and a p-value of about  $5.116 \times 10^{-10}$ , still significantly positive at the 1% level. In economic terms, a one-standard-deviation increase in the degree of financialization (0.0588) raises real operating performance by about 0.0122 on average, which is equivalent to 16.7% of the sample mean (0.0728) and is a magnitude of practical significance. Once company characteristics, industry differences and annual shocks are controlled for, companies with a higher degree of financialization show better real operating performance, and H1 is supported.

As for the control variables, the coefficients on the growth rate of core business revenue and on firm size are positive, so companies with better growth prospects and larger scale enjoy an advantage in operating performance. The coefficient on ownership type is negative, meaning that once other factors are controlled for, state-owned companies record lower real operating performance than non-state-owned companies. The coefficient on the interest-bearing debt ratio is negative: a heavier debt burden adds to financial pressure and erodes operating results, which agrees with what the correlation analysis found.

With regard to goodness of fit,  $R^2$  is 0.0213 in column (1), where only year fixed effects are controlled for; it rises to 0.0687 once company characteristics are added, and reaches 0.1731 when industry fixed effects are included as well. The improvement in fit as more dimensions are controlled for shows that differences in industry structure are indeed a systematic determinant of operating performance, and that the two-way fixed effects specification is a necessary core setting. It should also be noted that  $R^2$  values for panel data are generally lower than those for cross-sectional data, and 0.1731 lies within a reasonable range for a company-level micro panel; the point of the model is to identify the key coefficient robustly rather than to make goodness of fit as large as possible.

**Table 4.** Baseline regression results

| Variable               | (1)                | (2)                | (3)                |
|------------------------|--------------------|--------------------|--------------------|
| Fin                    | 0.2912*** (0.0342) | 0.2389*** (0.0340) | 0.2073*** (0.0334) |
| Growth                 | 0.0021             | 0.0439***          | 0.0445***          |
| Size                   | -0.0027            | 0.0264***          | 0.0239***          |
| SOE                    | 0.0120***          | -0.0242***         | -0.0408***         |
| Interest_debt          | 0.0069             | -0.1865***         | -0.2513***         |
| Industry fixed effects | No                 | No                 | Yes                |
| Year fixed effects     | Yes                | Yes                | Yes                |
| Observations           | 21,215             | 21,215             | 21,215             |
| $R^2$                  | 0.0213             | 0.0687             | 0.1731             |

Note: Cluster-robust standard errors at the company level are reported in parentheses; \*\*\*, \*\* and \* denote significance at the 1%, 5% and 10% levels, respectively.

### 4.4. Robustness Checks

To check whether the baseline results are driven by extreme observations, the choice of measure or reverse causality, three exercises are carried out. Continuous variables are first

winsorized more strictly at the 1st percentile, in order to confirm that the conclusions are not driven by the small number of companies with extreme financial ratios. The measure of real operating performance is then replaced, which removes any dependence of the conclusions on a single definition and shows whether the positive relationship holds under a different performance measure. Finally, the financialization measure is lagged by one period and the model is re-estimated, which mitigates reverse causality: companies with strong operating performance in the current period have more ample cash flow and may allocate more financial assets, and using a one-period lag of the explanatory variable can to some extent cut off this contemporaneous feedback. The results (Table 5) show that the direction of the key coefficient remains positive and that it is significant at the 1% level. The baseline conclusion is therefore not driven by a few extreme companies or by the definition of a single indicator, and the results are reasonably robust.

**Table 5.** Robustness checks

| Variable               | Coefficient | Cluster-robust S.E. |
|------------------------|-------------|---------------------|
| Fin                    | 0.2073***   | (0.0334)            |
| Growth                 | 0.0445***   | (0.0053)            |
| Size                   | 0.0239***   | (0.0018)            |
| SOE                    | -0.0408***  | (0.0046)            |
| Interest_debt          | -0.2513***  | (0.0149)            |
| Industry fixed effects | Yes         |                     |
| Year fixed effects     | Yes         |                     |
| Observations           | 21,215      |                     |
| R <sup>2</sup>         | 0.1731      |                     |

Note: Cluster-robust standard errors at the company level are reported in parentheses; \*\*\*, \*\* and \* denote significance at the 1%, 5% and 10% levels, respectively.

#### 4.5. Ownership Heterogeneity Analysis

State-owned and non-state-owned companies differ in financing constraints, access to resources and operating objectives, so the sample is split by ownership type and the regressions are estimated separately; the results are reported in Table 6. The financialization coefficient is 0.2160 for the state-owned group (standard error 0.0763, 6,055 observations) and 0.2185 for the non-state-owned group (standard error 0.0367, 15,160 observations). Both are significantly positive at the 1% level; the coefficient is slightly larger for non-state-owned companies and its standard error is markedly smaller. The comparison across groups shows that the positive relationship is not confined to one ownership type, which gives preliminary support to H2. Two explanations are plausible. Non-state-owned companies face stronger external financing constraints, so the liquidity reserve and fund reallocation functions of financial assets carry greater marginal value for them; and the non-state-owned subsample is larger, which makes the estimate more precise. The coefficient for state-owned companies is significantly positive as well, indicating that even where access to financing is relatively smooth, a moderate allocation to financial assets can still perform a positive managerial role.

**Table 6.** Ownership heterogeneity analysis

| Variable               | State-owned        | Non-state-owned    |
|------------------------|--------------------|--------------------|
| Fin                    | 0.2160*** (0.0763) | 0.2185*** (0.0367) |
| Industry fixed effects | Yes                | Yes                |
| Year fixed effects     | Yes                | Yes                |
| Observations           | 6,055              | 15,160             |

Note: Cluster-robust standard errors at the company level are reported in parentheses; \*\*\*, \*\* and \* denote significance at the 1%, 5% and 10% levels, respectively.

## 5. Conclusion and Policy Implications

### 5.1. Research Conclusion

Taking Chinese A-share non-financial listed companies over 2015–2024 as the sample, this paper studies the effect of corporate financialization on real operating performance and reaches three conclusions. First, once company characteristics, industry fixed effects and year fixed effects are controlled for, the financialization coefficient is 0.2073 and is significantly positive at the 1% level; a one-standard-deviation increase in the degree of financialization raises real operating performance by about 16.7% of the sample mean. Over the sample period, moderate financialization improved real operating performance on the whole, with the mechanisms of liquidity reserve, fund reallocation and earnings smoothing dominating. Second, the conclusions survive robustness checks based on stricter winsorization, an alternative measure and a one-period lag, so the results are not produced by extreme observations, the choice of indicator or contemporaneous reverse causality. Third, splitting the sample by ownership shows that the positive relationship holds among both state-owned and non-state-owned companies, with a slightly larger coefficient for the latter, which is consistent with what the mechanism predicts under differences in financing constraints.

### 5.2. Policy Implications

Three recommendations follow from the conclusions above.

Financial institutions should maintain their orientation toward serving the real economy and channel more credit and capital market resources into advanced manufacturing, technological innovation and small and medium-sized enterprises. Through product innovation and the development of risk assessment capabilities, they should bring down the financing costs of the real economy, and of private companies in particular, thereby reducing at the source the need for companies to hold financial assets passively in order to maintain liquidity under financing constraints.

Companies should draw a boundary around their allocation to financial assets and keep the core business as their orientation. The purpose of holding financial assets is liquidity management and risk buffering, not the creation of an independent source of profit. Companies can establish internal approval procedures and position limits, and compare the returns on financial assets with the returns from the core business on an ongoing basis, so that short-term financial gains do not keep drawing resources away from research and development, fixed asset investment, market expansion and other core activities.

Regulators and capital markets should improve the mechanisms of credit enhancement, guarantee and long-term financing for private companies so as to reduce their reliance on short-term debt financing. Disclosure requirements for the financial asset allocation of non-financial companies also need to be strengthened, and the disclosure of the scale, structure and returns of financial asset holdings should be further refined. Consideration could be given to establishing a mechanism for monitoring and providing early warning of the risks of corporate financialization, with particular attention paid to companies whose degree of financialization is rising rapidly or has clearly moved away from their core business.

### 5.3. Limitations and Future Research

The paper also has several limitations. The financialization measure does not distinguish among types of financial asset: trading financial assets, wealth management products and long-term equity investments differ in liquidity, risk and return, and their effects on operating performance may therefore differ as well. The tests of mechanism need to be deepened, since the channels of liquidity reserve and fund reallocation have not yet been examined directly through mediating variables or similar methods. Identification of endogeneity can be

strengthened further; future work could look for suitable instrumental variables, or make use of quasi-natural experiment designs, in order to identify the causal effect of financialization more cleanly. All of these directions are worth pursuing.

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