

Study on the Motivation of Nonlinear Trajectory of Corporate Financialization and the Impact of Financial Performance

-- Taking Huamao Stock as an Example

Ruijia Lan^{1, *}, Guoyu Mao¹

¹ College of Management, Sichuan University of Science & Engineering, Zigong, 643000, China

* Corresponding author: Ruijia Lan (Email: 790317389@qq.com)

Abstract: With the continuous changes in the global market environment and the intensification of trade friction between China and the United States, the downward pressure on China's real economy has increased. Entity enterprises have been involved in the financial and real estate and other virtual economy, in order to obtain high profits, the entity enterprise "de-realization to virtual" phenomenon is becoming more and more serious. In recent years, the state has introduced a series of policies to guide manufacturing enterprises to "return to the real", of which "deleveraging" in the supply-side structural reform has become an important means to regulate the disconnection between the real and the virtual economy. How to guide and promote the manufacturing enterprises to "return to reality" is the key to promote the high-quality development of China's economy, but how the impact needs to be studied in depth. Taking Huamao shares as a case study, this study selects 15 key financial indicators between 2010 and 2022, and applies the entropy method to quantitatively analyze the differential impact on financial performance of the company's financialization behavior between 2010 and 2019 and its de-financialization process from 2020 to the present. By deeply exploring the non-linear development trajectory of financialization and its specific impact on the financial performance of the company, this paper reveals that Huamao's financialization behavior, while promoting investment returns, has generated investment substitution effects and in turn has generated obvious crowding-out effects on the company's main business, thus weakening the profitability of the company. In view of this, it puts forward relevant policy suggestions for the financialization of manufacturing enterprises, which helps to guide industrial capital to return to the main business and accelerate the upgrading and transformation of manufacturing industry under the background of revitalization of the real economy vigorously advocated by the state and has certain guiding significance, and emphasizes the importance of returning to the manufacturing industry and the necessity of returning to the industry as the core engine for promoting the long-term and stable growth of China's economy in order to provide a reference path for the development of other financialized real enterprises. It emphasizes the importance and necessity of the return of the manufacturing industry as the core engine for promoting the long-term stable growth of China's economy, with a view to providing a reference path for the development of other financialized real enterprises.

Keywords: Manufacturing, financialization, nonlinear trajectories, crowding out effects.

1. Introduction

Financialized capitalism, manifested in the tendency to deviate from the real economy in favor of finance and its derivative industries, has become a prominent feature of the "deconcentration" of enterprises. According to data from the National Bureau of Statistics, the contribution rate of China's financial industry to the gross domestic product (GDP) has been increasing year by year, reaching 8% in 2021, while the proportion of the relative industrial added value to the GDP has been on a continuous downward trend [1]. This phenomenon reflects the structural imbalance in the development between the real economy and the virtual economy, as well as the excessive expansion of the virtual economy. Research has shown that when the financialization of the economy is kept within a reasonable threshold, it can positively promote the growth of the real economy, thus maximizing the growth effect.

Financialization can be used as a tool to improve the short-term performance of firms. Chengshi Zhang and Ning Zheng (2020)[2] have already suggested that due to the high liquidity

of financial assets and the short return period of investment, in the new normal stage of the sustained downturn of the real economy, the increased uncertainty of the future macro-economy, the intensification of the risk of fixed assets and industrial investment, and the upward trend of the potential return of financial investment, the increase in the holdings of financial assets can reduce the possible loss of industrial investment, and improve and improve the short-term profitability of the enterprise and the financial position. In terms of financialization hindering the long-term performance improvement of enterprises, Du Yong (2017) argues that due to limited resource conditions, the increasing financial investment of enterprises will inevitably crowd out fixed investment and innovation inputs, leading to a decline in industrial investment and lower profitability in the future [3]. Song Jun and Lu Yang (2015) also proposed that in the new normal stage of intensifying external shocks and diminishing low-cost competitive advantages accumulated by long-term sloppy growth, when the investment return on financial assets gradually exceeds the return on industrial investment, overinvestment in financial assets will increase the cost of financing and debt burden of the enterprise, and

further exacerbate the hollowing out of the enterprise's operations [4]. Practice shows that the development trajectory of enterprise financialization is non-linear, and the impact of financialization on enterprise performance is not a single linear promotion or hindrance. Therefore, it is of great significance to identify the internal logic of enterprises' reliance on the path of financialization, analyze the nonlinear process of enterprise financialization into different stages according to its characteristics, and discuss the nonlinear impact of financialization on performance when external and internal conditions are different.

2. Huamao Stock Case Study

2.1. Section Headings

2.1.1. Brief introduction of the case enterprise

Huamao Stock is a mixed ownership enterprise founded in 1958 with spinning, weaving, fabrics and non-woven industries, and its products are exported to domestic and international markets. In 1998, Huamao was listed on the Shenzhen Stock Exchange. The company takes textile industry as its main business, and yarn, thread and cloth are the main businesses, etc. At the same time, it focuses on the integration strategy and explores the upstream and downstream industries in depth, and has been gradually developing a complete industrial chain from cotton to textile and then to garment sales since 2013. The company got involved in the financial field soon after listing, and with the development of the company, the amount of its financial investment is also increasing, and the degree of financialization is increasing, financial assets from the beginning of 220 million yuan, to the highest degree of financialization in 2015 reached 8.572 billion yuan, accounting for as much as 57.81% of the proportion of total assets. Facing the "14th Five-Year Plan", under the new development pattern, Huamao said it will unswervingly take the road of high-quality development.

2.2. Analysis of financialization dynamics of Huamao shares

2.2.1. Dynamic strategy adopted to cope with the new situation of global pattern

After the international financial crisis, the world economic structure has been profoundly adjusted, and the international competition in the manufacturing industry has become increasingly fierce, setting off a new round of competition for the manufacturing industry around the world. Developed countries through the implementation of "re-industrialization" strategy reflects a strong willingness to localize the industrial chain, such as the United States of America's "advanced manufacturing" strategy, Germany's "National Industrial Strategy 2030" and so on. "In addition, major emerging economies are also utilizing their own advantages to accelerate the layout. With the demographic changes in China, the advantage of low labor cost is decreasing, which undoubtedly puts China's manufacturing industry in the predicament of double squeeze. In addition, the United States, Europe, Japan and other developed countries and regions since the financial crisis, economic growth has been in a weak state, the global economic growth momentum is not enough to prompt the rise of trade protectionism, by the subprime crisis, the outbreak of the debt crisis in Europe and the spread of the new Crown Pneumonia epidemic, the wave of anti-globalization is intensifying, a

variety of trade barriers to China's manufacturing industry has brought some of the obstacles that need to be resolved, market Challenges to market development and orders. In addition, because the textile raw materials, electricity prices and other factors of production costs are still at a high level, the enterprise comprehensive cost pressure is still greater.

2.2.2. "Industrial + financial" synergy effect moistens its own industrial development

Resource-based theory as a premise, that is, under the condition of clear resource boundaries, there is a complementary or alternative relationship between different resources within the enterprise, the enterprise can determine the proportion of investment in fixed assets and financial assets according to their own development needs [5], out of the "reservoir" motivation, the enterprise tends to increase with a short cycle, For the motive of "reservoir", enterprises tend to increase the short cycle, fast liquidity and other advantages of financial assets investment to ensure the liquidity of funds, and ultimately realize the main business for the enterprise to provide assistance to the purpose. In 2011, Huamao adjusted the development strategy of the company, which was mainly manifested in the company's decision to add the item of "investment management" in the scope of business to realize the strategy of dual-wheel drive of "industrial capital" and "financial capital", which was approved by the shareholders' general meeting. The strategy of realizing the dual-wheel drive of "industrial capital" and "financial capital" has passed the consideration of the shareholders' meeting. As can be seen in Figure 1, since 2010, Huamao's net profit after non-recurring gains and losses has been declining, and has been negative for 7 consecutive years since 2012, but the company's net profit has still turned from loss to profit. For example, the investment income obtained by the company in 2014 reached 636 million yuan, while the net profit in 2014 was only 357 million yuan. It can be seen that Huamao's operational performance is poor, and its financialization is also motivated by the need for new profit growth points.

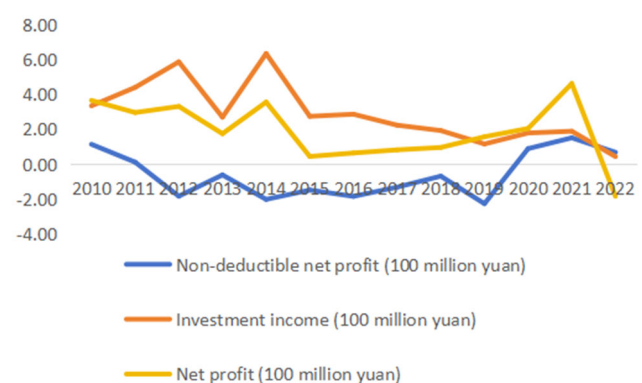


Figure 1. Earnings for 2010-2022

2.2.3. Obtaining high returns on financial investments

The investment substitution theory holds that, driven by capital arbitrage, regardless of whether the enterprise's industrial production is facing a profitability crisis or not, it will transfer funds from the industrial sector to the financial sector in order to quickly obtain a higher rate of return on investment compared to the industrial production and pursue more profits. By comparing the return on net assets and the return on financial assets of Huamao shares, we analyze whether the large financial asset allocation of enterprises is

motivated by speculative substitution. From Figure 2, it can be seen that Huamao's return on financial assets has been higher than the return on net assets from 2010 to 2021, on the one hand, it is because of the strong profitability of the financial channel, coupled with Huamao's early involvement in the financial market. 1999, Huamao invested 100 million yuan to participate in the stock of Guotai Junan Securities Company Limited to the successful listing in 2015, the available-for-sale financial assets of Huamao grew more than 1 billion yuan. In 2003, Huamao began to subscribe to the shares of Huishang Bank, which was listed on the stock market in the same year, Huamao received a dividend of 6.5 million yuan. On the other hand, as mentioned earlier, the industry in which Huamao is located has been affected by the general environment, and the development has not been friendly in recent years, while Huamao has focused on the financial field rather than the investment and operation of its main business. To summarize, it is not difficult to see that part of the reason for the company's investment in the financial channel is to make up for the loss of the main business. From the line graph, it can be seen that Huamao's earnings in the financial channel in recent years are not particularly satisfactory, so the company has been gradually reducing its investment in financial assets in recent years.

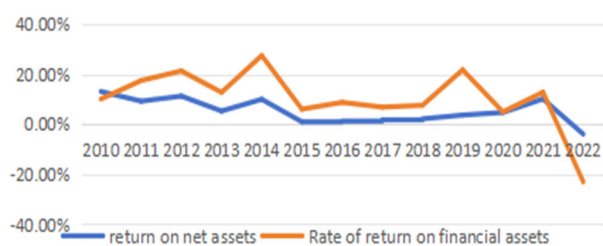


Figure 2. Rate of return scenarios, 2010-2022

3. Huamao's Non-linear Trajectory Financialization Behavior and Measurement

3.1. Description of financialization behavior of Huamao's non-linear trajectory

As early as in 1999, Huamao made investments in the financial field, such as Guotai Junan with 10,000,000 RMB as 2.68% investment ratio and Guangfa with 50,000,000 RMB as 2.5% investment ratio, etc. In 2008, the price of the shares of Hongyuan Securities held by the company fell sharply due to the impact of the decline of the stock market, and there was a mutation point. After the introduction of "Sharing in a company & holding a company", the degree of financialization of Huamao shares had a small decline, but then began to invest in various types of unlisted companies, such as agricultural products, medical equipment, trade, etc., and the volatility of the degree of its financialization increased. 2015, the successful listing of Guotai Junan made Huamao's available-for-sale financial assets increase by more than 1 billion yuan, which was also the first time that Huamao's available-for-sale financial assets grew by more than 1 billion yuan. billion yuan, which was also the peak of financial assets held by Huamao. In the following years, Huamao's financialization was influenced by the general environment and corporate strategy, and the financial assets experienced a decrease in volatility while strengthening the

focus on the main business and the research and development of products. Therefore, this paper explores the financialization of the enterprise from the point of view that in 2010, Huamao formally started to involve in venture capital investment in a number of non-listed companies in various fields.

3.2. Measurement of the degree of financialization of Huamao shares

3.2.1. Selection of Indicators

Up to now, there is no uniform statement on the measurement of "corporate financialization" in the academic world, Smith (1969) was the first to adopt the ratio of financial assets allocation as a measurement index [6], Orhangazi (2008) [7] and Demir (2009) [8] also believe that corporate financialization should be defined by comparing the ratio of financial assets controlled by the company to tangible assets. financial assets controlled by the firm to tangible assets to define corporate financialization. In addition, scholars have different views on the division of financial assets, Du Yong et al. (2019), in adopting the allocation ratio of financial assets to measure the degree of corporate financialization, refine the categories of financial assets into trading financial assets, amount of loans and advances granted, derivative financial assets, held-to-maturity investments, available-for-sale financial assets, and investment real estate [9]; Wu Fei and Xiang Hailing (2019) further decompose the overall financialization indicator into a maturity structure and disassemble it into long-term financialization and short-term financialization, including the sum of the year-end balances of seven types of accounts, including net long-term equity investment, net investment real estate, net held-to-maturity investment, trading financial assets, derivative financial assets, net loans and advances granted, and net available-for-sale financial assets, which is used as an estimation indicator of the enterprise's financial investment [10]. Based on Wu Fei's and Xiang Hailing's categorization, and combined with the subject names of the new 2019 Financial Instruments Standard, this paper classifies the financial assets invested in Huamao shares into 4 categories: trading financial assets, long-term equity investments, available-for-sale financial assets and other investments in equity instruments.

3.2.2. Measurement of the degree of financialization

Table 1. The proportion of financial assets held by Huamao in assets, 2010-2022

| Year | Financial Assets (yuan) | General Assets | Percentage |
|------|-------------------------|------------------|------------|
| 2010 | 3,424,615,598.74 | 6,906,546,855.00 | 49.59% |
| 2011 | 2,725,184,528.79 | 6,346,887,510.00 | 42.94% |
| 2012 | 2,932,781,460.45 | 6,683,352,826.00 | 43.88% |
| 2013 | 2,444,710,378.73 | 6,166,016,132.00 | 39.65% |
| 2014 | 2,416,255,527.57 | 6,677,707,250.00 | 36.18% |
| 2015 | 4,955,105,762.83 | 8,571,725,734.00 | 57.81% |
| 2016 | 4,083,333,278.58 | 7,795,440,649.00 | 52.38% |
| 2017 | 3,870,591,196.11 | 7,871,983,480.00 | 49.17% |
| 2018 | 3,285,119,655.95 | 7,578,544,010.00 | 43.35% |
| 2019 | 3,187,468,781.22 | 7,552,401,557.00 | 42.20% |
| 2020 | 2,591,881,719.35 | 7,147,216,897.00 | 36.26% |
| 2021 | 2,913,902,702.37 | 7,667,190,941.00 | 38.00% |
| 2022 | 2,319,091,077.29 | 7,301,435,471.00 | 31.76% |

Through the query and collation of financial data of

Huamao Company Limited, it can be seen that, from the viewpoint of the structure of financial assets of Huamao Company Limited, the company's investment in the financial field is mainly based on available-for-sale financial assets and long-term equity investment, plus some transactional financial assets, short-term investment and other items. Financial assets and other asset holdings in general show an upward trend, in which the proportion of financial asset holdings remains high, of which in 2015 it reached the peak of 57.81% in the last decade, until the beginning of a downward trend in recent years. It can be seen that Huamao shares gradually increase in height and the trend of financialization is increasing. In this paper, with reference to

the data of financial financing holdings and the proportion of financial assets of Huamao Company Limited from 2010 to 2022, and taking 2014 and 2019 as the time nodes, the process of financialization in more than ten years is divided into two major stages, namely, financialization stage (2010 - 2019) and de-financialization stage (2020 - present). -2019) and de-financialization stage (2020 - nowadays) two major stages, the degree of financialization of these three stages to measure, choose a more objective entropy value method to analyze the financial performance of Huamao shares. In addition, special attention is paid to the mutation point financialization events in each stage.

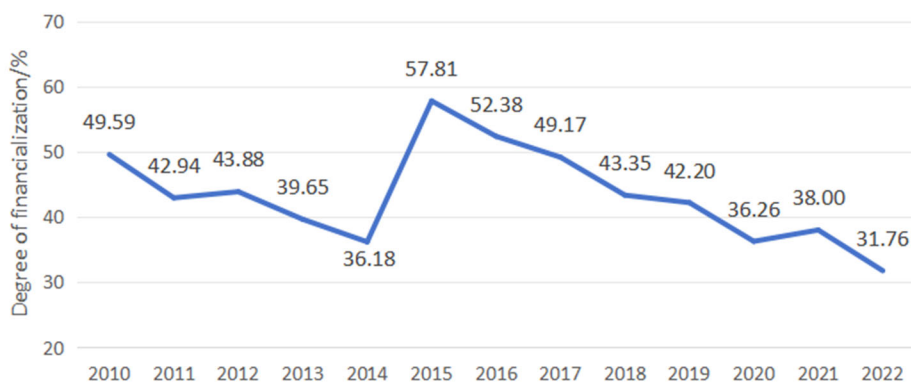


Figure 3. Non-linear financialization trajectory of Huamao stock

4. Financial Performance Analysis of Huamao's Financialization under Entropy Value Method

4.1. Financial performance evaluation design

This paper applies entropy weight method to analyze the financial performance of Huamao stock vertically. Entropy weight method is a method to objectively assign values to

indicators according to the size of information entropy of indicators. The smaller the information entropy is, the greater the discrete degree of the indicator is, the more information it contains, and the greater the weight it is given. This paper carries out research and analysis based on the enterprise performance evaluation standard system compiled by the State Council State-owned Assets Supervision and Administration Commission (SASAC), and the specific evaluation indexes are shown in Table 2.

Table 2. Performance evaluation index system of Huamao stocks

| Level 1 indicators | Level 2 indicators | Level 3 indicators | Nature of the indicator |
|--------------------------------------|----------------------|--|-------------------------|
| Comprehensive performance evaluation | profitability | operating profit margin | Positive |
| | | return on net assets | Positive |
| | | Surplus cash cover multiple | Positive |
| | | cost-effectiveness ratio | Positive |
| | | Accounts receivable turnover ratio | Positive |
| | operating ability | Current asset turnover ratio | Positive |
| | | Total asset turnover | Positive |
| | | gearing | Negative |
| | solvency | quick ratio | Positive |
| | | Cash flow liability ratio | Positive |
| | | Interest coverage multiple | Positive |
| | | business growth rate | Positive |
| | Development capacity | Operating profit growth rate | Positive |
| | | Total asset growth rate | Positive |
| | | Capital preservation and enhancement ratio | Positive |

This paper selects the relevant data of Huamao stock from 2010 to 2022, and the data are mainly from the database of Guotaian. The performance index construction model and steps are as follows:

First, the original data are standardized. Specifically, the original data are processed without dimension using the extreme value method.

Positive indicators use the formula

$$Y_{ij} = \frac{X_{ij} - \min X_{ij}}{\max X_{ij} - \min X_{ij}}$$

Negative indicators use the formula

$$Y_{ij} = \frac{\max X_{ij} - X_{ij}}{\max X_{ij} - \min X_{ij}}$$

where X_{ij} is the j th indicator of the i -th year. In this paper, only the gearing ratio is a negative indicator, and the rest are positive indicators. In addition, entropy value method in the subsequent calculation process to take the logarithm, the indicator data can not appear 0, in order to make the logarithmic calculation meaningful, need to be dimensionless after the data as a whole shift 0.0001, as far as possible to reduce the impact on the final results.

Second, the indicators will be dimensionless. Using the formula

$$P_{ij} = \frac{Y_{ij}}{\sum_{i=1}^m Y_{ij}}$$

Third, calculate the entropy value of each indicator. Applying the formula

$$e_j = -k \sum_{i=1}^m P_{ij} \ln P_{ij}$$

Fourth, the coefficient of variation is calculated, applying the formula

$$g_j = 1 - e_j$$

Fifth, determine the weights of the evaluation indicators,

applying the formula

$$w_j = \frac{g_j}{\sum_{j=1}^n g_j}$$

Sixth, calculate the comprehensive index value. Calculate the comprehensive value of each indicator in each year, then add up the comprehensive value of each year representing the five competencies to get the comprehensive value of the five competencies in five years, and finally add up to get the comprehensive score value of Huamao Stocks in each year and rank them.

$$v_i = \sum_{j=1}^n (w_j \times p_{ij}) (i = 1, 2, \dots, m)$$

4.2. Comprehensive Performance

The trend of the comprehensive performance evaluation index of Huamao shares from 2010 to 2022 is shown in Fig. 4. From Fig. 4, it can be seen that from 2010 to 2014, the degree of financialization of Huamao shares basically realizes the same-direction change with the comprehensive score and the development ability; from 2015 to 2019, the degree of financialization of Huamao shares and the comprehensive score, development ability basically realize reverse movement, when the degree of financialization rises, the comprehensive score and development ability instead decline, and the operation ability reaches the trough when the degree of financialization is at the highest level; by 2020, the degree of financialization of Huamao shares begins to show a downward trend and reaches the lowest in all years in 2022, 31.76%. The Composite Index and Solvency Index show signs of recovery since 2019. From Figure 4, it can be concluded that the weight coefficient of development ability and the weight coefficient of debt-servicing ability of Huamao shares are higher, which are 34.03% and 26.34%, respectively, indicating that Huamao shares' financial performance is greatly affected by the development ability and debt-servicing ability, which need to be focused on.

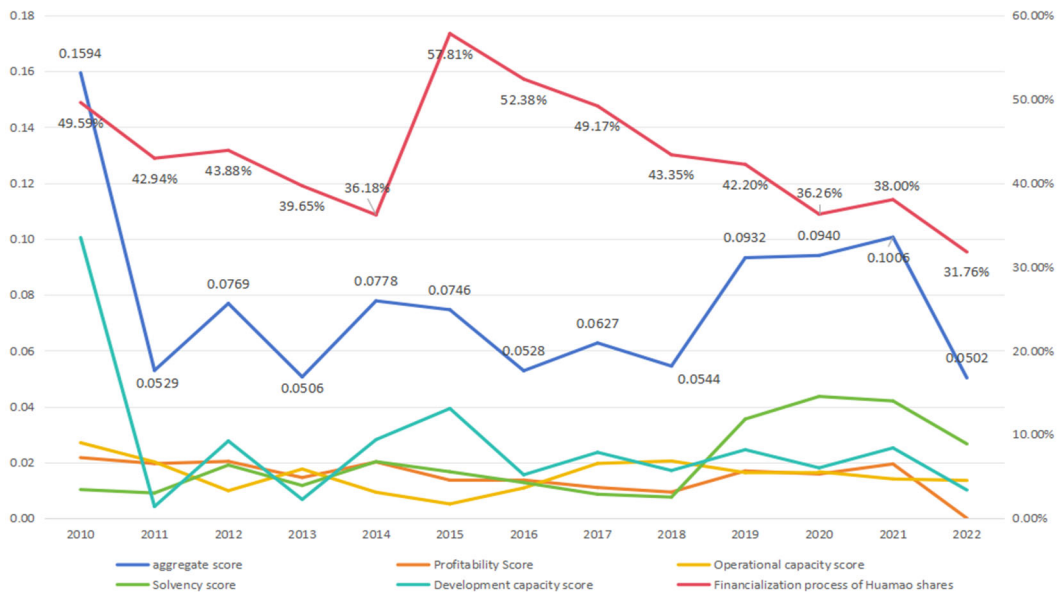


Figure 4. Trend of Huamao's comprehensive performance evaluation score from 2010 to 2022

4.3. Profitability

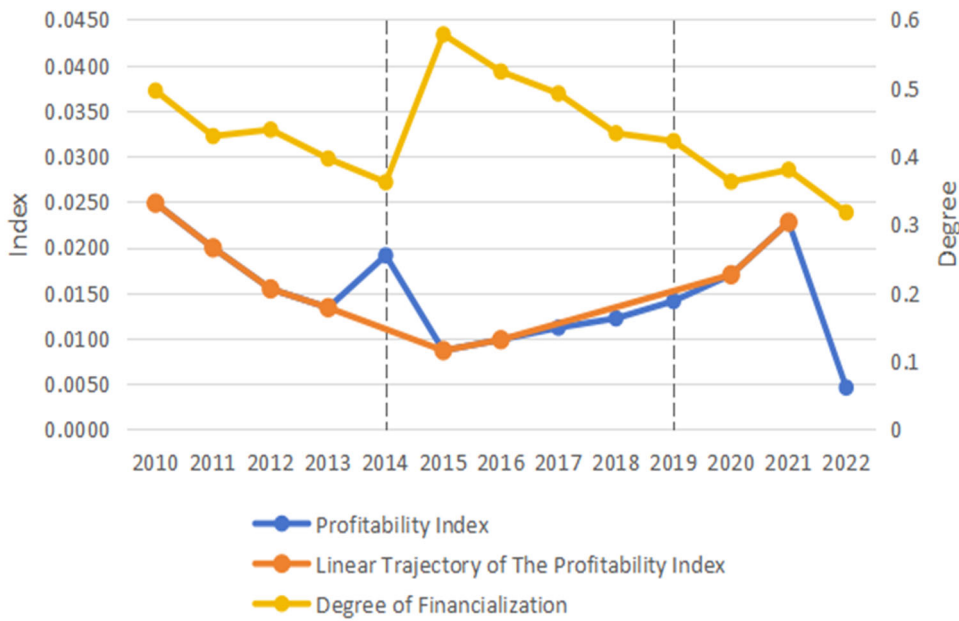


Figure 5. Profitability index of Huamao shares

The profitability score of Huamao shares from 2010 to 2022 is shown in Figure 5. From the general trend of profitability index, the index in the financialization stage shows a fluctuating downward trend, and starts to improve after 2019, with extreme values in 2014 and 2022. Combined with the indicators reflecting the company's profitability is analyzed. The overall description of the profitability of its financialization is made through the gross profit margin and operating profit margin of Huamao, from the situation of gross profit margin of sales, the gross profit margin of Huamao fluctuates between 5% and 10% in the past ten years, which is far lower than the average level of the industry, which can be seen that the main business of its clothing industry is not well operated, and the company invests its funds in the capital market, and the profits are mainly pinned on the financial channel, which makes the business attention to the entity sector reduced, but financialization brings high income to the enterprise, which makes the enterprise can still maintain profit even when facing the loss of the main business, and improves the profitability of the enterprise in the short term, and it is also due to the uncertainty of the financial investment that makes Huamao's operating margin in the past ten years has been a large fluctuation. Particularly by the foregoing can be seen, in 2012, huamao shares attributable to shareholders of listed companies net profit after extraordinary gains and losses as low as -183 million yuan, however, relying on huge investment income to turn a loss into a profit, and ultimately attributable to the owners of the parent company's net profit of as much as 351 million yuan, the return on financial assets play a positive role in the net profit. As a textile company, in 2012, the cotton production was significantly reduced, resulting in rising cotton prices that year, from the year's gross sales margin can also be seen, the rising cost of lint on the

impact of the enterprise's main revenue, but check the statement found that did not have too much impact on the return on net assets of Huamao, but through the reduction of holdings of GF Securities made a profit of 51 million, the return on financial assets played a positive role in the net profit! , there was a small peak. To sum up, the profitability of Huamao shares is affected by the degree of financialization, lack of attention to the main business, and the deepening degree of financialization squeezes the development of the main business.

There was a sudden change in profitability in 2014, the total profit of the enterprise rose in that year, but because the enterprise gave full play to the advantages of the combination of industry, academia and research, and Wuhan Textile University jointly established the Huamao Textile Dyeing and Finishing Research Institute, improved the research and development ability to reduce the cost of costs and expenses, the cost of yarn, thread cloth, lint and cottonseed decreased by 1.93% year-on-year, and the cost and expense margins rose from 0.097 to 0.201. 2022 appeared extreme, the gain from changes in fair value -232,117,644.33 yuan, a decline of 189.15% compared with the same period of the previous year, mainly due to the decline in the closing price of the financial assets held by the company, such as Guotai Junan, GF Securities, and other financial assets in the current period; coupled with the drastic changes in the international situation, the sharp fluctuations in commodity prices, the frequency of domestic epidemics at multiple points, and the rise of factor costs, resulting in the company's production and operations Under great pressure, the textile business gross profit fell more. This also reflects that at this stage, the company gradually returned to the main business, and the profitability also depends more on the main business.

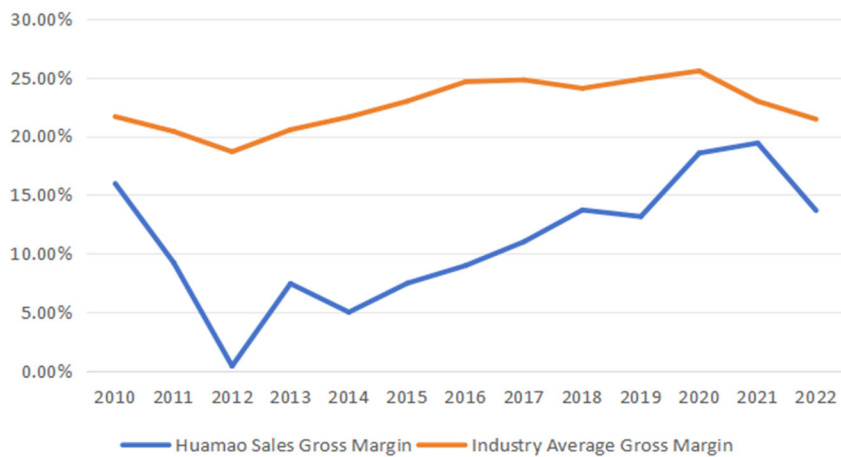


Figure 6. Huamao and industry average gross margins

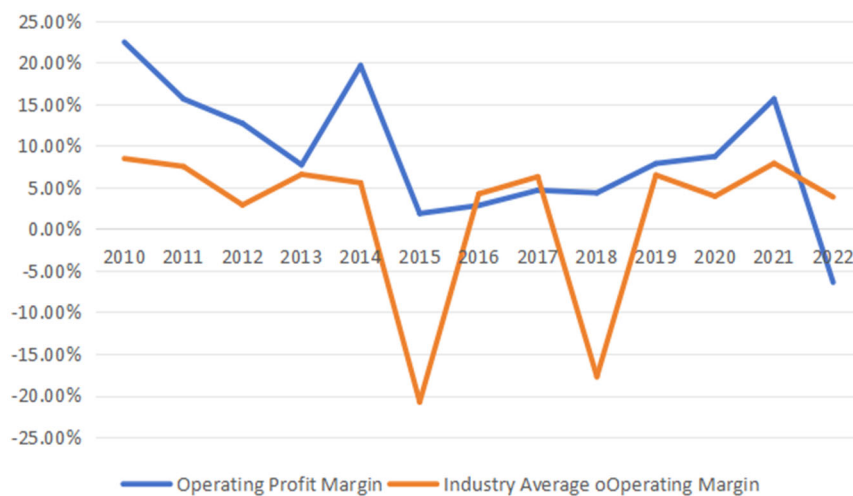


Figure 7. Huamao's operating profit margin and industry average profit margin

4.4. Operational capacity

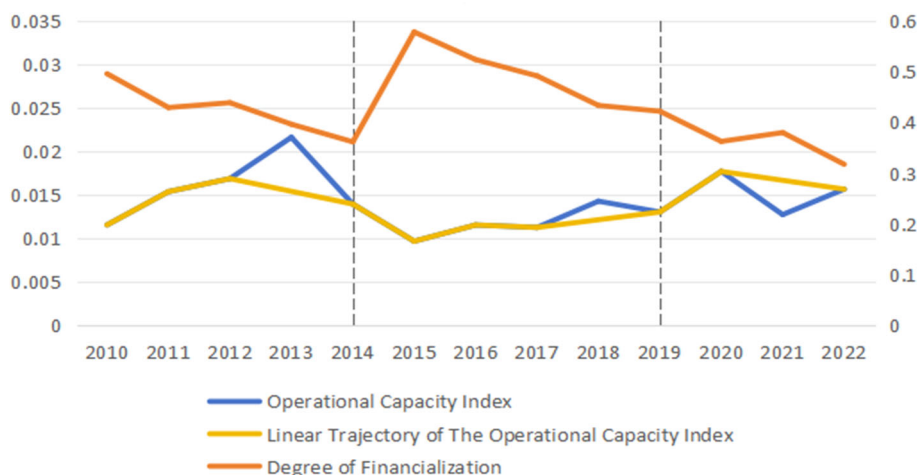


Figure 8. Huamao's operating capacity index

In analyzing the operating capacity of Huamao Stock, three indexes of total assets turnover ratio, current assets turnover ratio and inventory turnover ratio are used. The total asset turnover rate reflects the operating efficiency and change index of total assets of the enterprise in this year and previous years. By observing the financial assets of Huamao stock, we can see that the operating profit in 2009 was reduced by RMB

36,320,400, of which the investment income was reduced by RMB 24,124,400, accounting for 66.43%, which indicates that the investment income of financial assets seriously dragged down the operating profit of the company, but the holding of financial assets is 26,969,022,000 Yuan more than that of 2008, resulting in the company's total asset turnover ratio is relatively low. Perhaps Huamao shares also realized

this situation, and began to continuously dispose of financial assets in 2019, the total asset turnover rate of Huamao shares has continued to rise so far in 2019, and the rate of rise is greater than the industry value, the gap between the industry value and the total asset turnover rate of Huamao shares decreased, and the industry value in 2020 is only 1.32 times

of that of Huamao shares, which is close to the level of the early stage of financialization, and this shows that in the process of de-financialization The sales ability of enterprises is getting better and better, and the efficiency of capital utilization is getting higher and higher.

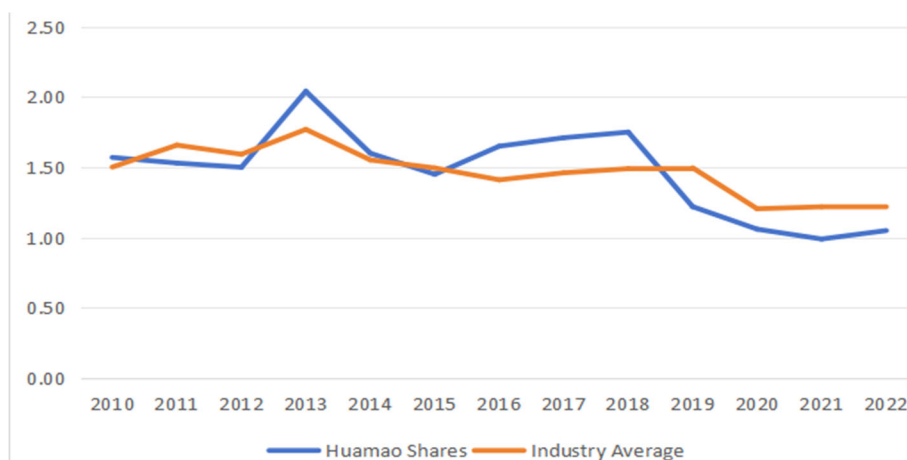


Figure 9. Huamao and industry average current asset turnover ratio

From Figure 9, it can be seen that Huamao's current asset turnover ratio has been decreasing in general indicating that Huamao's current asset operating efficiency is low. However,

combined with the change of Huamao's current assets, it is found that the decrease of current asset turnover ratio is mainly affected by the decrease of operating income.

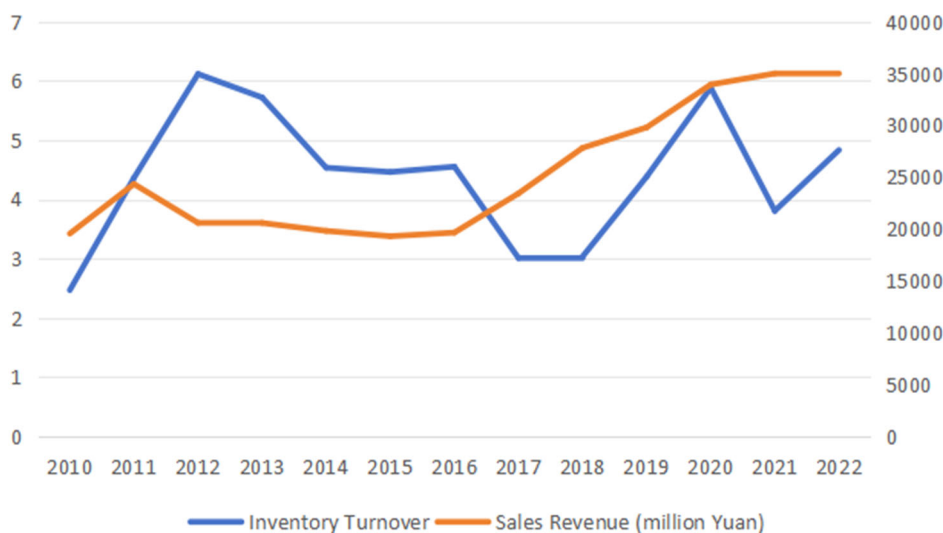


Figure 10. Huamao's inventory turnover ratio and sales revenue

Huamao's inventory turnover index declined in the year when sales growth slowed down, which may be due to the fact that as the financialization of the enterprise increases, the financial investment risk it faces will continue to rise. The enterprise pours its focus and management capacity into the financial investment department to diversify the risks associated with the investment, which also means that it pays less attention to the textile business. As a result, while the overall competence of the management of the enterprise remains unchanged, the enterprise's ability to control and manage the real business will decline accordingly. Managers will usually use more conservative business strategies in order to cope with the business risks brought about by the decline in business capacity. This leads to the fact that Huamao does

not fully utilize its production capacity and actively strive for market share in the process of production and sales, but only appears to be more passive. Therefore, from the aspect of inventory management, we can see that due to being crowded with more resources by the investment business, Huamao Shares did not pay enough attention to the textile business of the entity sector, which reduced its ability to explore and develop more market share and led to a decline in operational efficiency. This is precisely the reason why the operating capacity was strengthened in 2013 and 2018 when the degree of financialization was lower than the previous year.

4.5. Solvency

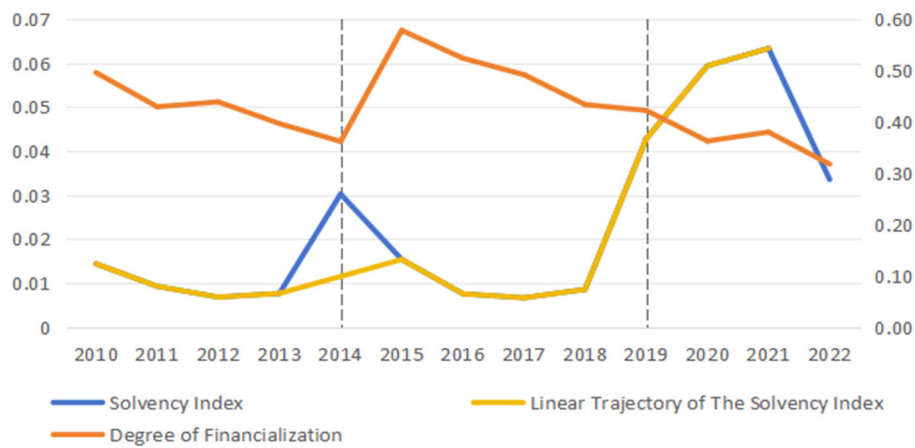


Figure 11. Solvency index of Huamao

In this paper, the solvency index is constructed by current ratio, quick ratio, gearing ratio and interest coverage multiple. 2010 and 2011, short-term liabilities increased year by year, leading to the increase of current liabilities, and at the same time, the enterprise increased long-term equity investment, which ultimately led to Huamao's current ratio is seriously lower than the industry average; 2011, 2012 and 2013, current liabilities showed a decreasing trend, but the enterprise continuously increased long-term equity investment, resulting in current assets also showed a decreasing trend; in 2014, the current ratio increased significantly and the solvency index fluctuated abnormally, which was mainly due to the fact that the profit from the main

business in that year was relatively considerable and some short-term loans were returned. Therefore, in general, the short-term debt and long-term investment of Huamao stock at the stage of financialization will inevitably lead to the negative impact on the short-term debt-servicing ability of the enterprise. In the late stage of financialization, the enterprise may be aware of the continuous deterioration of the liquidity situation, and in 2019, it began to roll back funds, constantly dispose of available-for-sale financial assets, reduce long-term investments, increase short-term investments, and although it increases short-term borrowings, the use of funds is more in daily operations, and the current ratio gradually rises until it breaks through 2 in 2022.

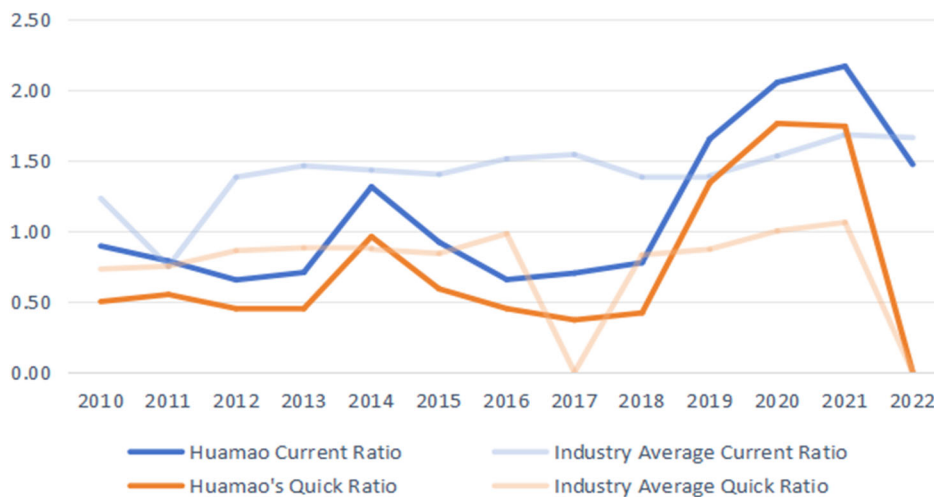


Figure 12. Comparison between enterprises and industry average

As yarn and grey fabric belong to intermediate products with low barriers to entry, sandwiched between the policy-protected upstream cotton farmers and the consumer-facing downstream apparel industry, the bargaining power is lower than that of home textile manufacturers and textile printing and dyeing enterprises, resulting in a high ratio of prepayments and easy to build up inventories, and the quick ratio of Huamao is much lower than the industry average, ranking the bottom among all textile enterprises. This is mainly due to the fact that Huamao invests its capital in long-term equity investment and available-for-sale financial assets, a large amount of production capital is occupied, and short-term borrowing has become an important source of corporate capital, with serious capital mismatch. In order to avoid the

impact of short-term changes in fair value of financial assets on their own profits, most enterprises tend to control the accounting method of financial assets, and more often pass the large amount of financial assets through the account of available-for-sale financial assets instead of accounting through the account of financial assets at fair value through profit or loss, so that the financial assets of the enterprise are mostly long-term assets.

From the perspective of gearing ratio, Huamao's liabilities are mainly short-term liabilities. In the stage of financialization, Huamao increases its leverage by increasing short-term liabilities, and in the period of de-financialization, Huamao recovers funds by selling financial assets, and its

leverage decreases and is significantly smaller than the industry average. The financialization of Huamao shares despite its own insufficient liquidity still leads to the use of funds, which in turn causes the increase of leverage. From the point of view of interest coverage multiple, because the increase of loan interest expense caused by exchange rate changes led to a significant decline in the interest coverage multiple of Huamao shares in 2014, the industry interest coverage multiple rose in 2010-2015, but the interest coverage multiple of Huamao shares is declining, mainly because although the investment income of Huamao shares in

this period is rising, but the operating profit is declining, the comprehensive down Huamao's EBIT is still decreasing, and the increasing short-term borrowing leads to the increase of financial expenses, which in turn leads to the decrease of interest coverage multiple; in 2016, it is just the opposite, although the investment income at this stage is decreasing because of the decrease of financial assets due to the continuous disposal of financial assets and the decrease of investment income year by year, but the operating profit is increasing, and accompanied by the decreasing interest expense, the interest coverage multiple kept increasing.

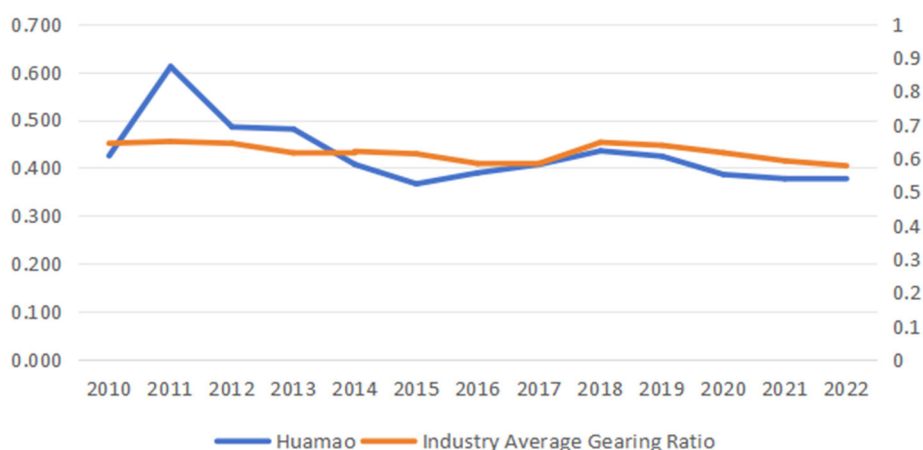


Figure 13. Huamao and industry average gearing ratio

4.6. Development capacity

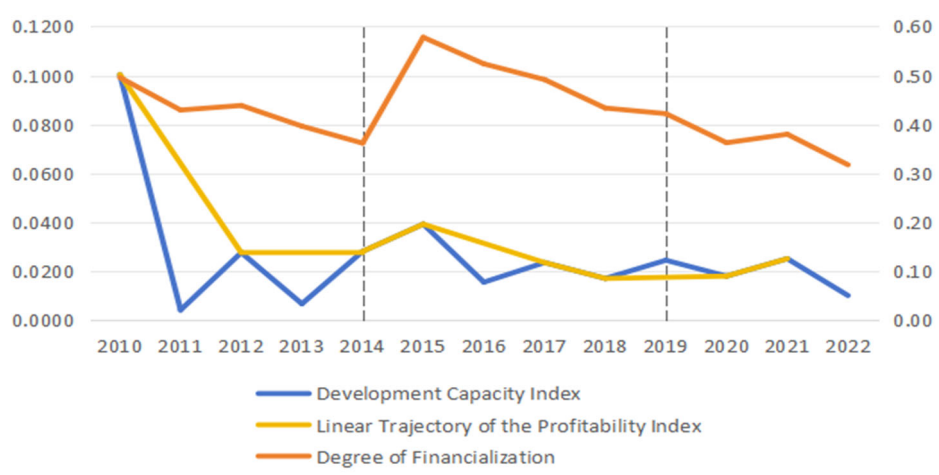


Figure 14. Huamao stock development capacity index

The trend of development ability index of Huamao shares from 2010 to 2022 is shown in Fig. 14. From Fig. 14, it can be seen that from 2010 to 2022, with the deepening of financialization, the development ability index of Huamao shares shows a decreasing trend as a whole. From 0.1004 in 2010 to 0.0245 in 2019. The huge price difference between domestic and foreign cotton and the shrinkage of global demand in 2011 made the whole textile industry fall into a sustained downturn. Due to the fact that the enterprise's investment is heavily concentrated in financial assets, the investment in textile business for the main business is insufficient, which makes Huamao shares face the fluctuating external environment when the operating income sharply decreased, the rate of decline is obvious, and the retracement

is slow and the results are obviously poor. In 2015, through the appreciation of financial assets, its profit level was greatly improved in that year, although the financialization has no role in improving the business level of the enterprise's main business, but the financialization of the enterprise brings the possibility of a great increase in financial assets, and promotes the growth of the enterprise from the great appreciation of financial assets and investment income.

In summary, corporate financialization reduces the growth capacity of the real sector by crowding out investment in the business activities of the real sector, while it increases the growth capacity of the financial business by bringing the possibility of significant growth in financial assets through investment in financial activities.

5. Conclusion

This paper explores the impact of financialization on financial performance by analyzing the financialization motives, behaviors, and degree of Huamao stock. The analysis of its financialization process shows that although the degree of financialization remained high from 2010 to 2019, it did not increase year by year, but showed a fluctuating trend of decreasing-rising-decreasing, and reached the peak of the degree of financialization in 2015; in the the stage of de-financialization is also not a continuous decline, rebounding in 2021, and the financialization degree in 2022 shows the lowest in more than ten years. Overall, the financialization process of Huamao stock shows a non-linear trend, which has a non-linear impact on financial performance.

For the profitability of the enterprise, the enterprise grows the profitability of the financial sector as well as reduces the operating capacity of the real sector through financialization, thus affecting the profitability of the enterprise in a comprehensive manner, but there are also mutation points appearing from the improvement of R&D capacity and the increase of factor costs due to the rapid change of the international situation. Enterprises holding a large number of financial assets to promote the tendency to use more conservative business strategy, thus affecting the operating capacity of the enterprise, while the enterprise in inventory management to strengthen the focus on the main business, to enhance its ability to develop market share, resulting in the rise in operating efficiency, in the degree of financialization is reduced while the operating capacity is strengthened. The combination of the over-weighting of long-term assets due to the fact that most of the financialized assets of enterprises are long-term assets, and the increase in leverage due to the increase in short-term liabilities, has affected the liquidity of the assets of enterprises, thus affecting the solvency of enterprises. Financial assets encroach on the investment capital of the real sector and reduce the development capacity of the real sector of the enterprise, and at the same time, the significant growth of financial assets and investment income to promote the growth of the enterprise, thus jointly affecting the development capacity of the enterprise. Based on this, the paper makes the following recommendations.

Enterprises affected by the impact of financialization will be due to different business conditions, timing and other differences and produce different effects, enterprises should be in the main business profitability is relatively high moderate financialization, hold more long-term financial assets investment, on the contrary, the main business situation is not good when the development of the degree of financialization should be reduced or reduce the holdings of long-term financial assets investment, change to hold short-term investment, in favor of being able to provide funds for investment in industry in a timely manner To avoid squeezing the industrial investment, while reducing financial risk, the development of strategies to inhibit excessive financial

enterprises to truly improve their own business capacity is the best means to inhibit the negative effects of financialization, but also to maximize the recycling of the positive effects of financialization to feed the development of the main business, the performance of the reservoir effect. Although the case study in this paper is relevant, it may lead to a certain one-sidedness of the research results due to the limitations of the case study itself; in addition, since there are more financialization measurement indicators proposed by domestic and foreign scholars, the variables included in the indicators are full of controversy and there is no clear uniform provision, and this paper divides the process of financialization on the basis of the trend of changes in the indicators of the measurements, it is possible to that there may be errors in dividing the stages.

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