Financialization and corporate heterogeneity: an investigation of firm-level investment behavior in South Korea, 1990 – 2015

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Financialization at the firm-level

- Transformation of NFCs’ behavior towards decreasing productive investment and increasing financial investment.
- 2 channels: maximization of the shareholder value and crowding out of productive investment
  - Davis (2016) : investigates the investment functions of firms to find a negative impact of financial payment and an ↑ firm volatility.
  - Alvarez (2015) : increased dependence on financial profits is likely to decrease wage share in non-financial corporations (French firms 2004-2013).
Financialization: is it happening in Korea?

• Korea: a missing tiger of financialization
  • Main focus on Anglo-Saxons and European countries.
  • Prejudices about North-East Asian countries (history of bank-based financial system, conglomerates)

• Contrasted evidence from Korea (1)
  • Political economy: can a developmental state be financialized?
  • Macro level: ‘internal financialization’

Financialization: is it happening in Korea?

• Contrasted evidence from Korea (2)

  Findings:
  1. Shareholder value: No evidences that the increase of payments to financial markets has affected the rate of investment.
  2. Financial market liberalization (increasing market volatility) has had a larger impact than SV

  ▪ Hwang et al. (2013): chaebols have a lower rate of dividends than independent firms.
Research questions

► Why has the rate of investment dropped in the last 20 years?

► Uneven financialization: what are the specificities of firms’ trajectory in Korea compared to other countries?

3 dimensions of financialization:

- Investment behavior
- Volatility
- Integration to value chains
Highlights

• Decomposition of balance sheets by size of firms
  - Based on Davis (2016) for US firms
  - Overview of the transformation of NFCs depending on the size (quartile distribution)

• Trajectories of firms overtime regarding the determinants of the investment rate \(I/K\)

Puzzle: decreasing trend of the investment rate

3 dimensions of financialization:
- Investment behavior (SV)
- Volatility
- Integration to global value chain
Decomposition of firm’s balance sheet (SV)

- Evolution of financial assets and fixed assets
## Decomposition of firm’s balance sheet (SV)

### Evolution of financial assets and fixed assets by size

<table>
<thead>
<tr>
<th></th>
<th>All firms</th>
<th>Large firms</th>
<th>Small firms</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total quick assets</strong></td>
<td>32%</td>
<td>30% -2.0</td>
<td>36%</td>
</tr>
<tr>
<td>Cash &amp; cash éq</td>
<td>6%</td>
<td>4% -2.6</td>
<td>7%</td>
</tr>
<tr>
<td>Short-term investment</td>
<td>0%</td>
<td>3% 2.2</td>
<td>1%</td>
</tr>
<tr>
<td>Accounts receivables</td>
<td>18%</td>
<td>16% -2.2</td>
<td>18%</td>
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<tr>
<td><strong>Total tangible assets</strong></td>
<td>32%</td>
<td>43% 11.2</td>
<td>37%</td>
</tr>
<tr>
<td>Capital stock</td>
<td>25%</td>
<td>23% -1.4</td>
<td>27%</td>
</tr>
</tbody>
</table>

*Capital stock = tangible assets - land*
Decomposition of firm’s balance sheet (D)

- Evolution of debt to capital stock ratio

- Very high ratio (~80% in the US)
- Since 2008: increasing leverage of Small firms while large deleveraging of large firms
Decomposition of firm’s balance sheet (\( \sigma \))

- Evolution of volatility by size
Decomposition of firm’s balance sheet – SV & σ

Based on the decomposition of the balance sheet:
• Investment behavior: weak shareholder financialization
• Volatility: it has been decreasing
• Debt: overall deleveraging

Other dimension of the investment rate: integration to global value chain
Decomposition of firm’s balance sheet (GVC)

• Less vertical integration (fragmentation of GVC)

But unclear trend since the 2011
Decomposition of firm’s balance sheet (GVC)

- GVC upgrading (R&D driven capital intensity)
Trajectories of firms 1995-2015 (PCA)

- Debt & uncertainty
- Financialization, capacity utilization
- Payment to financial markets
- Income from financial markets
- Financial assets ratio
- Vertical integration
- GVC upgrading

Variables:
- D/A
- Capital intensity
- Volatility
- R&D intensity
- VA/sales
- VA/Sales
- AXE 1 (30%)
- AXE 2 (14%)
- S/K

Correlation values:
- -0.6
- -0.4
- -0.2
- 0
- 0.2
- 0.4
- 0.6
- 0.8
Trajectories of firms 1995-2015

- Vertical integration
- Financialization, capacity utilization
- Debt & uncertainty
- GVC upgrading
Further research

- Econometric panel estimation
- More investigation on the GVC factors (IO tables)
- Comparison of trajectories with US firms (matching on accounting items)
Thank you

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To do!!

- Download the missing table from KIS
- Add graphics on debt to equity (usual story of investment, corr debt/inv)
- GVC story: add the market share (narrow grouping) (see by size (warning, size computed each year in terms of assets so strong correlation expected sizexmarket share)
- ACP: add the usual suspects + GVCs indicators
Uneven financialization (macro-level)

Table 2. Overview of six financialisation dimensions by quartile (1997-2015 averages or latest data)

<table>
<thead>
<tr>
<th>Region</th>
<th>Country</th>
<th>Financial deregulation</th>
<th>Foreign financial inflows</th>
<th>Asset price volatility</th>
<th>MB vs. BB financial system</th>
<th>NFC debt</th>
<th>Household debt</th>
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<tr>
<td>Latin America</td>
<td>Argentina</td>
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</tbody>
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Davis (2016) - volatility
Davis (2016) – portfolio shift
Smit (2016) – Stockbuyback in Korea

“Samsung Electronics [...] was responsible for 32% for the amount of money spent on share repurchases in Korea between 2003 and 2014”
Slow down in real investment and increase in financial investment

Increase in interest and dividends

Shareholder value oriented corporate governance

Participation to GVC

Increase uncertainty