

Research on the Impact of Corporate Financialization on Debt Risk under the Perspective of Investment Income

-- Taking Yunnan Baiyao Group as an Example

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Abstract: With the high degree of development of the virtual economy, a variety of financial products, financial instruments are emerging, high profits, high returns, high efficiency of the financial industry so that enterprises in the virtual economy and the financial industry to chase profits, the entity enterprises gradually "off the real to the virtual". Enterprises in the financial industry, speculation and arbitrage, shift the center of gravity of production and operation, to a certain extent, jeopardize the development of the main business, invisible financial structure and capital structure change. Deviation from the main business development will weaken the enterprise foundation, enterprises face greater challenges and risks. Therefore, the study of debt risk of financialization under the perspective of investment income of real enterprises is of great significance for enterprises to prevent risks. In this paper, by selecting Yunnan Baiyao, one of the typical representatives of financialization of real enterprises, the financial statement data of the enterprise from 2017 to 2022 are selected. The impact of financialization on debt risk under the perspective of Yunnan Baiyao's investment income is comprehensively analyzed through both qualitative and quantitative aspects. First of all, the proportion of investment income to net profit will be used as a financialization indicator to analyze the degree of financialization of the enterprise, and the changes of financialization indicators will be analyzed through the major events of the enterprise such as "mixing and reforming" and financialization of the business to provide a factual basis. In measuring Yunnan Baiyao's debt risk, changes in asset structure, short-term and long-term solvency indicators, changes in net cash flow and the ratio of net non-financing cash flow to total liabilities are used to analyze the changes in Yunnan Baiyao's debt risk in the process of financialization. Finally, it reveals the impact of different degrees of financialization on Yunnan Baiyao's debt risk. The research in this paper is not only of great significance for Yunnan Baiyao's debt risk prevention of financialization under the perspective of investment income, but also has certain reference significance and warning effect for other real enterprises, and has certain reference value for alleviating the economic "deconstruction to emptiness" and stabilizing the real economy.

Keywords: Corporate financialization, Debt risk, Investment returns, Solvency, Yunnan Baiyao.

1. Introduction

1.1. Background and Significance of the Study

The current high degree of development of the virtual economy, especially the Internet finance and other financial products, financial tools are emerging, many real enterprises in the virtual economy and the financial industry to chase profits, real enterprises gradually "off the real to the virtual". Enterprises in the financial industry speculation arbitrage, shift production and operation center of gravity, jeopardizing the development of the main business, invisible financial structure and capital structure change. Deviation from the main business development will weaken the foundation of the enterprise, the enterprise faces greater challenges and risks.

Most of China's research on the financialization of enterprises is at the macroeconomic level, the research perspective focuses on the accumulation of financial assets, and there is relatively little research on the microeconomic body under the perspective of investment returns. In this paper, by selecting an entity enterprise, Yunnan Baiyao, the financial statement data of the enterprise from 2017 to 2022 are selected. The impact of financialization on debt risk under the perspective of investment income of Yunnan Baiyao is

comprehensively analyzed through both qualitative and quantitative aspects. The proportion of investment income to net profit is used as the financialization index to analyze the degree of financialization of the enterprise, and the changes in the financialization index are analyzed through the major events of the enterprise and financialization business such as "mixing and reforming" to provide a factual basis. Using relevant solvency indicators and cash flow indicators to analyze the debt risk brought by the financialization of corporate investment income perspective. The research in this paper is not only of great significance for Yunnan Baiyao's debt risk prevention of financialization under the perspective of investment income, but also has certain reference significance and warning effect for other real enterprises, and has certain reference value for alleviating the economic "deconstruction to emptiness" and stabilizing the real economy.

1.2. Literature Review

1.2.1. Meaning of enterprise financialization

With the leap of the economy and the development of financial markets, non-financial enterprises have begun the path of financialization. Krippner (2005) argues from the perspective of capital accumulation that financialization is the

mode of economic accumulation, the real economy capital gradually transferred from the real industry to the field of the virtual economy, and the main use of the financial channel to obtain profits, rather than relying on trade and commodity production to obtain profits [1]. Orhangazi (2008) argues that the real economy has become more biased towards investing in the financial sector due to the decline in the rate of return on real investments as a result of overcapacity in the real economy [2].

Sun Jiao Yang (2022) argues that enterprises apply their assets more to the investment of financial assets rather than traditional production and operation activities, so that the proportion of investment in financial assets and the total amount of investment is gradually increased, and the day-to-day business activities of enterprises are more and more subject to the influence or control of external financial institutions or financial assets [3]. Zhang Hanshu (2023) believes that the financialization of enterprises mainly includes enterprises relying more on the combination of financial investment and corporate finance leading to changes in the source of corporate profits [4].

The financial system continues to improve, the rate of return on investment compared to the real economy has risen steadily and showed a trend of superiority over the real economy, real enterprises began to enter the financial market through the allocation of different types of financial products in pursuit of short-term high returns, the importance of production and operation in the enterprise is gradually diluted.

1.2.2. Motivations for financialization of real enterprises

Under the theory of "rational economic man", Huang (2023) argues that enterprises are rational economic men, and the pursuit of profit is the fundamental purpose of their production and operation activities, and the fact that the rate of return on financial assets is greater than the rate of return on operating assets is an important incentive for the financialization of enterprises [5]. According to Jian Wang (2023), the entry of non-state shareholders and the changes in corporate governance structure and business strategy formed are important pushers of corporate financialization [6]. Therefore, corporate agents short-sightedly invest in high-yield financial assets or financial speculation to satisfy their own interests, thus creating a "crowding out effect" on investment in the main business, damaging the main business of the enterprise and affecting the long-term development of the enterprise.

Under the theoretical motivation of "financing constraint", due to "information asymmetry", the external capital supplier of the enterprise has unequal knowledge of the internal information, so it raises the cost of financing to compensate for the risk premium due to the information gap. In order to reduce the financial cost of obtaining funds, enterprises should prioritize the choice of internal financing, followed by the consideration of external financing. Sun Jiao Yang (2022) believes that the financialization of real enterprises has a "crowding out" effect on the enterprise's main business investment, the enterprise configuration of financial assets will crowd out the enterprise's physical capital investment funds, which worsens the enterprise's financial risk, the risk of price fluctuations of financial assets may also be transmitted to the enterprise, increasing the enterprise's physical investment and main business operations. financial risk of the enterprise's physical investment and main business operation. Appropriate financial investment can increase the access to funds and reduce the external financing costs of

enterprises [3].

1.2.3. Summary of literature

There are many academic research results on the issue of enterprise financialization, and the research on the definition and motivation of enterprise financialization has basically reached a consensus. But in general, academic research on enterprise financialization is more inclined to the macro-level mechanism and economic consequences, mostly through the macro-analysis of enterprise financialization brought about by the economic consequences of the launch of the impact on the real economic units, rarely on the specific financialization of the entity enterprise research on a specific financial capacity. Academics are mainly concerned about the financialization of enterprises in the asset perspective, for the financialization of investment income from the perspective of relatively few, for the financialization of enterprises and the debt risk of relatively few research results, scholars for the financialization of the debt risk of enterprises is mainly in the research on the path of financialization of the entity enterprise for the micro level, the degree of financialization, and the financialization of the enterprise's own operating capacity, especially the debt risk. The research on the impact of financialization on the debt risk of enterprises has not paid enough attention to the impact of financialization on the operating ability of enterprises, especially the debt risk, and the research on the measurement index of financialization of enterprises varies greatly.

2. Concept Definition and Theoretical Foundations

2.1. Measurement of Financialization from The Perspective of Investment Income

There is some academic research on the measurement and measurement of the extent of financialization, and studies on the measurement of financialization are broadly divided into macro and micro aspects.

At the macro level, it focuses on socio-economic industries where the flow of economic capital to pan-financial industries, such as finance and real estate, which are high-risk and high-yield, through the financial sector or financial behaviours, has led to the flow of real capital to the virtual economy. In addition, measuring the proportion of profits from real economy industries that originate in the virtual economy is also an important part of measuring financialization. The measurement of macro financialization focuses on financialization, economic growth, economic stability, economic capital transfers, and wealth growth patterns, and explores the structure and flow of socio-economic capital.

At the micro level, the measure of financialization focuses more on the profits generated as a result of financial behaviors such as financial activities, financial asset holdings, and financial investments of non-financial firms. Cheng-Shi Chang and Bu-Tan Chang (2016) measure the degree of financialization of firms by the ratio of profitability of broad financial channels to operating profit, and the ratio of profitability of narrow financial channels to operating profit [7]. The proportion of total returns from financial assets held by an entity measured in terms of investment returns:

$$\text{Degree of financialization of the firm} = \frac{\text{return on financial assets}}{\text{net profit}} \times 100\% \quad (1)$$

2.2. Debt Risk and Manifestations

Debt risk refers to the possibility that a company's claims cannot be used or are limited in use, and its debts cannot be repaid or are limited in repayment in the course of its operations. This risk mainly comes from the debt financing methods used by the company, on the one hand, the uncomfortable debt financing methods used by the company may lead to the reduction of the company's working capital, is the company's capital to produce liquidity risk, so that the company loses the ability to repay capital and interest on time, on the other hand, the company does not use the debt capital correctly in accordance with the intention of financing after the debt financing. Creditors can only understand the use of funds through financial reports and other related disclosures and cannot directly interfere with the company. If the enterprise uses the funds unreasonably and fails to achieve the expected results it will incur additional interest expenses, increasing the burden and risk of the enterprise's operation and finance, destroying the healthy financial structure, and when the enterprise faces a major operational or financial crisis, the liquidity crisis of the company's capital will arise and the financial situation will face a crisis. It is difficult for enterprises to raise a large amount of funds in a short period of time to replenish the liquidity of their capital in a timely manner, and it is difficult for them to repay their debts on time, and they will be plunged into a debt crisis.

2.3. Transmission Mechanisms of Corporate Financialization on Debt Risk

2.3.1. Changes in solvency in the process of financialization of enterprises

Based on the theory of "preferential financing constraint", generally speaking, enterprises will prefer the financing method with small financing constraint. Enterprises directly raise funds in the market through bond financing, and carry out financialization, and there is a direct correspondence between borrowers and lenders, so the financing constraint is small. Enterprises are more likely to obtain financing when they make up for their main business income through investment income, thus affecting the judgment of banks and other financial institutions on the company's ability to repay its debt, and enterprises are more likely to obtain financing. When market expectations are lowered, the solvency of highly financialized enterprises is subject to fluctuations, which in turn affects the debt risk of enterprises. Solvency will directly affect the debt obligations of the enterprise, whether it can borrow money and whether it can be repaid on time, which directly affects the size of the enterprise's debt risk.

2.3.2. Changes in cash flows during the financialization of enterprises

Based on the "principal-agent" theory, modern business, enterprise ownership and operation rights are separated from each other, enterprise operators and managers have greater decision-making power, in the face of the assessment pressure, in order to performance objectives, by investing in the financial market to obtain short-term profits and returns, so as to achieve short-term corporate profit growth targets. Enterprise operators and managers will transfer the enterprise funds to the financial market, financialization has produced a "crowding out effect", to a certain extent, the development of the company's main business of the capital, used to maintain the daily operating activities of the funds have been squeezed.

Accompanied by the enterprise to the main business of capital expenditure in the field of financial investment. The capital flow brought by the investment income of the enterprise changes the structure of capital inflow, the main business brings cash flow reduction, and the stability of cash flow is changed. The stability and adequacy of cash flows can affect the level of debt risk of a firm. If a firm's cash flow is unstable or insufficient to support debt repayment, then debt risk increases.

3. Current Situation of Yunnan Baiyao's Financialization from the Perspective of Investment Income

3.1. Yunnan Baiyao Mixed Reform History Overview

The financialization of Yunnan Baiyao started with the mixed ownership reform (hereinafter referred to as "mixed reform"). Listed companies are required to introduce a single non-state shareholder with a shareholding of more than 5 per cent, and through the introduction of non-state shareholders (strategic investors) with a shareholding of more than 5 per cent into the board of directors, an effective decision-making and supervision mechanism is formed, so as to "promote the reform by mixing".

Yunnan Baiyao Group Co., Ltd. holds 41.52% of the shares, and Xinhua indirectly holds 20.76% of the shares of Yunnan Baiyao Co. In 2017, Yunnan Baiyao Holding Co., Ltd. added a new shareholder, Jiangsu Yueyue Science and Technology, to increase its capital by 5.638 billion yuan to the holding company to obtain a 10% stake in the holding company. So far, in Yunnan Baiyao Holding Co. board of directors of Yunnan State-owned Assets Supervision and Administration Commission and Xinhua accounted for two seats, Jiangsu Yuyue accounted for one seat, in the nature of the shareholding of private capital and more than the state-owned capital, marking Yunnan Baiyao Holding Co. hybridization is basically complete.

In 2018, Yunnan Baiyao began to absorb the entire equity of Yunnan Baiyao Holdings Co. through a directional issue, and in 2019, the Securities and Exchange Commission passed Yunnan Baiyao's mixed reform program to be listed as a whole in July, marking the official completion of Yunnan Baiyao's mixed reform. Yunnan State-owned Assets Supervision and Administration Commission (SASAC) and Xinhua Du each accounted for 25.14%, and Jiangsu Yuyue accounted for 5.59%, and there was no actual controller of Yunnan Baiyao after the second round of mixed reform.

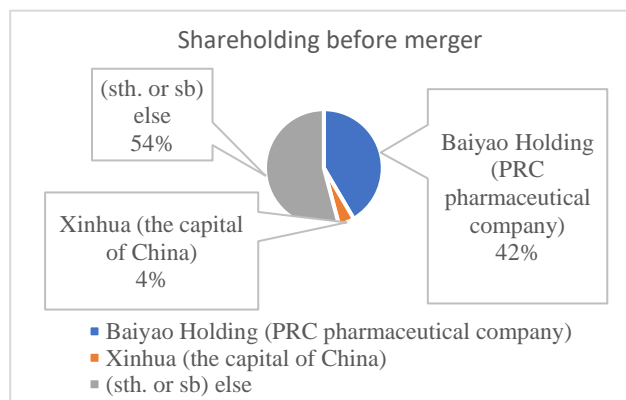


Figure 1. Yunnan Baiyao's shareholding before the merger
Source: Yunnan Baiyao Annual Report

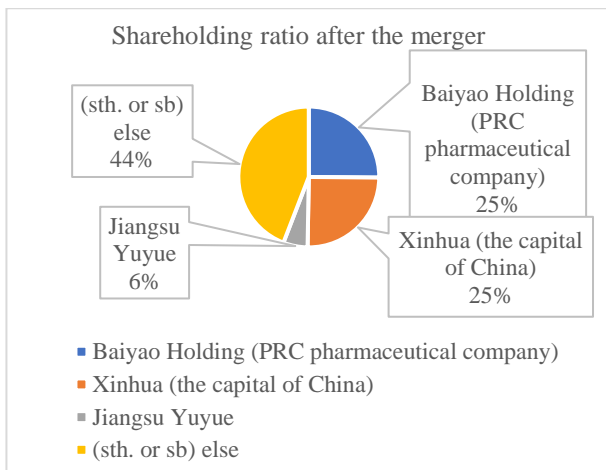


Figure 2. Yunnan Baiyao's shareholding after the merger
Source: Yunnan Baiyao Annual Report

Before the mixing reform, Yunnan Baiyao was only limited to entrusted financial management, did not invest in securities, and stipulated that its own funds were not allowed to enter the stock market except for the use in some money fund market and low-risk financial management. This phenomenon is broken after the mixed reform, it can be seen that the entry of non-state-owned enterprises makes Yunnan Baiyao invest a lot in the capital market, non-state-owned enterprise shareholders pay more attention to profit maximization and return on investment, so it can be seen that the non-state-owned enterprise shareholders are the important pushers of Yunnan Baiyao's financialization.

3.2. Measurement of Yunnan Baiyao's Financialization from the Perspective of Investment Returns

Investment income refers to a series of income obtained from foreign investment with the project as the boundary. According to - This paper still uses the financial statement

data of Yunnan Baiyao from 2017 to 2022 for calculation, and the result is calculated according to the formula (1), see Figure 3.

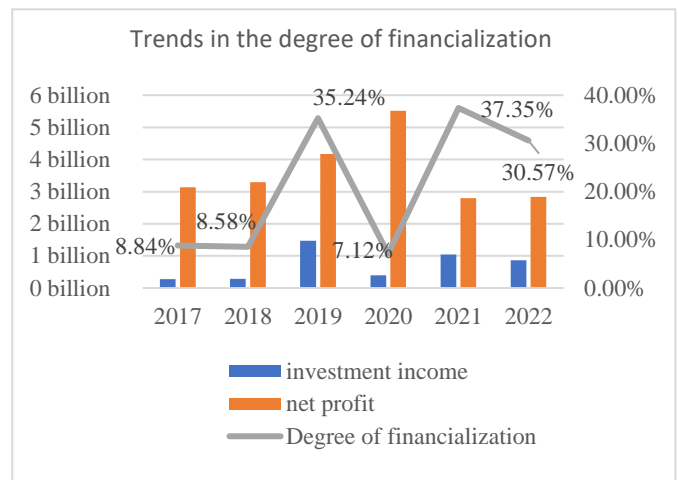


Figure 3. Trend in the degree of financialization of Yunnan Baiyao (investment income perspective)
Source: Yunnan Baiyao Annual Report

When the proportion of investment income in Yunnan Baiyao's net profit is increasing before 2019, it is related to Yunnan Baiyao's prudent utilization of its own funds before 2019, which is mainly invested in money market funds and wealth management products such as banks' R1 and R2 etc. After 2019, it enters into the equity securities market with a slightly more aggressive investment strategy, and from 2020 to 2022, the investment income shows ups and downs. stable. From the perspective of profit, Yunnan Baiyao profit composition, between 2017 and 2020, Yunnan Baiyao total profits continue to climb, showing a positive trend, financialization for its broadening a certain profit channel, played the role of the financial "reservoir", to a certain extent, to promote the liquidity of the enterprise's capital.

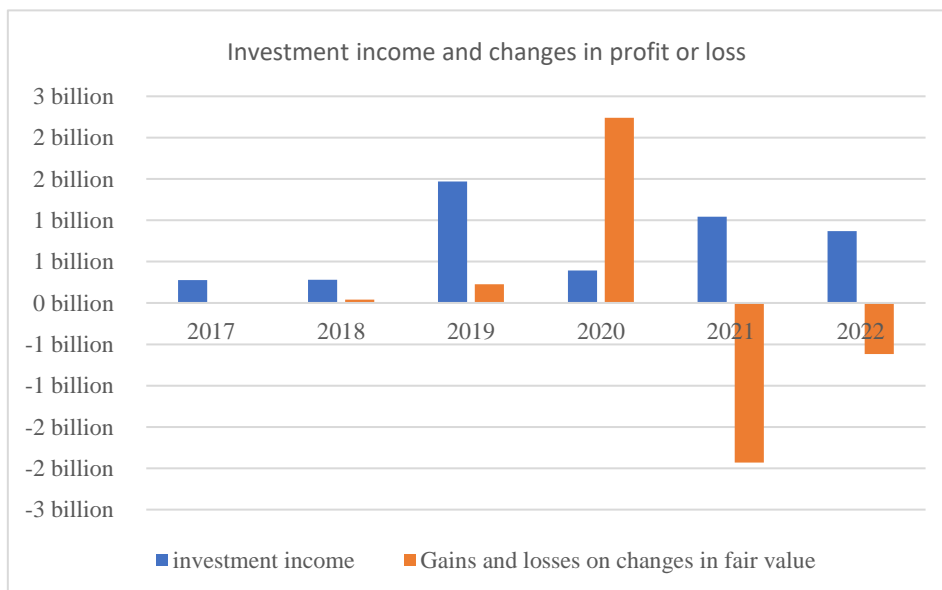


Figure 4. Yunnan Baiyao Investment Income and Changes in Gains and Losses
Source: Yunnan Baiyao Annual Report

According to Figure 4, gains and losses from changes in fair value dropped sharply in 2021, exceeding \$1.9 billion, and the reason for such a rapid plunge is that in 2021, four of Yunnan Baiyao's six major holdings suffered floating losses: Xiaomi Group lost \$610 million, Yili shares lost \$190 million,

Hengrui Healthcare lost \$180 million, and China Antibody lost \$50 million. In terms of investment income, Yunnan Baiyao's investment income is positive from 2017 to 2022, reaching a maximum of \$1.470 billion in 2019 when it invested heavily in the financial market.

4. Impact of Yunnan Baiyao's Financialization on Debt Risks

4.1. Impact of Changes in Yunnan Baiyao's Debt Capacity on Debt Risk

Table 1. Yunnan Baiyao Related Solvency Indicators

year	2017	2018	2019	2020	2021	2022
current ratio	3.34	2.68	4.65	3.15	3.58	2.63
quick ratio	2.00	1.53	2.71	2.13	2.46	1.88
cash ratio	1.25	1.01	2.27	1.70	1.85	1.14
Interest coverage multiple	74.21	20.53	37.13	38.84	62.40	44.72
Cash flow interest coverage multiples	23.21	13.53	16.76	22.64	101.11	47.30
gearing	34.51%	34.42%	23.28%	30.56%	26.50%	27.75%

According to Yunnan Baiyao's short-term solvency indicators, period solvency is fluctuating steadily between 2017 and 2022, short-term solvency is good, and Yunnan Baiyao's liquidity is better. Among them, the current ratio fluctuates around 3.10 and the quick ratio fluctuates steadily around 2.0, in 2019, with the series of financialization business such as the arbitrage behavior of Yunnan Baiyao's non-state-owned shareholders in the capital market, Yunnan Baiyao's short-term solvency rises rapidly, the short-term solvency indicator rises, Yunnan Baiyao invests in the financial industry in 2019 to get a good return, making Yunnan Baiyao's short-term The short-term solvency capacity of Yunnan Baiyao has risen sharply, and Yunnan Baiyao's financialization has played the role of a financial "reservoir". It can be seen that Yunnan Baiyao's financialization has strengthened the enterprise's short-term solvency, increased the enterprise's capital liquidity, played a positive role in promoting the enterprise's prevention of short-term debt risk, and played the benefit of the financial reservoir.

According to Yunnan Baiyao's long-term solvency indicators, overall, Yunnan Baiyao's long-term solvency is good but fluctuates widely, indicating that Yunnan Baiyao's liquidity has significant fluctuations and liquidity risk is being highlighted. The interest coverage multiple declined from 2017 to 2019, then began to climb and reached 62.4 in 2021, and then declined to 44.72. The cash flow interest coverage multiple declined from 2017 to 2019, and then quickly rebounded to 101.11 in 2021. Combined with Yunnan Baiyao's financialization history, after 2019 Yunnan Baiyao's financialization deepens, its long-term solvency also turns to an upward trend, and long-term solvency is strengthened, but there are large fluctuations. It can be seen that as Yunnan Baiyao's financialization deepens its long-term solvency is also strengthened, but excessive financialization will bring uncertain risks to Yunnan Baiyao's capital liquidity leading to huge fluctuations in Yunnan Baiyao's long-term solvency.

According to Yunnan Baiyao's gearing level, it has been maintained between 27% and 35%, which indicates that Yunnan Baiyao is cautious in raising debt. On the one hand, it shows that Yunnan Baiyao is conservative in terms of debt risk, in order not to further expand the risk, Yunnan Baiyao's debt is prudent and progressive. On the other hand, Yunnan Baiyao's assets are huge, and the protection of liabilities is large, raising too little debt will lead to Yunnan Baiyao's lack of confidence in the future, constraining the potential capital available to the enterprise, and the ability to utilize creditor's capital to carry out business activities will become poor, which limits Yunnan Baiyao's capital investment and use to a certain extent.

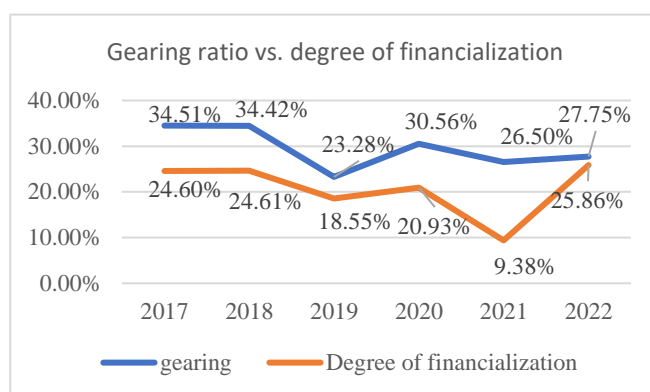


Figure 5. Yunnan Baiyao Gearing Ratio vs. Degree of Financialization (Asset Structure Perspective)

Image Source: Yunnan Baiyao Annual Report

Comparing Yunnan Baiyao's gearing ratio with the degree of financialization as measured from an asset perspective shows that along with the deepening degree of Yunnan Baiyao's financialization, Yunnan Baiyao's gearing ratio also changes. Overall, during the period from 2017 to 2019, the degree of financialization of Yunnan Baiyao decreases significantly, and Yunnan Baiyao's gearing ratio also decreases significantly, and Yunnan Baiyao's overall level of debt risk decreases along with it. In 2020, the degree of financialization of Yunnan Baiyao turns back to deepen, and at the same time, the gearing ratio begins to turn back to rise, and financialization makes Yunnan Baiyao begin to utilize the creditor's capital, which increases the funds' Financialization enables Yunnan Baiyao to utilize creditors' capital, thus increasing the amount of capital flow. At the same time, Yunnan Baiyao's long-term and short-term debt repayment ability also begins to strengthen, Yunnan Baiyao's financialization plays the role of preventive reserve, greatly increasing Yunnan Baiyao's ability to pay back instantly, and plays a positive role in preventing debt risk for Yunnan Baiyao. In 2022, Yunnan Baiyao financialization deepened drastically, a short period of time to speed up the degree of financialization for Yunnan Baiyao's debt repayment ability is not a great help, Yunnan Baiyao's ability to prevent debt risk is only slightly improved.

4.2. Impact of Changes in Yunnan Baiyao's Cash Flows on Debt Risks

Table 2. Yunnan Baiyao Related Cash Flows Unit: Million

year	2017	2018	2019	2020	2021	2022
Net cash flows from operating activities	1,156	2,630	2,105	3,829	5,223	3,209
Net cash flows from investing activities	-352	-859	13,966	1,086	3,999	-6,316
Net cash flows from financing activities	-912	-1,620	-9,341	-\$2,978	-4,623	-2,733
Net increase in cash and cash equivalents	-113	153	6,737	1,934	4,592	-5,824

Based on Yunnan Baiyao's net cash flows from operating activities, investing activities and financing activities, it can be seen that Yunnan Baiyao's cash from financing activities has been in an outflow state, Yunnan Baiyao is more constrained in raising funds, which is one of the reasons why Yunnan Baiyao is investing in the financial sector. Yunnan Baiyao's net cash flow from investing activities is sizable, up to 13.966 billion yuan in 2019. Due to the success of Yunnan Baiyao's financialization to finance and other virtual economy business, Yunnan Baiyao's financialization in also squeezed its fundraising and financing. Yunnan Baiyao's financialization achieved a lot of net cash flow value, and the squeeze out also made up for the cash outflow due to financing activities, which greatly strengthened the liquidity of Yunnan Baiyao's capital and enhanced Yunnan Baiyao's ability to prevent debt risk.

This paper introduces the indicator of "ratio of non-financing cash flow to total liabilities", through which we can observe the ability of Yunnan Baiyao's non-financing cash flow to repay its liabilities, and the larger the value of the indicator, the better the enterprise's debt servicing situation is, and vice versa, the worse it is, and the formula of the indicator is as follows:

$$\text{Ratio of net non-financing cash flows to total liabilities} = \frac{\text{net non-financing cash flows}}{(\text{average total liabilities}/2)} \quad (2)$$

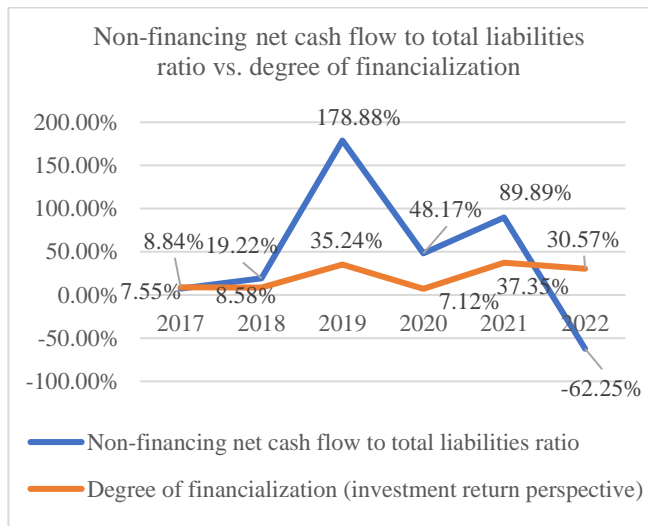


Figure 6. Yunnan Baiyao Non-Financing Net Cash Flow to Total Liabilities Ratio vs. Degree of Financialization (Investment Income Perspective)

Image Source: Yunnan Baiyao Annual Report

From 2017 to 2021, Yunnan Baiyao's net non-financial cash flow to total liabilities ratio is positive, and the ratio of net non-financial cash flow to total liabilities shows a significant increase from 2017 to 2019, which is due to the net cash flow from investing activities climbing rapidly, in addition to the steady increase in net cash flow from operating

activities and the development of Yunnan Baiyao's financialization. The large inflow of cash flow from investment can meet the needs of safeguarding its own investment and debt repayment, and Yunnan Baiyao's non-financing cash flow has strengthened its ability to cope with debt risk and liquidity risk during this period.

5. Conclusions and Recommendations

5.1. Research Findings

(i) According to the study on the impact of changes in the solvency of Yunnan Baiyao in the process of financialization on debt risk, in the long run, the uncertainty of Yunnan Baiyao's financialization investment returns will be transmitted to debt risk. When the degree of financialization of Yunnan Baiyao deepened, Yunnan Baiyao financial assets held by the main speculative arbitrage, the pursuit of high profits and short-term returns, long-term large-scale investment in the virtual economy holding a high return so that the enterprise's long-term solvency affected, fluctuations, once the liquidity crisis will bring serious debt risk to the enterprise.

(ii) According to the research on the impact of changes in cash flow on debt risk in the process of Yunnan Baiyao's financialization, it is concluded that in the short term, Yunnan Baiyao's financialization investment income reduces debt risk to a certain extent. Yunnan Baiyao's financialization of the development of the short cycle of cash flow generated by the investment of a large number of inflows, briefly enriched the enterprise capital pool income sources, can timely and effective supplement the enterprise's short-term debt servicing capacity. Although the enterprise investment income can play a "reservoir" effect, but for the enterprise to increase the uncertainty, the harm is greater than the good, once affected by the market expectations, out of the short-term cash flow of the squeeze, the enterprise faces debt risk.

5.2. Related Recommendations

(i) Yunnan Baiyao financialization can be to prevent reserves for the purpose of giving up speculative arbitrage focus on industrial development. Yunnan Baiyao should always adhere to the concept of "financial services entity", adhere to the industry-based, more based on the main business of innovation and research and development, coordination of production and operation and financial investment in the interrelationship, the entity enterprise to do a good job in order to be able to effectively prevent risk, to cope with risk.

(ii) Yunnan Baiyao should optimize debt risk control and strengthen the level of debt risk prevention. Strengthen its own internal risk management enterprises should establish a perfect risk management system, strengthen the early warning and prevention of external risks enterprises should strengthen the early warning and prevention of external risks, understand the macroeconomic situation, keep abreast of the market

dynamics, and avoid being affected by external risks. Optimize the structure of assets and liabilities, rationally use financial instruments, strengthen compliance management, and enhance the early warning and prevention of external risks.

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