Risks and Precautions of Financialization Operation Based on Enterprise Value Enhancement

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ABSTRACT

Enterprise financialization specifically refers to the use of financial instruments such as debt and equity by enterprises to facilitate their own fundraising, improve their financing capabilities, and thereby ensure the liquidity of enterprise funds, helping the long-term development of enterprises. This article studies the financialization of enterprises, analyzes its specific impact on improving enterprise value, and emphasizes that financialization can achieve financial leverage effect, obtain more investment opportunities, and create conditions for enhancing enterprise market competitiveness. However, at the same time, there are also certain risks associated with enterprise financialization, such as increased interest burden and dilution of equity. Therefore, in the process of enterprise financialization, enterprises need to allocate financial instruments such as debt and equity reasonably according to their own situation, in order to achieve maximum value enhancement.

Keywords: *Enterprise financialization operation, Enterprise value, Risks and precautions.*

1. INTRODUCTION

Enterprise financialization specifically refers that enterprises obtain financing through issuing bonds, stocks, and other means to obtain more funds in the capital market, improve investment returns, and enhance their financial management capabilities. With the development of the times and the continuous improvement of the market economy system, the financialization of enterprises has received attention from all sectors of society. Enterprise financialization not only improves financial conditions and enhances market competitiveness, but also helps to carry out financial risk control work for the company. However, the concept of enterprise financialization has not yet been fully popularized, and many enterprises have not achieved expected profits after applying the financialization concept. Some enterprises face significant obstacles to financialization, such as high investment costs and lack of information integration capabilities. Therefore, exploring the relevant content of enterprise financialization can detect the problems of enterprise operation and development against the background of market economy, focus on breaking through difficulties, and improve the level of enterprise financialization, which has theoretical and practical significance.

2. THE CONNOTATION OF ENTERPRISE FINANCIALIZATION

The connotation of enterprise financialization can be divided into the following aspects, namely capitalization, indebtedness, and diversification. Capitalization usually refers to enterprises enriching their sources of funds by absorbing market financial capital, mainly through equity financing and debt financing, grasping investment directions, and reasonably investing company capital into economic activities. Indebtedness usually refers to enterprises adopting external borrowing, issuing bonds, and other means to directly transfer their financial costs to the market, thereby reducing financing costs and improving profitability. Diversification usually refers to enriching investment and business channels, coordinating resource allocation, comprehensively considering business directions such as venture capital and product innovation, and improving the overall profitability level of enterprises.

The main forms of enterprise financialization include the following three: equity financing, debt financing, and financial derivatives. Equity financing refers to the absorption of investment funds from the capital market by enterprises through issuing stocks or equity transfers, achieving the expansion of enterprise capital and the reduction of financing costs. Debt financing refers to enterprises adopting methods such as issuing bonds to external parties and seeking commercial bank loans, combined with their own business development needs to absorb funds from borrowers, in order to meet their own financing needs. Financial derivatives mainly refer to tools that effectively hedge risks and maximize economic returns through the use of financial instruments such as futures, options, and swaps.

Overall, the financialization of enterprises is a specific way to promote their own business development under the market economy system, relying on the power of financial capital. It can optimize the allocation of enterprise capital, improve resource utilization, improve the financing environment of enterprises, and promote long-term development of enterprises.

3. THE IMPACT OF ENTERPRISE FINANCIALIZATION ON IMPROVING ENTERPRISE VALUE

The trend of financialization in entity enterprises in China is becoming increasingly evident, and some enterprises even show a tendency towards excessive financialization. The proportion of financial returns continues to increase, while the proportion of fixed assets in enterprises shows a downward trend. The proportion of financial asset returns in non-financial enterprises continues to rise, as shown in “Figure 1”.

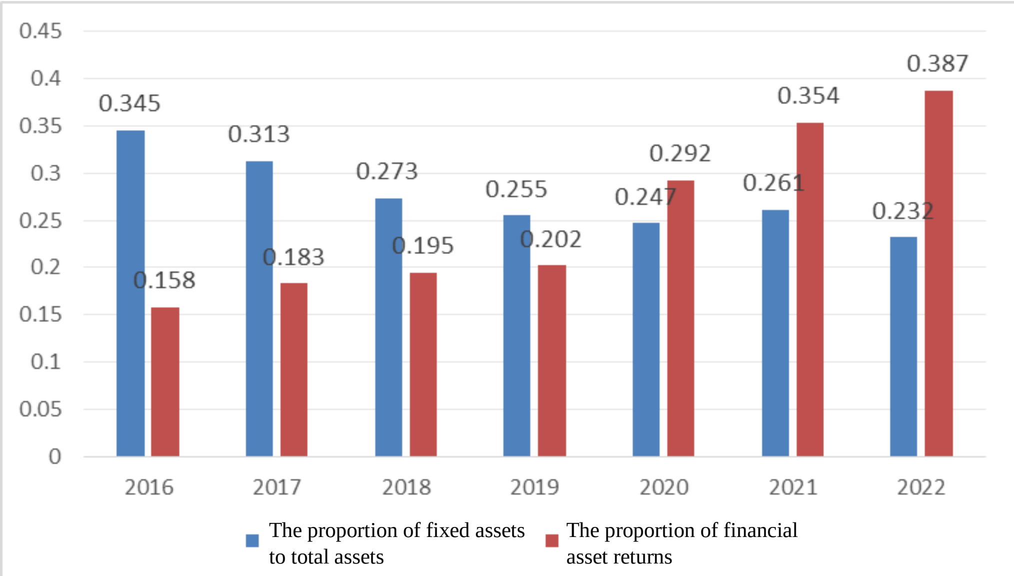

Figure 1 The proportion of fixed assets and financial income of non-financial enterprises.

a Securities Times: http://www.stcn.com/.

It can be seen that the financial assets and financial asset returns of non-financial enterprises have shown an upward trend from 15.8% in 2016 to 38.7% in 2022. From the perspective of the A-share market, the gross profit margin of the main business of most physical enterprises is showing a downward trend, and the overall performance is not optimistic. The sales gross profit margin of the three major industries of food and beverage, pharmaceutical and biotechnology, and leisure services ranks in the top three. The net investment income accounted for 29.19% of the net profit attributable to the parent company of non-financial listed companies, reaching a historic high. Therefore, a considerable number of entity enterprises have turned to financialization operations. Enterprise financialization can have an impact on enterprise value through financing to expand scale and improve efficiency, optimize enterprise capital structure, and improve enterprise governance level, mainly in the following aspects:

3.1 Expanding Scale and Improving Efficiency Through Financing

Enterprise financing can effectively leverage investment advantages, enhance market size and operational efficiency, and thereby increase the enterprise's own value. Firstly, financing can bring more operating capital to the company. With sufficient financial resources to support it, the enterprise's production capacity and efficiency can be improved, and its market competitiveness can be enhanced accordingly. For example, Google is a well-known multinational enterprise in the world. Its main business is Internet search, advertising services, etc. At the beginning of its establishment, in order to improve market share and operating efficiency, it used such channels as issuing stocks and bonds to achieve financialization. After accumulating financial resources, Google continuously increases its business scale, innovatively introduces financial derivatives, and further reduces the pressure of financing costs.

3.2 Optimizing the Capital Structure of Enterprises

Enterprise financialization can coordinate financial resources, optimize capital structure, and minimize resource waste as much as possible. The financing operation in financialization can effectively optimize the capital structure, for example, by issuing bonds for financing, which can be paid in installments, and when necessary, debt to equity can be converted. Equity financing does not require interest payments, reducing the risk of enterprises and achieving diversification of capital structure. After the capital structure is optimized, the financing environment for enterprises is improved, financing costs are reduced, and capital profit margins are significantly increased. This not only helps to improve the financing efficiency of enterprises and expand their market awareness, but also provides support for improving the internal control system of enterprises.

3.3 Improving the Level of Enterprise Governance

The financialization of enterprises can enhance their management capabilities and brand value by increasing financing channels, establishing risk management systems, and improving internal control systems. Financialization can enrich investment channels, promote business diversification, diversify company risks, effectively improve risk control levels, and thus ensure the sustainable development of the enterprise. Enterprises can adopt various investment methods to improve investment targeting, such as targeted issuance of bonds, seeking commercial bank loans, etc.

3.4 Providing Diverse Financing Channels

Enterprise financialization can enrich financing channels, bring more financing opportunities to enterprises, reduce financing costs, and thus improve financing levels. On the one hand, it can strengthen the awareness of enterprise innovation investment, increase the direction of enterprise profit, and on the other hand, it can improve technology research and development, guiding enterprises to innovate products based on market supply and demand. The stable development of the financial market provides a platform for enterprises to invest in innovation and meet the needs of sustainable development. China Mobile has a wide range of business and numerous clients both domestically and internationally. The company made its first public offering in 2000, obtaining a financing of $3 billion, and has since obtained further funding through debt financing and other channels. After the injection of funds, China Mobile's business scale, technological level, and market brand value continue to increase. With the support of financialization, China Mobile has developed from a single business communication operator to a comprehensive communication provider with diversified business and outstanding market competitiveness.

4. THE RISK ANALYSIS OF ENTERPRISE FINANCIALIZATION

The enterprise financialization can enhance their value, but there are also certain risks associated with financialization, mainly reflected in the following aspects.

Firstly, the lack of stability in the financial market affects the promotion of enterprise financialization, resulting in increased operational risks for enterprises. Financial market fluctuations can easily lead to increased financing costs, and risk transmission can cause a decrease in investor confidence, thereby affecting stock prices. LeTV used to be a well-known Internet video company in China. The value of its A stock market was once more than 20 billion yuan. Since 2015, LeTV has sought large-scale financialization, relying on multiple financing channels to obtain funds in the stock market and bond market. But afterwards, the company's funding chain broke, its risk control ability decreased, and a debt crisis emerged, causing LeTV to face a huge crisis, and its stock price also dropped significantly. The main reasons for the failure of LeTV's financialization is its excessive reliance on debt financing, unreasonable debt structure, weak risk control, and poor management, resulting in the phenomenon of fund chain rupture.

Secondly, the enterprise financialization not only involves capital inflows, but also capital outflows, which can have a certain impact on the financial stability of enterprises. Financialized means enrich financing channels, bring a large amount of financial support to enterprises, but may also cause interest pressure, leading to high debt repayment risks for enterprises. If an enterprise's profitability is not high and it is unable to repay its debts at maturity, it will lead to an outbreak of financial risks. Meituan is a well-known lifestyle service platform in China. In its early development stage, it achieved financialization through equity financing, debt financing, and other means. However, the company is overly reliant on financing, and its debt structure is not reasonable. The overall debt scale continues to expand, causing a tight funding chain and continuously increasing its financial management costs. Meituan faces fierce industry competition in market development, making it difficult to steadily increase its market share, resulting in significant fluctuations in the company's stock price and a decline in market competitiveness.

Thirdly, the enterprise financialization will also be affected by policy and legal risks. Changes in policies and legal environment may have an impact on the financialization process of enterprises, such as policy adjustments, tax changes, etc., which may have an impact on the operation and financial activities of enterprises. For example, an increase in interest rates will increase the financial expenses of enterprises. In addition, if the stock market is affected by fiscal policies and political and economic environment, there may be fluctuations, which may cause huge losses to enterprises.

5. RISK PRECAUTION STRATEGIES FOR ENTERPRISE FINANCIALIZATION OPERATION

In order to reduce the risks faced by enterprise financialization, enterprises need to establish risk awareness, and strengthen risk management and control. Enterprises should recognize the risks brought by financialization, formulate corresponding risk management strategies and measures, timely identify, measure and control risks, and thereby reduce risks. Here are some commonly used prevention strategies.

5.1 Enhancing Operational Management Capabilities

Firstly, enterprises need to combine industry characteristics and their own operational status, introduce strategic investors, seek long-term cooperation, and focus on how to optimize their equity structure. This model can improve the stability of enterprise operation, show the power of enterprise development, and improve the level of risk control on the basis of risk diversification. Secondly, enterprises should enrich their business direction, break away from single business dependence, invest efforts in promoting brand building, shape a healthy and positive image, and reduce brand risk losses; they should also continuously promote the construction of professional talent teams, improve internal control systems, and implement risk management mechanisms.

5.2 Reasonably Adjusting Capital Structure

Enterprises should optimize investment structure, consider how to reduce investment costs and improve investment returns. Enterprises should also utilize diversified investment channels to form a reasonable investment portfolio. Based on market trends, they should scientifically design debt structures, reduce debt pressure, and avoid the phenomenon of excessive reliance on external debt investment.

5.3 Improving Relevant Management Systems

Firstly, when establishing and improving internal control systems, enterprises need to pay attention to a sound risk management system, sort out financing needs in the later stages, refer to the enterprise's strategic planning direction, and improve the targeted internal control. Secondly, attention should be paid to risk process control, with risk investigation, analysis, and analysis as the focus of the internal control system. Based on the internal control system, corresponding risk control plans should be formed, and a risk emergency response mechanism should be established. The risk content should be clarified through a risk list to ensure the stability of the enterprise's operations.

5.4 Increasing Information Disclosure and Transparency

Enterprises need to strengthen their awareness of information disclosure, improve financial transparency, provide more investment references for market investors, alleviate the risk of information asymmetry, and minimize market fluctuations caused by information differences. Objective and truthful disclosure of information by enterprises can provide investors and market regulatory authorities with a more comprehensive understanding of the financial indicators of the enterprise, which helps to enhance market activity and assist the enterprise in achieving long-term development.

5.5 Actively Responding to Policy and Legal Risks

Enterprises should closely monitor changes in policy and legal environment, social environment, and external financial system, attach importance to information collection and acquisition, formulate corresponding response measures in advance, and reduce the impact of policy and legal risks on enterprises.

6. CONCLUSION

In short, financialization is an important means for enterprises to achieve sustainable development in the context of the new era, but it can also bring some risks to enterprises and make them face market challenges. Enterprises need to combine their own development needs, comprehensively consider macro and micro factors, and use effective strategies to improve their risk prevention level. Under a sound risk control mechanism, enterprises will gain more development opportunities.

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