

THE INVESTMENT POLICY OF POLISH NON-FINANCIAL ENTERPRISES IN THE FINANCIAL ERA

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Purpose: The purpose of this article is to examine whether non-financial enterprises operating in Poland show signs of investment policy financialization.

Design/methodology/approach: This study uses the method of analysing indicators that identify the structure of financial assets and profitability from financial activities. For this purpose, the financial statements of non-financial enterprises published by the Statistics Poland for the years 2010-2018.

Findings: The research shows that, in relation to Polish non-financial enterprises, one cannot talk about the financialization of investment activities. Admittedly, financial asset structure indicators showed an upward trend, but the reason was the acquisition of subsidiaries. The increase in the measures presented was not associated with an increase in profitability from financial activities. The indicators identifying the profitability of the financial sphere show that it generates negative income, which is covered by operating income.

Research limitations/implications: Financialization is a developing phenomenon. The presented research covered the years 2010-2018, therefore research on the discussed issue should be continued.

Originality/value: According to the traditional approach, the purpose of non-financial enterprises is to generate long-term profit (income) from operational and investment activities. As a result of phenomena associated with financialization, enterprises limit operating activities, especially long-term investment, to short-term financial activities. So they change the investment policy by shifting the capital allocation preference from tangible assets to riskier, but also more profitable financial assets. The originality of the article is associated with the analysis of investment policy in the field of financial investments in relation to enterprises operating in Poland.

Keywords: investment policy, financialization, analysis of financial statements.

Category of the paper: research paper.

1. Introduction

According to the traditional approach, the purpose of non-financial enterprises is to generate long-term profit (income) from operational and investment activities. These enterprises treat the production of goods (rendering of services) or trade in goods as their main activity. They generate revenues by selling them, which offset with the incurred costs, constitute profits. The generated profit is the source of revenues for the owners and can be used to fund the investments. The investments determine the development of enterprise and greater profits in the future. On the other hand, financial activity constitutes additional source of revenues for the purpose of financial investments when the enterprise has a surplus of non-allocated financial funds.

In the era of financialization, managers, in order to meet market requirements, limit operating activities, especially long-term investment, to short-term financial activities. Shareholders as owners (of listed joint-stock companies) expect high profits from capital employed in a short time (Rydzewska, 2016, p. 55). To assess the directions of enterprises as forms of investment, they use the ROE (return on equity) (Dembinski, 2011, p. 148). So managers, in order to meet market expectations, direct company management towards creating short-term profit (Michalak, 2013, pp. 380-384). To this end, they take advantage of the opportunities that their surroundings give them – use financial assets as a form of quick earnings. Thus, they leave the position taking into account the long-term stability of the development of a given venture, because (tangible) investments only bring returns in the long run (Ratajczak, 2012, p. 291, quoted from: Froud et al., 2000; Williams 2000). However, the logic of financialization focuses on a short period, on the dividend and shares rates.

The purpose of this article is to examine whether non-financial enterprises operating in Poland exhibit features of investment policy financialization. This study uses the method of analysing indicators that identify the structure of financial assets and profitability from financial activities. For this purpose, the financial statements of non-financial enterprises published by the Statistics Poland for the years 2010-2018.

2. Characteristics of investment activities of enterprises in the era of financialization

The phenomenon of financialization in relation to (non-financial) enterprises means an increase in the importance of financial motives in the decision-making processes of enterprises (Jajuga, 2014, p. 148). The literature on the subject distinguishes three manifestations of financialization of business entities: financialization of assets (investment

activities), financialization of sources of financing, financialization of income. The presented symptoms form the fourth manifestation: financialization of management processes. (Krippner, 2005, pp. 173-208; Orhangazi, 2008, pp. 863-886; Stockhammer, 2004, pp. 719-741; Dumenil, Levy, 2004, p. 190; Crotty, 2005, p. 89; Nolke, Perry, 2007, pp. 1-27).

Narrowing the considerations to the first symptom – asset financing, it is associated with changes in the investment policy of enterprises, consisting in shifting the preference for capital allocation from tangible assets to riskier, but also more profitable financial assets (Szczepankowski, 2016, pp. 31-47). The effect of these activities is a change in the structure of assets, consisting in an increase in the share of financial assets in the total assets of non-financial enterprises.

Investments in financial assets are designed to generate high profits in a short time. These investments involve investing funds in shares, but they are not of a long-term nature related to the company's development, and only consist in the earning resulting from the difference in prices or from the dividend received. Investments may also relate to the purchase of other financial investments, including the purchase of debt securities, granting loans, as well as other investments, e.g. derivatives. In the era of financialization, the latter have become a way of making relatively quick and high, but risky earnings. It should be noted that the development of their complexity has, over time, led to blurring the associated risk (Rydzewska, 2019, pp. 27-28).

In addition to the above-mentioned forms of allocating funds to financial assets, non-financial enterprises make investments by acquiring or expanding subsidiary financial units, in order to increase their profitability. They also undertake activities related to the financing of operating activities. An example is the sale of classic products together with financial products, with, e.g. the sale of goods (household appliances) together with credit for its purchase (Baud, Durand, 2012, pp. 241-266).

Changes in the investment policy of enterprises determine changes in the income structure of enterprises. The part of the financial surplus that should be allocated to property investments and long-term development of the company is directed to purchase financial investments. On the other hand, these investments generate revenues at the time of their sale, or profits (dividends) of their ownership. Thus, the main source of income, which should be operating activities for non-financial enterprises, is shifted to financial operations. The increase of financial motives significance (motive of profit and risk) can be assessed positively, as it means reasonable calculation between the profit and risk rate and translates into the increase of rationality of taken actions. The situation is not so optimistic when the entrepreneurs, who want to make profits quickly, abandon operational activity in exchange for financial activities and do not care about the implementation and development of their production (service) activities or trade activities.

Shifts in the direction of investments from operating activities to financial assets entails macroeconomic consequences. First, changes in investment policy reminiscent of the activity of financial sector entities overlap the course and amplitudes of business cycles with financial cycles (Fine, 2008). Secondly, the generation of profits by non-financial enterprises from financial activities and their subsequent redistribution to financial markets causes a decrease in the financial surplus, necessary for investments in long-term tangible assets. According to O. Orhangazi (2008, pp. 863-886), this is a negative effect of financialization on the pace and degree of long-term development of business entities.

The phenomenon of financing the investment policy of non-financial enterprises is the longest and most noticeable in the American economy. And so, for over fifty years, the indicator expressing the value of financial assets in relation to tangible assets has been showing a steady upward trend, with the highest dynamics starting in the mid 1980s. The change in the investment structure at the same time reduced the importance of operating profits for financial activities (Davis, 2016, pp. 115-141). The share in gross income (before tax) doubled from around 15% at the beginning of the 1960s to 32% at the end of 2010 (Lin, 2013). This was most visible in the manufacturing sector, in which almost 60% of total profits generated in 2010 were generated from financial channels.

Apart from the United States, signs of the phenomenon of finalising the investment policy of non-financial enterprises are noticeable in other countries. And so, E. Stockhammer (2004, pp. 719-741) based on the econometric model, examined the relationship between financial investments of non-financial enterprises and the accumulation of capital goods. The research concerned the USA, the UK, France and Germany. For the first three countries, evidence was found confirming the negative impact of financialization on accumulation.

Symptoms of financialization are also noticeable among developing economies. Research conducted in India (Sunanda, Dasgupta, 2018, pp. 96-113) showed that financial assets are relatively more attractive for non-financial enterprises compared to other investments in terms of return rates and capital gains. In turn, on the basis of the analysis of 41 companies listed on the stock exchange in Istanbul, it was indicated that these enterprises moved their working capital funds from the production activity to the purchase of high-yield interest-bearing assets (Akkemik, Ozen, 2014, pp. 71-98).

H.J. Seo, H.S. Kim, Y. Ch Kim (Seo, Kim, Kim, 2012, pp. 35-49) covered Korean non-financial corporations (NFCs). The research results indicated that the increased payments of dividends and share purchase had negative impact on investment in research and development. As factors limiting outlays on R&D investments, they indicated: reduction of internal funds, shortening of planning horizons, increased financial investments and possibilities of profit from financial activities. The research covered the years 1994 to 2009, except that the discussed phenomena were observed after the Asian financial crisis (AFC).

3. Assessment of the investment policy of non-financial enterprises in Poland from the point of view of the structure of assets

In order to examine whether the processes of financialization have influenced the investment policy of non-financial enterprises in Poland, an indicator analysis was adopted as the research method. To calculate indicators, data from financial statements and other financial information of non-financial enterprises in Poland were used, published by Statistics Poland for 2010-2017 as part of studies of Financial instruments of non-financial enterprises in Poland (*Financial instruments...*). The time period of the research results from the availability of data for the presented period.

To evaluate the investment activities of enterprises, in accordance with theoretical considerations, two types of indicators are used. The first group is indicators defining the structure of financial assets. The second group are profitability indicators from financial activities.

To assess the degree of involvement of financial resources in financial assets, the indicator of financial assets (instruments) in the enterprise's assets was used. This indicator takes on the formula in accordance with Formula 1.

$$\text{IFAI} = \frac{\text{financial instruments (assets)}}{\text{total assets}} * 100\% \quad (1)$$

This indicator represents the share of active financial instruments in the total assets. It illustrates the enterprise's investment policy. The growth of the indicator indicates the increase of financial assets' significance in the company's assets, meaning greater engagement of available funds in the financial investments.

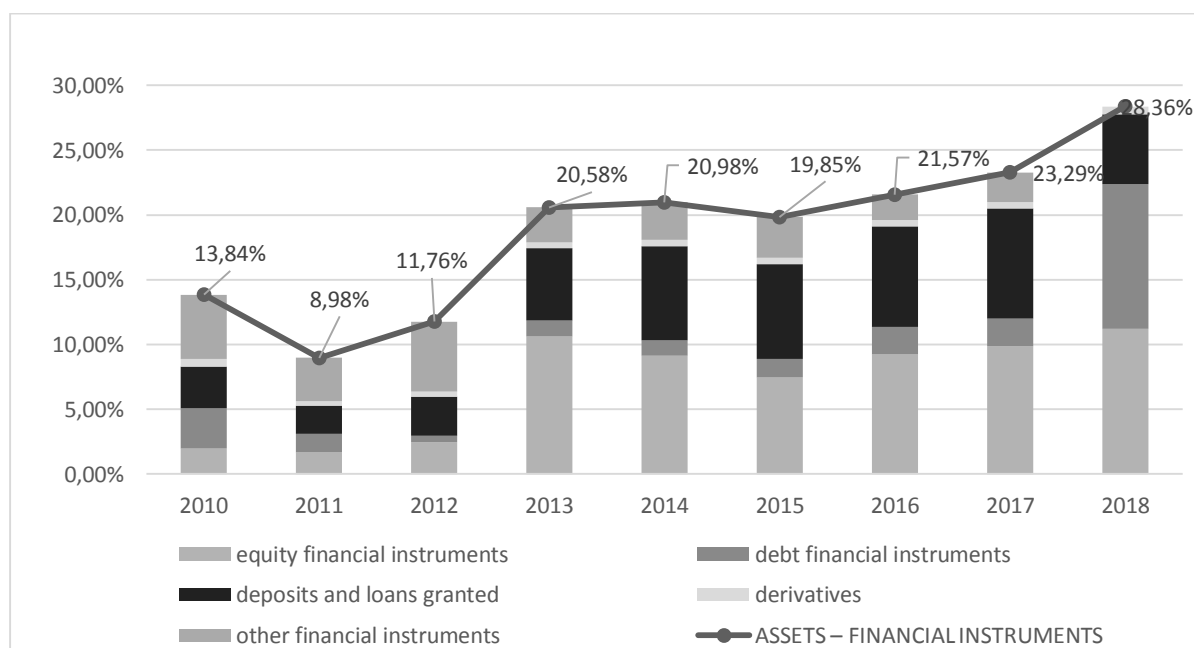


Figure 1. Structure of active financial instruments.

Considering the share of active financial instruments in the total assets in relation to non-financial enterprises, it can be seen on the basis of Chart 1 that their share increased. After 2010-2012, in which the level of financial instruments stood at 14%, 9%, 12%, it increased to the level of 20% -21% in 2013-2017, and in 2018 – 28%.

Analysing the structure of financial assets, the largest increase occurred in equity financial instruments (shares, interests in other companies). This situation may involve a greater involvement of financial resources through the acquisition of shares of other entities, including subsidiaries. An upward trend is also noticeable for asset items: deposits and loans granted. It can be associated with higher and higher values of loans granted, e.g. to subsidiaries. An interesting issue is the relatively low share of derivatives in the structure of assets. Their value was at the level of approximately 0.5%. Thus, investments in derivatives – profitable and risky instruments of the financial source era profits – are not practiced by non-financial enterprises in Poland.

4. Assessment of investment policy of non-financial enterprises in Poland from the point of view of income structure

In addition to the asset structure indicators, profitability indicators from financial activities are used to assess investment policy.

In order to determine the significance of the effects (profitability) of financial economy in relation to operating profitability, the ratio of gross financial result (before tax) to the result on operating activities was used. The formula is presented in Formula 2.

$$\text{GR/OR} = \frac{\text{gross financial result (before tax)}}{\text{results of operating activities}} \quad (2)$$

This indicator shows the extent to which financial activities affected the operating activities of the enterprise. The indicator greater than 1 means that the enterprise generates profit from financial activities, which increases the operating result. The indicator lower than 1 shows that the result on financial operations is negative and absorbs profits generated from operating activities.

The profitability ratio from financial operations is a detail of the above formula (formula 3).

$$\text{PRfFO} = \frac{\text{results of financial operations}}{\text{net financial result}} \times 100\% \quad (3)$$

This indicator presents the share of profit (loss) generated under financial operations in the enterprise's net profit. The growth of the indicator means the increase of importance of revenues on financial instruments in the total profits.

When analysing profitability from financial activities, the value of the indicator (ratio) determining the relation of the gross financial result (before tax) to the result on operating activities in all years of the analysis (2010-2018) was lower than 1. This means that the result of financial operations was negative and absorbed profits generated from operating activities. However, taking into account the profitability indicator ratio from financial operations, due to data limitations, it was only calculated for the years 2010-2015. The information presented shows that the share of the result on financial operations in the net financial result increased in the considered period, reaching 16.16% in 2014, after which it fell to the level of 9.15% in 2015. The calculated values are at a relatively low level, compared to American enterprises, in which the share of income from the financial activity exceeds 30%, and the manufacturing industry even up to 60%.

Table 1.
Profitability indicator ratios from financing activities

	2010	2011	2012	2013	2014	2015	2016	2017	2018
Gross financial result/ result from operating activities	0.92	0.89	0.84	0.59	0.75	0.52	0.85	0.95	0.90
Result from operations on financial instruments/net financial result *100%	-1.64%	0.14%	0.91%	12.44%	16.16%	9.15%	no data	no data	no data

The analysis of cash flows is a supplement to the considerations on the financial policy of non-financial enterprises through profitability from financial activities. For this purpose, an analysis of cash balances from individual activities is used: operating, investing and financing. In addition, indicator ratios of operating cash to cash flows from investing activities are used (formula 4).

$$CO/CI = \frac{\text{(positive) net cash flows on operational activities}}{\text{(negative) net cash flows on investment activities}} \quad (4)$$

The relation of positive cash flows in relation to negative net cash flows from investing activities indicates what proportion of financial resources from operating activities was involved in investing activities (both related to financial and tangible assets). An indicator higher than 1 means that investment expenditure was lower than operating cash and the remaining part covered expenditure on debt repayment or added cash to the next period. An indicator lower than 1 means that part of the investment expenditure was covered from operating activities, and the remaining part – from financial activities or cash accumulated in the previous year (Sierpińska, Jachna, 2004, p. 128).

When considering cash flow balances on operating, investing and financing activities (Table 2), it can be seen, that in almost all observed years (except for 2016), Polish non-financial enterprises generated positive cash flows from operating activities. However, cash balances on investing activities in the considered period were negative.

Table 2.*Balances of cash flow from operating, investing and financing activities*

	2010	2011	2012	2013	2014	2015	2016	2017	2018
Balance of cash flows from operating activities	164.0	42.8	55.4	152.1	111.8	40.7	-336.7	797.0	257.8
Balance of cash flows from investing activities	-46.0	-1252.5	-79.1	-76.1	-118.6	-116.1	-218.0	-122.1	-178.2
Balance of cash flows from financing activities	-59.6	1287.1	-4.7	-56.8	18.7	-21.3	-60.7	-730.5	-18.5

Table 3.*The indicator ratio of cash from operating activities to cash from investing activities (CO/CI)*

	2010	2011	2012	2013	2014	2015	2016	2017	2018
CO/CI	-3,57	-0,03	-0,70	-2,00	-0,94	-0,35	1,54	-6,53	-1,45

Analysing the indicator ratios of cash from operating activities to cash from investing activities, CO/CI (table 3), in 2010, 2013 2017 and 2018 they were higher than 1, which, with positive cash flows from operating activities, means that cash from operating activities was high enough to cover expenditure on investing and financing activities (in these years, the balance of cash flows from financing activities was negative). However, in 2011, 2012, 2014 and 2015 the CO/CI indicator was lower than 1. Thus, in these years, investment activity, in addition to funds from operational activities, was additionally financed by funds from financial activities (probably debt) or cash reserves from the previous year. However, it was not the case that funds from financial activities financed expenses of the operational sphere.

5. Conclusions

The purpose of this article was to examine whether non-financial enterprises operating in Poland show signs of investment policy financialization. Therefore, indicators identifying the structure of financial assets and profitability from the financial activities of business entities were used.

Based on the empirical analysis carried out for 2010-2018, it can be concluded that the share of financial assets in the structure of assets increased from about 10% in 2011 to 28% in 2017. The main reason was the increase in equity financial assets, which can be associated with the acquisition of subsidiaries. In addition, the volume of deposits and loans granted also increased, which can also be linked to loans granted to subsidiaries.

However, analysing the profitability indicator ratios generated from financing activities, both the ratios calculated on the basis of financial results (gross financial result/result from operating activities) and cash flows (ratio of cash from operating activities to cash from investing activities) indicate that enterprises in Poland did not finance operating activities with

income from financing activities. It is true that the indicator identifying the share of the result on financial operations in the net financial result in the analysed period increased, reaching 16.16% in 2014 (after which it fell to the level of 9% in the following year). However, the calculated figures are at a relatively low level, compared to American enterprises, in which the share of income from financial activities exceeds 30%, and the manufacturing industry even up to 60%.

To sum up the theoretical considerations regarding the characteristics of the financialization of investment activities and the results of research, in the case of non-financial operating enterprises, one cannot talk about the phenomenon of investment policy financialization. However, it is worth to consider whether steps can already be taken to prevent the negative consequences associated with the financialisation of investment activities and in particular the situation in which non-financial enterprises limit operating activities for financial activities and do not care about the development of production (service) or commercial activities. Both on a global and national scale, solutions in this area have not yet been developed. However, the entity that may try to limit the processes of finalization and its effects is the state. These actions, however, are difficult to undertake and carry out for various reasons and in addition, the state is not an impartial referee (Ratajczak, 2012, p. 298).

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