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Corporate Financialization: A Conceptual Clarification and Critical Review of the Literature

Joel Rabinovich and Niall Reddy

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Corporate Financialization: A Conceptual Clarification and Critical Review of the Literature

Joel Rabinovich (joel.rabinovich@kcl.ac.uk) – King's College London, UK

Niall Reddy (nar437@nyu.edu) – Wits University, Southern Centre for Inequality Studies, South Africa and New York University, Sociology, USA.

Abstract

Corporate financialization (CF) comprises a major subfield of financialization studies centered on the belief that significant changes in corporate governance and business models have been driven by financial imperatives, profoundly impacting investment habits, labor policies, organizational practices, and the distribution of revenues. Experiencing explosive growth in recent years, the field has become mired in conceptual ambiguity, mirroring problems with financialization studies as a whole. While seeking to restore some conceptual clarity and clearly delineate the boundaries of the concept, this paper attempts a comprehensive review of empirical work on CF. At the core of the field we identify four sub-fields, each addressing distinct aspects of the way business models have become financialized under the influence of shareholder value principles. Our dissection of the literature shows, however, that these theories mostly remain under substantiated. The connection of financialization strategies to key outcomes of interest, like declining investment and rising inequality, remains nebulous in most cases. Beyond this, we identify key weaknesses in the way shareholder value orientation - the causal lynch pin of CF accounts - has been theorized. The field as a whole has paid insufficient attention to the variegated and uneven nature of the shareholder revolution, which has prevented a single uniform set of governance principles from diffusing. The critique concludes with a call for caution and nuance in employing the corporate financialization framework, emphasizing its role as just one part of a multifaceted transformation within capitalism. Alongside it, other pivotal structural forces, such as intangibilization, monopolization, and globalization, demand equal attention. The overarching aim of this review is to urge greater clarity, conceptual discipline, and a holistic perspective in future investigations into the dynamics of financialized capitalism.

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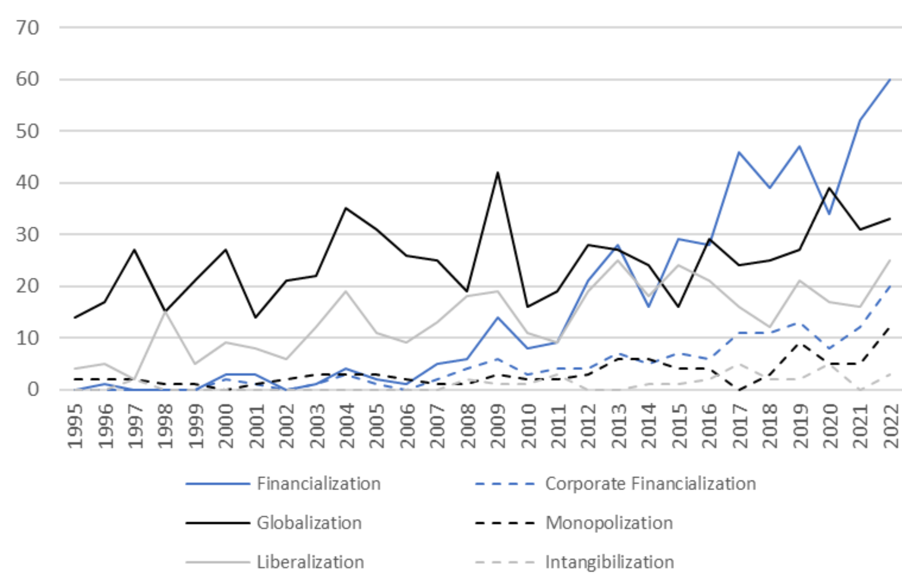
1. INTRODUCTION

“Financialization” is one of the biggest buzzwords in the social sciences today and a major, discipline-spanning field of research. The term refers to an interconnected set of structural and institutional shifts broadly related to the increasing influence of financial markets and actors. For many these constitute the most important vector of transformation in the world economy. We observe this in the growing popularity of terms like ‘financialized capitalism’ or ‘finance dominated capitalism’ and in the bibliometric ascendence of “financialization” over other macro-structural concepts, like globalization (Figure 1). This paper reviews empirical research on the financialization of non-financial companies (NFCs). Corporate financialization (CF) is today just one small subfield within the vast expanse of financialization studies (see the chapters of a recent handbook to get a sense of the thematic sprawl within the field (Mader *et al.* 2020)). But it occupies a position of special importance, precisely because of the pretensions that financialization theories hold towards explaining the macro-structural dynamics of capitalism. The study of how public companies are affected by financial dominance is critical to establishing clear causal connections between financialization as a diffuse structural process and the most distinctive trends of development in the world economy, like secular stagnation and rising inequality. Our review of CF covers issues at the heart of financialization studies.

Figure 1. Bibliometrics of Financialization



Source: Own elaboration based on Scopus, accessed in September 2023. *Note*: See elaboration details in Appendix 1

Almost a decade ago Brett Christophers (2015) warned that the frenzied use of the term, fueled by buzzword-ification, was rapidly pushing ‘financialization’ beyond its conceptual 'limits'. As it exploded in popularity, 'financialization' was being saddled with an ever widening and increasingly disparate set of meanings. Similar problems have played out in the sub-field of ‘corporate financialization’. The term now refers to a huge array of distinctive processes occurring out at different analytical 'levels', affecting the governance, strategic orientation and behavior of NFCs. These include, *inter alia*, the rise of shareholder value orientation, the increasing importance of financial channels of profit generation, the expansion and functional differentiation of leverage, the growth in intangible assets and the increase in shareholder payouts. While the term ‘corporate financialization’ might be used to refer to any number of these different processes - their actual relationship to each other is often one of cause and effect to each other. Conceptual stretching therefore leads to a persistent muddling of explanans and explanandum which obviates theory building.

Our first intervention in this paper is therefore to try and impose some conceptual order on the field. We do this by prizing apart the different analytical layers of CF. The *theory* of CF resides in the causal pathways connecting these different layers, which we depict in Figure 2. On the far left of the figure is what we label ‘structural’ financialization. This refers to financialization proper (as opposed to CF) - forces outside the firm, like deregulation and accelerated financial innovation, which have metastasized finance. One effect they've had is to elevate financial (shareholder) interests of those of other corporate stakeholders. We define shareholder value orientation (SVO) - the governance dimension of CF - narrowly as a framework in which greater weight is given to shareholder preferences in managerial decision making. Unlike much of the field, we are therefore careful to distinguish the prioritization of shareholder interests from the actual things done to further those interests. The latter - the strategic layer of corporate financialization - should properly be seen as an *effect* of SVO, and of a set of other mechanisms stemming independently from structural financialization itself (the dotted lines in Figure 2).

At the strategic level, we identify four main trends towards the financialization of the business model that have been the focus of scholarly research.[1] First, NFCs have become financial *profiteers* by undertaking a ‘financial turn in accumulation’, substituting productive for financial activities. Second, they’ve become financial *providers* for their shareholders - adopting a ‘downsizing and distributing’ allocative regime, intended to benefit financial investors by ruthlessly maximizing return on equity (ROE) and freeing up earnings for disbursement. Third, firms increasingly act as financial *innovators* expanding and adapting the ways they use liabilities in their day-to-day operations. Fourth, NFCs have become financial *portals*, relying increasingly on intangible capital to change the temporalities of value streams and/or enhance their rent capture. The latter two of these are newer and less developed fields of research - empirical work has concentrated on the first two aspects of financialized strategy. Cumulatively, the financialization of the business model is thought to have resulted in declining physical investment, increasing financial and intangible investment, an expansion of financial balance sheets, declining employment and wage shares and a marked increase in shareholder payouts. These behavioral changes are posited as a key microfoundations of the macro-trends characteristic of financialized capitalism, like secular stagnation and rising inequality. Putting this together we get the causal map presented in Figure 2.

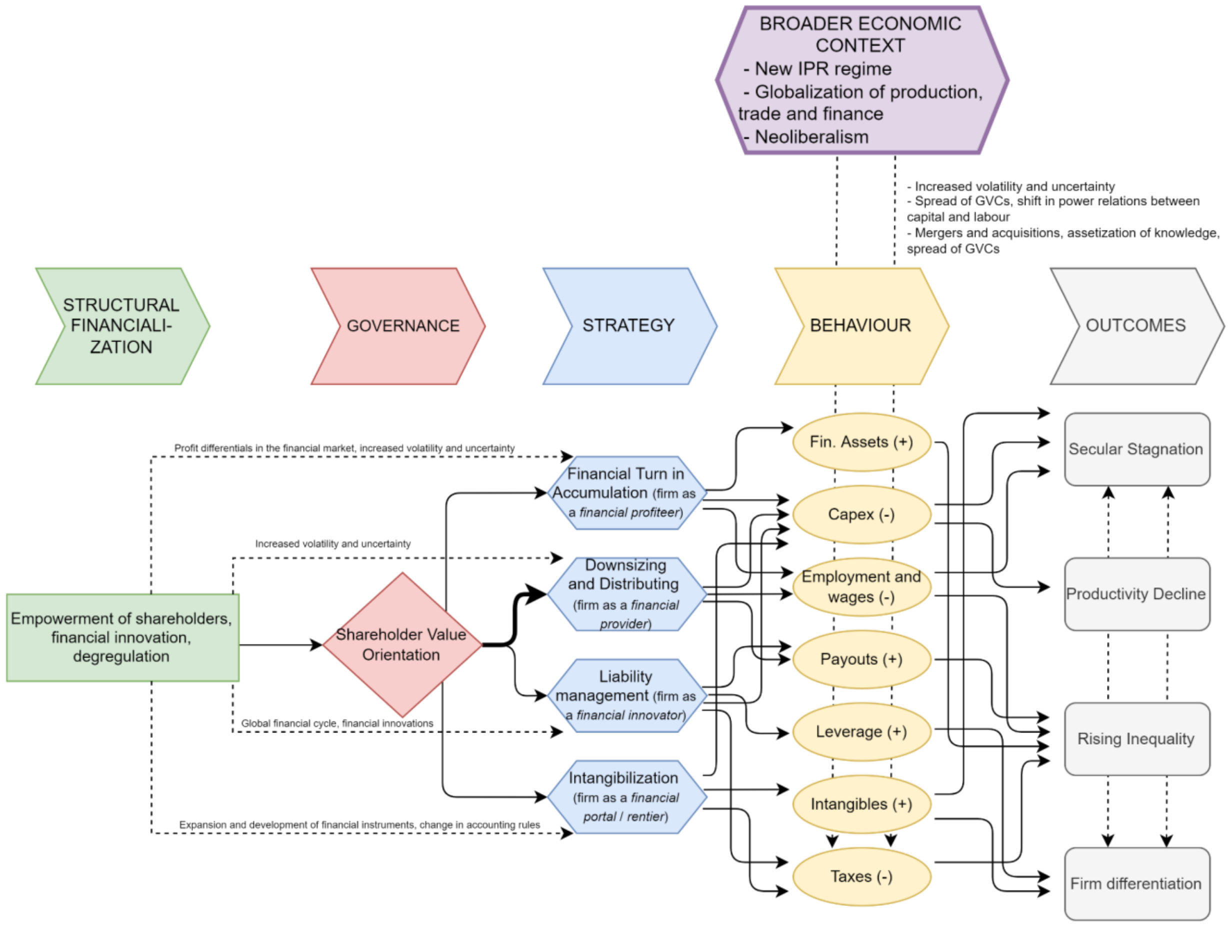
Christophers (2015) was pessimistic that 'financialization' would be able to overcome problems of conceptual stretching. We're rather more hopeful about 'corporate financialization', which has a much narrower plane of reference. Figure 2 suggests that it's possible to enumerate a clear, well delimited set of phenomena that constitute the field of CF. These form part of financialization on both *intrinsic* grounds -

[1] Throughout the article we treat business model and strategy as synonyms.

because they involve the deepened imbrication of NFCs in financial markets and practices - and *extrinsic* grounds - because they are woven into the wider nexus of causal relationships surrounding financial dominance. But for the concept to be made truly fit for analytical purpose, 'corporate financialization' still needs to be disciplined in certain ways. In our view, the term should be used strictly to refer to a set of governing and strategic principles embraced by NFCs. The *theory* of CF claims that these principles strongly impact the ways that firms generate, deploy and distribute funds. Clearly however, the same outcomes might derive from different proximate causes and be related ultimately to different structural processes (depicted in the vertical dotted lines in Figure 2). It's therefore important that they themselves don't become equated with financialization, the consequence of which would be to make the latter tautologously a cause of macro-dynamics like the slowdown in capital accumulation. The slippage towards a behavior-based definition (column 4 in Figure 2) of 'corporate financialization' has, we argue, derailed efforts to carefully parse financialization effects from those other structural processes like monopolization - something which is critical to the research agenda of the field as a whole.

Note that even trimmed in this way, 'corporate financialization' remains a multivalent concept, denoting a basket of inter-related phenomena and causal mechanisms (downsizing and distributing, financial accumulation etc). These are inter-linked but not conditional upon each other and must be evaluated separately. After looking at how financialization scholars have theorized shareholder value orientation (the object of a much larger, cross-disciplinary research program), the bulk of this review is spent surveying, in sequence, the literature on each element of the financialized business model. Our survey brings to light the impressive breadth and depth of the empirical work conducted under the banner of CF, which has been arguably the dominant analytical framework within heterodox firm theory over the last several decades, and widely influential far beyond this. Providing a shared ground for the study of multiple aspects of corporate behavior, CF theory has greatly elucidated our understanding of the changing face of corporate political economy, brought into circulation a wealth of new data and databases - both quantitative and qualitative - and helped to foster cross-disciplinary research communities.

Figure 2. Causal map describing corporate financialization



Yet the conclusions we draw on the state of play within the field are fundamentally sobering. The surmounting of conceptual limits only helps to reveal the 'empiric' limits of CF, to return to Christophers (2015) terminology. Progress in verifying core hypotheses, depicted in Figure 2, has been limited. Theories of a 'financial turn in accumulation' at this stage seem largely defunct - we argue the ballooning financial portfolios of NFCs mostly derive from factors other than a sudden preference for financial profit seeking. Arguably, the most important issue for corporate financialization concerns its effect on the investment and employment policies of firms - the subject of the 'downsizing and distributing' thesis. We highlight issues with the existing evidence that make it extremely hard to parse the effects that downsizing imperatives have had independent of other factors driving down rates of accumulation. Causal relationships are also somewhat murky in accounts of liability management and intangibilization - both in terms of backwards links to SVO and forwards links to outcomes of substantive importance. Moreover we argue that the overall importance of corporate financialization has been overstated by a failure to contend with the unevenness of the shareholder revolution, and the variegated effects it has had on governance - which suggests that CF might have more limited scope than has generally been thought. On balance, the existing evidence cannot support the claim that financialization has been the dominant process acting on NFCs nor that it is the central driver in aggregate patterns of development. Financialization, it seems, is simply "one piece of the puzzle", suggesting a need to diversify our research efforts and better account for other structural processes that have been occluded by the hyper-fixation on finance (Schwartz 2022a).

Our review builds on two existing surveys. Davis (2017a) summarizes the empirical literature on financialization and investment. Klinge, Fernandez and Aalbers (2021) survey a wider field the corporate financialization literature focusing on quantitative studies and grouping studies based on the level of aggregation -a) national-level and macro-comparative analysis, b) sector- and firm-level analysis- and c) in terms of effects of corporate financialization on various economic variables. Guided by the causal map above, our review covers different ground and arrives at different, more critical, conclusions. The rest of the article is organized as follows: the next section deals with SVO, unpacking its linkages to financialization and its effects on firm strategy. Sections 3, 4, 5 and 6 deal with those strategies, namely 'financial turn in accumulation', 'downsizing and distributing', 'liability management' and 'intangiblization' respectively. In Section 7 we sketch-out a discussion and some non-exhaustive paths looking forward. Section 8 concludes.

2. SHAREHOLDER VALUE ORIENTATION

The rise of SVO as the dominant mode of corporate governance is at the heart of the story of NFC financialization. SVO at its most basic denotes a governance regime in which managers are expected to run the corporation in the benefit of the majority of shareholders, whose interests are ultimately measured by the market value of the corporation. Other stakeholders such as creditors, workers, suppliers and customers should have their interest protected by other contractual means rather than through participation in corporate governance (Hansmann and Kraakman 2009). We can contrast this with other modes of governance, like managerialism, in which both workers and managers wielded more influence, and were thought to reorient the firm away from narrow profit goals towards an equal consideration for growth and long term stability (Lazonick 1992). It can also be contrasted with labor-oriented models, state-oriented models and other shareholder-oriented models in which non-controlling shareholders are not properly protected from controlling shareholders - such as family-dominated business groups (Hansmann and Kraakman 2009).

SVO started to become dominant in liberalized economies from the 1980s but became understood as a facet of financialization only much later, in the 2000s, as connections were drawn between it and a wider suite of changes related to finance's increased prominence in economic life. There are at least three good reasons to subsume SVO under financialization. The first is that the 'shareholder revolution' which brought SVO to predominance was itself rooted in the deeper structural process of financialization: deregulation, the spread of financial innovations and the general empowerment of financial actors, in particular through ownership reconcentration (Dobbin and Zorn 2005). It was the growing scale assets under the command of pension funds and the innovations of the junk bond market that combined to launch the hostile takeover movement in the late 1980s, signaling the start of the shareholder revolution. A second phase of that revolution occurred in the 1990s, when *voice* (activist campaigns, voting, public pressure) became the dominant means through which investors exerted an influence on governance (Gillan and Starks 2007).

Secondly and as a consequence, SVO can be seen as part of financialization because it involves the ascendance of financial *interests* within the firm. SVO is underpinned by both relative empowerment of shareholders - chiefly institutional investors - within the firm, and by the partial transmutation of managers into shareholders, through various reincentivization mechanisms including increased stock-based remuneration. In "class-analytic terms", the role of the shareholder revolution was to break "the postwar détente between managers and labor, coopting the former in order to weaken and displace the latter" (Fligstein and Goldstein 2022, p. 200). Management was brought over through the carrot and stick of financial discipline and reward but also through a culturo-educational transformation. C-suites were increasingly populated by business leaders with backgrounds in the financial sector or with training in financial economics; and those occupying financial portfolios - like Chief Financial Officers - came to exercise more influence (Baronian and Pierre 2022). Thus a third and closely related sense in which SVO constitutes financialization is that it involves an elevation of financial ideologies and metrics within the firm. Fligstein (1993) famously argued that SVO came about through the embrace among decision makers of a "financial conception of the firm" which reduces the company to its financial essence, conceiving it as fungible of bundle assets to be deployed and re-arranged with the sole objective of share-value maximization. Increasingly a diverse range of metrics tied into productive efficiency and growth potential get collapsed into a single index of (financial) success - namely share value maximization (Baronian and Pierre 2022).

Financialization scholars' hostility to SVO is underpinned by a far more sympathetic appraisal of the corporate model it is thought to have replaced. The managerialist firm is widely regarded to have been a major institutional ballast of the more equitable and expansionary variety of capitalism that dominated in the post-War period. High reinvestment propensity and workforce retention were seen as sensible responses to the fundamental uncertainties entailed in processes of innovation and growth (Lazonick 2010). But Agency theorists, who provided the intellectual armor for the shareholder revolution, offered an opposing view (Jensen and Meckling 1979, Aggarwal and Samwick 2006). Firms' obsession with growth, for them, reflected the 'empire-building' tendencies of unchecked managers, who pursued size and status over value creation. Their views gained traction as a triple crisis of over-competition, falling profits and rising inflation gripped the US corporate sector (Fligstein and Shin 2007). "Cut the fat" became the rallying cry of the shareholder revolution, which pushed through a sweeping set of reforms that changed the face of the US corporate system (Dobbin and Jung 2010). Firms were de-diversified and winnowed down to their "core competencies". Governance reforms sought to lock in shareholder priorities by empowering owners through things like more independent boards, and through co-opting managers through stock based remuneration and other incentives.

This, it is argued, financialized the business model (Froud *et al.* 2017). Specifically, SVO is seen as the key factor propelling four major trends in NFC strategy. Firstly, NFCs have become *financial providers* as allocative regimes shifted from "retain and reinvest" to "downsize and distribute". Increasing the flow of earnings to shareholders came to take precedence over product market strategies. Secondly, firms have become *financial profiteers* as they've turned away from their ordinary lines of business and towards financial activities to generate the quicker, yielding, less risky returns that investors demanded. Third, they've become *financial innovators*, deepening the integration of financial markets, instruments and logics into their liability management. Finally, they've become *financial portals* using goodwill to and other accounting mechanisms to change the temporalities of value streams. This, along with outsourcing and an increasing reliance on 'intellectual capital' to generate revenue has fed intangibilization. Collectively, these shifts are seen as undermining the social conditions of the 'innovative firm', producing in its stead a corporate form better suited to value extraction (Lazonick 2010). In the following sections we critically evaluate the literature on each of these elements of NFC financialization.

3. FINANCIAL TURN IN ACCUMULATION - THE FIRM AS A FINANCIAL PROFITEER

The first element of a financialized business model involves NFCs becoming *financial profiteers* - seeking to generate revenue through financial activities rather than their ordinary lines of business. The possibility that finance might supplant production in NFCs has long been recognized. Writing in the 1920s, Grossman (1929) speculated that when "money capital in search of investment can no longer be applied profitably in production" it would turn instead to the "stock market". Later Marxists argued that such dynamics could become entrenched and generalized, feeding crisis tendencies at the system level. For Arrighi (1994) episodes of this kind were a recurring feature of periods of hegemonic transition in the world system. For Sweezy (1994) they reflected a lack of outlets for productive investment, which resulted from the excessive concentration of capital.

Modern theories of a financial turn in accumulation originate with Krippner (2005) and Crotty (2005). They were first to document the phenomena quantitatively, providing aggregated statistics showing a fourfold increase in the ratio of NFC portfolio incomes to total profits, and large increases in financial balance sheets. In connecting these trends to changing relative profit opportunities they built on their Marxist precursors, but located financial profiteering in the structural conditions of financialization. High and volatile interest rates acted as a push factor deterring NFCs from productive investment, while higher returns on financial assets drew them into speculative investments. But they added a crucial element to the story: SVO was seen as mediating the response to changing profit stimuli. Subsequent work has tended to focus squarely on SVO as the explanation for financial accumulation (Stockhammer 2004, Orhangazi 2008, Hein and Truger 2012, Davanzati *et al.* 2019). For rich countries, no evidence has been supplied linking relative changes in real-financial rates of profit, or antecedent growth slowdowns, to a 'turn to finance' (Karwowski and Stockhammer 2017).

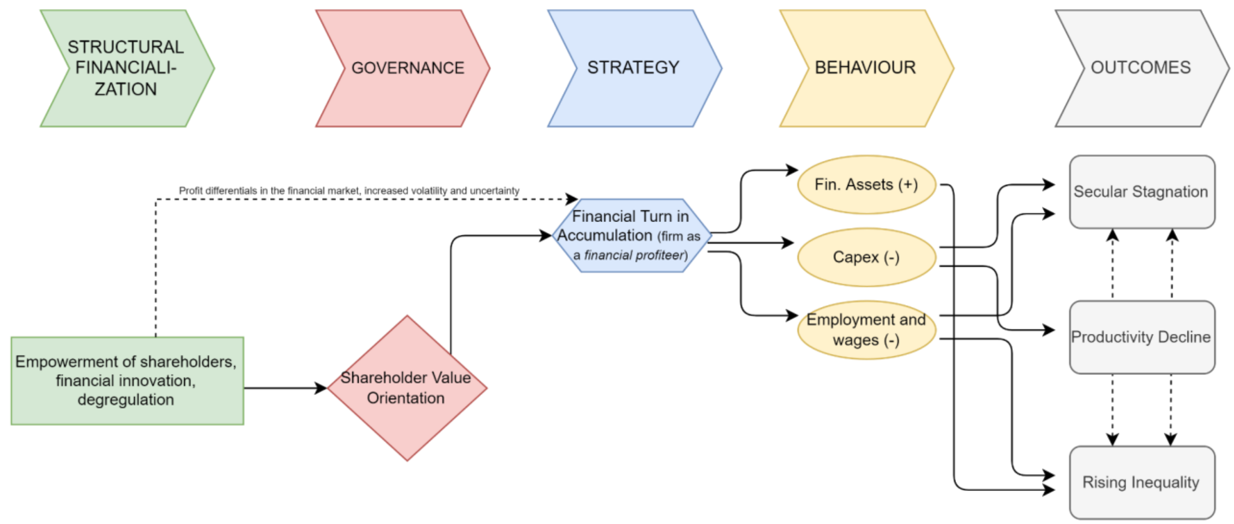
There are two main mechanisms through which SVO is connected to the financial turn. The first is ideational in nature. Managers adopt "shareholder conception of the firm", coming to perceive their companies as simply a bundle of different assets rather than a free-standing institution. The firm's productive assets, viewed through this lens, do not hold any inherent importance over other asset classes and hence are regarded as freely interchangeable with financial investments based on narrow profitability criteria. Secondly, shareholder pressures for short-term returns create incentives for managers to favor financial investments which are seen as quicker yielding, more easily reversible and more predictable than the alternative (Stockhammer 2004, Hein and Truger 2012, Davis 2018, Davanzati et al. 2019).

In the global South, the shareholder revolution made fewer inroads, as we argue further below. However, here is some evidence that sectoral profit gaps might have driven financial accumulation - as Demir (2007, 2009) shows for Argentina, Mexico and Turkey, and Powel (2013) for Mexico. In economies that occupy lower rungs of the global currency hierarchy, conditions might generally provide stronger incentives for speculative behavior. Interest rates tend to be higher and more volatile, offering opportunities for carry trading (Bonizzi 2013, Shin and Zhao 2013, Bruno and Shin 2017, Hardy and Saffie 2019). Global South NFCs are found to have comparative advantages in bypassing capital controls compared to financial institutions, mainly due to intra-company loans (McCauley *et al.* 2013, Avdjiev *et al.* 2014). Various studies suggest that they have been engaging heavily in derivatives and other securities markets for speculative rather than simply hedging purposes (Farhi and Borghi 2009, Rossi Júnior 2013, Chui *et al.* 2014).

Financial accumulation is thought to have had a major impact on the investment and labor policies of NFCs and consequently to have been a driver of macro dynamics, including secular stagnation and rising inequality. The chief concern is that it has acted to crowd out real investment. Various econometric studies seem to validate this hypothesis, demonstrating a negative association between financial income and investment (Stockhammer 2004, Orhangazi 2008, Hecht 2014, Tori and Onaran 2020). This is argued to have fed through to declining productivity and value added growth (Hein and Truger 2012, Tomaskovic-Devey *et al.* 2015, Pariboni *et al.* 2020) and a weaker labor market (Lin 2016). And yet there is no necessary reason why expanded financial investment must substitute for capital expenditure. If successful, financial investment itself generates internal funds that could be used to *support* productive activities. A range of other studies have actually found a positive association between liquid financial assets and capital expenditures (Hecht 2014, Davis 2017b, Auvray and Rabinovich 2019).

The second concern is that financial accumulation undercuts labor's bargaining power and exacerbates inequality. The reliance on financial activities, it is argued, "decouple[s] the generation of surplus from production and sale" which undermines the position of non-financial workers (Lin and Tomaskovic-Devey 2013, p. 1285). Opportunities for financial investment, moreover, expand the *exit* options of employers and thus grants them additional leverage in wage negotiations (Kohler *et al.* 2019). Financial actors, on the other hand, gain from both an enhancement of their status within the firm and from the asset price inflation that financial accumulation promotes (Huber *et al.* 2022). Empirically, it's thus been connected it to declining labor shares at the firm (Alvarez 2015, Guschanski and Onaran 2020), industry (Kristal 2013, Lin and Tomaskovic-Devey 2013) and national (Kohler *et al.* 2019) level, to income dispersion (Lin and Tomaskovic-Devey 2013, Davanzati *et al.* 2019, Huber *et al.* 2022) and to de-unionization (Kollmeyer and Peters 2019, Dupuis *et al.* 2020). These pathways are illustrated in Figure 3.

Figure 3. Causal map describing the financial turn in accumulation



And yet a growing critical literature raises serious doubts about whether any generalized 'turn to finance' ever took place. It uncovers major weaknesses with the original evidence supplied to demonstrate the increased importance of financial channels of profit generation. That evidence was hampered by the fact that publicly available datasets do not disaggregate profits operationally in a way that would allow straightforward comparison between real and financial activities. While it's typically possible to gather data on total income from financial assets and some related expenses, much of these expenses are tied to real sector activities. This makes it impossible to derive a "pure" financial profit. Instead, most authors resort to comparing financial income (i.e., gross of costs) to total profit (Crotty 2005, Krippner 2005, Davanzati *et al.* 2019, Lin and Neely 2020). But as Crotty (2005, p. 105) himself warned long ago this method severely biases the importance of financial income in an upwards direction because it compares a revenue stream to a profit (net of cost) stream. It's not clear why we are licensed to infer anything about financial profit from financial income. When financial income is compared to total income (i.e., both gross of costs), the result is a modest ratio of 3% at its highest (Rabinovich, 2019).

The absence of suitable profit data means that the only evidence for a widespread turn to finance comes from the growing size of NFC financial portfolios. However, Fiebiger (2016) shows that the aggregated statistics used by Krippner and others misleadingly classifies FDI assets as financial and thus partly misconstrues the internationalization of firms for their financialization. This also affects profit data, as repatriated profits from overseas operations get billeds as return on equity (a financial stream). Even more misleading is the fact that both intangible assets and 'goodwill' (largely from mergers) were included as financial assets in these statistics when they are plainly not (Rabinovich 2019). These problems can be avoided with corporate databases, which allow for a finer disaggregation of balance sheets. But those databases do not actually show any strong trend of financial accumulation. The ratio of financial to total assets has been steady or decreasing over the last several decades in both the US (Reddy 2023) and most other advanced economies (Soener 2020). Reddy shows that this changes if we restrict our focus to one specific category of asset - cash and short-term investments - which have been increasing proportionately on the balance sheets of a plurality of US firms. But he finds little connection between this trend and increased shareholder power.

On the other hand, growing corporate "cash piles" have been extensively studied by mainstream economists, contrary to frequent claims that the mainstream is entirely blind to financialization. This research shows that the increase in the average size of financial balance sheets is driven largely by a sample composition effect: namely the entrance, in large numbers, of smaller, R&D intensive firms with risky business models (Brown *et al.* 2009). These firms retain large portfolios of short-term assets for precautionary reasons. On the other hand, the aggregate increase in financial balances is accounted for by a handful of giant tech and pharmaceutical companies. As heavily IP-intensive businesses these companies have extensive capacities for in profit shifting. The cash balances they've amassed are almost exclusively held offshore (Faulkender *et al.* 2019). The evidence strongly suggests that it's tax arbitrage opportunities that explain why these firms have retained and financialized their earnings rather than returning them to shareholders. Financialization of this kind is far less likely to have had the same deleterious effects on investment and wages.

Similar issues appear in the research on emerging economies. Powel (2013, pp. 266-268) presents macroeconomic data from Mexico firms showing the incentives to engage in carry trades between 2004 and 2008 rather than an *actual* engagement. Demir (2009) suggests a turn to financial accumulation based on a return gap which is the difference between the rate of return on fixed assets and the rate of return on financial assets but the latter does not include the cost of holding those assets. One specific issue of the literature dealing with speculative activities in emerging economies (such as the case of Bruno and Shin, 2017) is that interest rates differentials are consistent with other, non-carry trade motives for holding liquid financial assets, such as a demand for precautionary savings. Rather than national interest rates, Rabinovich and Perez Artica (2022) use firm-level interest income as their focal independent variable. They find no significant association between it and financial asset accumulation in Latin American firms besides Brazil (although it is not economically significant for the latter). Similarly, Kaltenbrunner, Karaçimen and Rabinovich (2023) use a mixed-method analysis to study the financial behavior of Brazilian and Turkish firms and find no evidence of generalized speculative activities.

Note finally that the link between SVO and financial accumulation is also dubious in theory. One of the main imperatives of the shareholder revolution was to impose greater discipline on managers by depriving them of control over 'excess funds'. It seems more logical that short-termist investors would generally demand that funds not used for productive activities be immediately disgorged to them, rather than allowing managers to retain those funds as intermediary investors (Reddy 2023, p. 14). It might be a different matter in cases where financial accumulation takes the form of firms acting as financial service providers. But this would seem to offend a different principle of the shareholder revolution - namely that firms should focus solely on core competencies and resist the temptation to diversify (Kaltenbrunner *et al.* 2023, p. 14, Reddy 2023, p. 14).

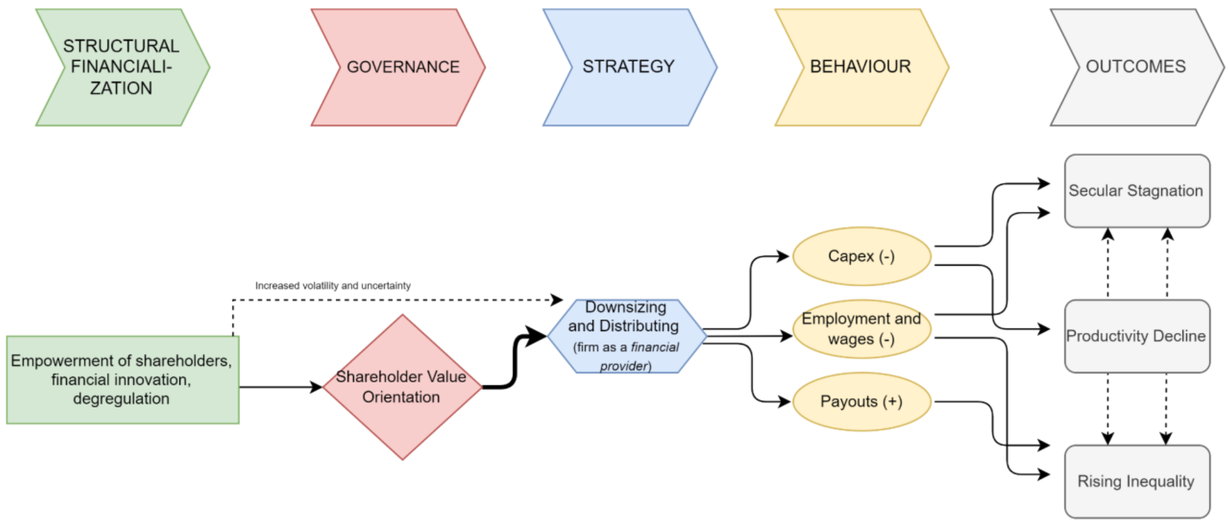
4. DOWNSIZING AND DISTRIBUTING - THE FIRM AS A FINANCIAL PROVIDER

The second element of a financialized business model involves a transformation in the allocative regime of the firm. In the name of boosting short-run returns on equity (ROE) and increasing the appeal of the firm's stock to financial investors, shareholder oriented firms are thought to embrace stringent labor and capital discipline. Breaking with managerialist norms, they apply ruthless cost minimization strategies to the workforce - laying off non-core workers and compressing wage rates. Hurdle rates of return on new undertakings are ratcheted up, with the increase in free cash flow channeled back to shareholders. The financialization literature tends to see these policies as both socially regressive and self-defeating (Lazonick and O'Sullivan 2000, van der Zwan 2014). They undermine the basis for decent work by destroying the "career in one company" norm - creating flexibilized, low paying jobs in the place of secure ones. At the same time, they undermine the organizational cultures and patient investing needed to sustain innovation. "Downsizing and distributing", as this strategy is known, prioritizes value extraction over value creation and is therefore seen as inherently short-termist (Orhangazi 2008, p. 882, van Treeck 2008, p. 383, Hein and Treeck 2010, van der Zwan 2014, p. 108, Davis 2017b, p. 280, Fasianos *et al.* 2018, p. 45, Tori and Onaran 2018, p. 1397).

Lazonick and O'Sullivan (2000) who coined the term, understood downsizing primarily in terms of labor policy. Subsequent quantitative work has linked SVO to layoffs (Fligstein and Shin 2007, Jung 2016) and lower employment growth (Lin 2016). Jung and Lee (2022) find that downsizing episodes tend to occur shortly after firms miss earnings targets. Other studies find that the adoption of SVO principles leads to a decline in wages (Deakin and Rebérioux 2009, Gospel *et al.* 2014, Cushen and Thompson 2016). Appelbaum and Batt (2013) find a connection between ownership concentration in private equity firms and reduced health and pension benefits. SVO has thus been linked to declining wage shares at the firm (Dünhaupt 2017, Guschanski and Onaran 2020, Palladino 2020), sectoral (Palladino 2020) and national level (Barradas 2019, Kohler *et al.* 2019). More aggressive labor policies within the firm are also thought to have wider effects on the industrial relations environment. Darcillon (2015) and Meyer (2019) connect SVO to a weakening of bargaining institutions as business actors seek to remake labor regimes in line with their preferences for greater flexibility. Kollmeyer and Peters (2019) and Dupuis (2020) link it to declining unionization rates. At the other end of the distribution, various studies find that SVO is associated with the expansion of managerial employment (Goldstein 2012), increasing incomes for executives (Shin 2014) and top earners generally (Huber *et al.* 2022) (cf. Godechot (2016) who found little impact of NFC financialization on top incomes).

A second major strand of research looks at investment. This work is primarily based on Post-Keynesian models which stress the non-equivalence of internal and external funds (Fazzari *et al.* 1988). These predict a negative impact of payouts, which drain internal revenues, on future investment. At the same time most studies regard higher payouts as indicating the presence of 'downsizing and distributing' norms among managers (Figure 4). Hence payouts are both a mechanism through which investment is reduced and a correlate of managerial preferences for lower investment. Most studies find them to be negatively associated with investment at the firm (Hecht 2014, Schoder 2014, Seo *et al.* 2016, Davis 2017b, Tori and Onaran 2018, 2020, Auvray and Rabinovich 2019) and aggregate level (Stockhammer 2004, Clévenot *et al.* 2010, Barradas 2017) across a range of countries. Theoretical work, mostly based on a stock- flow consistent modeling, arrives at similar findings (Hein 2008, Hein and Treeck 2010, Dallery and Van Treeck 2011, Duwicquet 2021). Perhaps erroneously, most of these studies equate investment to capital expenditure, overlooking R&D. More recent studies have found a decline in the radicalness of technological innovation with financialization (Lee *et al.* 2020) as well as a more general decrease in R&D, both as a result of financial investments (Yu and Jo 2022) and buybacks (Swift 2022). Reddy and Rabinovich (2022) find that R&D decreased with ownership concentration in high-turnover - likely impatient - investors.

Figure 4. Causal map describing downsizing and distributing



A small mountain of evidence linking SVO to downsizing has thus piled up over the last decade and a half. But causality remains elusive. The overreliance of this work on payouts as a proxy variable for SVO is a potentially serious problem. Payouts function to return "excess" funds to shareholders. They will tend to be higher in firms where capital discipline is imposed by powerful shareholders or embraced by managers. But they will also increase simply when the firm faces fewer viable investment options (of sufficient profitability) and thus finds itself with additional "excess funds" (DeAngelo et al., 2006). The negative coefficient on payouts in both investment and employment equations might therefore be picking up changes in the firm's (or nation's/sector's) *growth opportunities* - which cannot be perfectly controlled for. The importance of the growth outlook for payouts also means that in time series terms they are highly erratic, which makes them questionable as a proxy for a generally stable variable like SVO.

There are other ways of getting at SVO. Some studies use managers' own words, constructing SVO indexes from the frequency of shareholderist phrases in CEO letters and other communications (Shin 2014). Others use measures of shareholder power (like ownership concentration) and incentive alignment (like stock based compensation) in effect capturing the causal mechanisms behind SVO (Jung 2016, Reddy and Rabinovich 2022), although these variables might be prone to endogeneity problems of their own. Another approach has been to infer shareholder effects by comparing listed with private companies. Asker et al. (2014) find that private firms are more responsive to investment opportunities, but their results are contradicted by others (Drobetz *et al.* 2019, Feldman *et al.* 2021). In general there is an urgent need for more innovative solutions to identification problems.

Yet in view of the complexities of the subject matter, there is no guarantee more conclusive findings will emerge. Many will be inclined to regard the existing data as "good enough" evidence of a link between SVO and downsizing. On its own, however, this discovery is rather limited. Advocates of SVO would find it entirely unsurprising. They championed the shareholder revolution precisely to counter managerial "empire building", so declining growth rates might be taken as evidence that SVO is functioning as intended. They would deny that this decline is genuinely linked to secular stagnation or rising inequality since it is ultimately efficiency enhancing and should have beneficial secondary effects. Focusing on the short-termist aspect of "downsizing and distributing" might be a way to regain some interpretative leverage since this is a hypothesis that is particular to critical accounts. Agency theorists expect in common with financialization theorists that SVO will reduce investment and employment. But since they see this really as a correction from "overinvestment", they don't foresee any detrimental outcomes for the company (Richardson 2006). If they can be refuted by showing that SVO is in fact associated with inferior long-run performance this would strengthen critical accounts. But Reddy and Rabinovich (2022) find no such link between performance and SVO as a whole. Their results suggest that negative performance effects are associated only with particular investor types - like hedge funds - highlighting the importance, elaborated below, of accounting for shareholder heterogeneity. Froud et al (2006, p. 78) are even more skeptical about the link between SVO and performance, questioning whether management agency had any effect *at all* in the rise of share values during the 1990s. According to them, SVO works simply as a narrative that allows firms to participate in windfall gains.

Beyond the partial effects, another problem for financialization theories is that the observed trends don't seem to validate the notion that downsizing has become a "guiding maxim" for the corporate sector. Shareholder principles might have restrained growth at the margin but they haven't stopped US firms from expanding extremely rapidly for most of the financialization period (Rabinovich 2023). Physical investment rates having remained subdued indicating a decoupling of accumulation from firm size which likely reflects various factors including the increased importance of intangible capital (Rabinovich 2023), the globalization of value chains (Milberg and Winkler 2013) and more intensive M&A activity (Martynova and Renneboog 2008). "Merge and monopolize" might be a better characterization of financialization's "guiding maxim" as Blakely (2019) notes.

Payout patterns better align with financialization theories - there has indeed been a substantial increase in rates of profit distribution across a wide range of both advanced and emerging economies (Seo *et al.* 2016, Soener 2020, Finello Corrêa and Feijo 2022, Valeeva *et al.* 2022). However, as Kahle and Stulz (2020) show in the US case these increases don't map neatly on to the shareholder era - they happen primarily *after* the turn of century, when the turn to "merge and monopolize" was well underway. At an aggregate level, payouts are overwhelmingly accounted for by the largest companies - the ones most likely to have benefited, and contributed to, market re-concentration (although rates of distribution have increased widely). Whether higher payouts are generally a cause or consequence of slowing accumulation is therefore very unclear. Auvray et al (2021) argue that it will depend on which sub-period of financialization we are looking at. They argue that a transition occurred sometime in the late XXth century, early XXIst century, marking the start of "Financialization Mark II" characterized by strongly established financial hegemony with new forms of intellectual and financial monopoly" (p.431). The direction of causality between payouts and investment, they contend, is reversed with this shift - higher payouts in the recent period derive from lower investment rates rather than the other way around. This is a significant break with the "downsize and distribute" thesis.

The evidence linking SVO to declining wages faces challenges of a more theoretical nature. It's a fundamental postulate of critical political economy that power, above all, is the arbiter of distributional conflicts. The shareholder revolution reconfigured power within the elite nexus, but didn't do anything to directly strengthen the hand of capital over labor. It might have given managers new incentives to squeeze workers - but it can't account for why they were *able* to do so, or why workers failed to resist. A plausible explanation for correlations nonetheless observed is that SVO has a kind of precipitating effect. Wages are a sticky variable, and might have been generally slow to adjust to the new balance of class forces established by other structural processes occurring concurrently with financialization, like globalization, neoliberalism etc. Managerialist norms might be one cause of their stickiness. SVO erodes these norms, prompting managers to push wage limits. But they succeed in this only because other factors have already acted to diminish labor's bargaining power. The shareholder revolution supervenes upon the neoliberal one - its impact is on the speed of adjustment to a new distributional equilibrium rather than the determination of that equilibrium.

5. LIABILITY MANAGEMENT - THE FIRM AS A FINANCIAL INNOVATOR

If financial profit-seeking is thought to have been the major driver of growth in financial assets, a different facet of financialization is thought to have wrought significant changes on the other side of the balance sheet. Acting as financial *innovators*, NFCs have adapted the ways they raise, manage and use debt. Corporate debt has been theorized in two different, contrasting, ways reflecting two 'phases' of credit: the "the seductive allure of present credit" and "the crushing burden of future debt" (Merhling 2011, p. 11). Following a Minskyan tradition, debt is commonly studied as an indicator of firms' *financial fragility* (i.e., as a *crushing burden*). A large stock of debt reduces safety margins needed to deal with adverse shocks and may signal future solvency problems. Both dynamics can deter investment. This relationship is confirmed by some studies (Orhangazi 2008, Davis 2017b) but contradicted others (Hecht 2014, Schoder 2014, Barradas 2017) possibly reflecting the fact that only at a certain level does debt become a crushing burden (i.e., when firms enter speculative or Ponzi phases of liability management, to continue with Minsky typology). Debt growth also comes with higher interest payments which imply a drain of resources and thus have a negative impact on investment decisions.

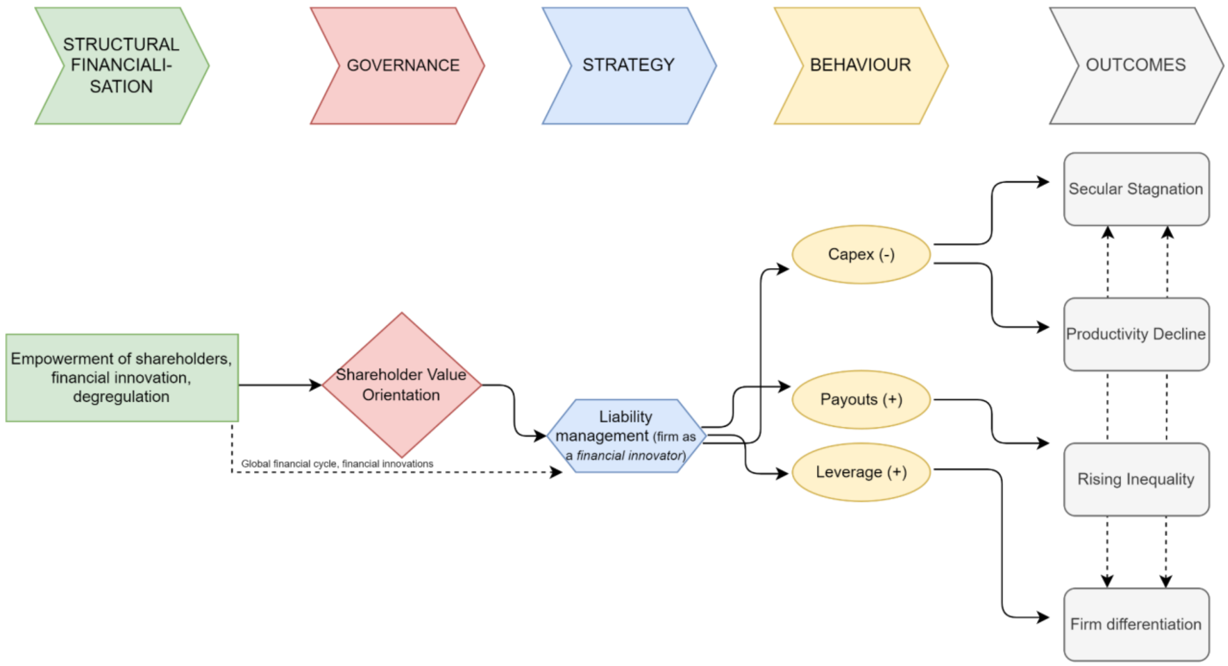
SVO is thought to have contributed to the "cult of debt finance" - the rapid gearing of NFCs beyond what is mandated for productive purposes (Palley 2013). This stems again from an intensified drive to maximize ROE. Issuing debt instead of equity automatically improves the weighted average cost of capital which reduces discount rates, boosts share prices and increases the net present value of assets held on the balance sheet at fair value (Baker *et al.* 2020). Debt incurrence has been used to directly fund stock repurchases according to Mason (2015), who finds a declining correlation between new borrowing and physical investment after the early 1980s (see also Fiebiger, 2016). It's also been linked to financial accumulation, with credit used to fund the acquisition of financial assets (Kliman and Williams 2015, Davis 2017a). Liability management, like downsizing and distributing, has therefore fed into declining capital expenditure and rising payouts - although here the magnitudes of these effects are even less clear (Figure XX).

A different strand of work has focussed on the power dynamics underlying corporate indebtedness. Leverage was promoted by early architects of the shareholder revolution as a disciplinary instrument. Agency costs are fundamentally an outgrowth of equity financing, which entails no contractual obligations. Debt, on the other hand, reduces managerial freedom of movement and limits free cash flow. It also signals managerial confidence in new undertakings (Dobbin and Jung 2010). Higher leverage is therefore a marker of shareholder power. Knafo and Dutta (2020, pp. 482–483), however, seek to turn this narrative on its head. They see the origins of financialization in a set of strategies pioneered by *managers* of US conglomerates, who began "systematically capitalizing on financial markets" in order to construct new forms of corporate power[2]. They drew heavily on debt markets in order to fund aggressive acquisition strategies, targeting undervalued assets with the objective of making capital gains. This not only prefigured but helped to precipitate the later shareholder revolution, which applied the same practices in order to yield part of the gains being made by corporate raiders. In a sense, this account sees SVO as the result rather than the cause of the new techniques of liability management.

Focussed again on the power dimension of corporate finance, Sgambati (2019) offers a conceptual distinction between debt and leverage. Whereas the former refers to borrowing in order to settle obligations or make payments, leverage is borrowing to invest in assets with the aim of making a profit in the future. This distinction brings to the fore the nuanced power dynamics between creditors and debtors. While traditional debt relationships grant creditors a level of disciplinary control over debtors, leverage shifts the balance of power. With leverage, debtors gain the upper hand over creditors by influencing their competitive environment through levered-up investments. Building on this perspective, Baines and Hager (2021) identify a 'great debt divergence'. Large firms have increased their leverage while their debt servicing costs have plummeted and net profit margins have increased. Small firms, despite deleveraging have seen borrowing costs soar and net profit margins go into negative territory. Financialization in this sense feeds into and reinforces the structural differentiation between large firms and the rest. The full range of mechanisms involved in this strategy is depicted in Figure 5.

[2] These practices also fed into broader processes of financialization as they came to be emulated by banks which began "exploiting the vulnerabilities of the financial system to leverage their strategies" (Knafo 2022, p. 39).

Figure 5. Causal map describing liability management



6. INTANGIBILIZATION - THE FIRM AS A FINANCIAL PORTAL AND AS RENTIER

The fourth feature of the financialized business model involves another transformation in the asset structure of the firm: the rise of intangible assets. Two different classes of intangible assets should be distinguished, both of which have seen significant growth in the last forty years. The first of these comprises intangible assets generally related to knowledge intensive production, including computerized information (computer programs and computerized databases, especially the purchase and development of software), scientific and creative property (patents, licenses and non-patented know-how and also the innovative and artistic content in commercial copyrights, licenses and designs), and economic competences (marketing and branding) (Corrado *et al.* 2005). The second contains just one asset: goodwill, which is the amount that a company pays in an acquisition over the target's book value.

In one way of conceiving it, goodwill is the reflection of a more general process of bringing anticipated future income into the present through financial mechanisms and instruments. This is regarded as the defining aspect of corporate financialization by some scholars. For Leaver (2018, italics in original), the financialization of the firm is "about *staggering the temporalities of asset-based income and liability-based costs to produce a yield in the present*." Firms thus assume a "portal-like quality, moving income through time and space, blending and converting apparently different income items realized through different channels and mechanisms" (Baker et al, 2020, p.24). Similarly, Lysandrou (2016, pp. 444–445) understands financialization as the 'colonization of the future', "the extension of the commodity principle along the axis of time in the same way that globalization represents its extension along the axis of geographical space." This colonization happens through an expansion of the supply and demand of financial securities, i.e., tradable claims on future income streams. These accounts resonate with others that do not use the term financialization, such as Palan's (2015) notion of 'futurity' or Nitzan and Bichler's (2009) 'capital as power' framework. The emphasis on future income streams connects closely with the aspect of financialization just discussed (i.e., liability management) since the practice of bringing future revenue into the present is achieved by issuing bonds (or equity) (Lysandrou, 2016).

Goodwill allows for the capitalization of the future in two ways. First, through the bull period that typically characterizes the bidding process in the weeks preceding the sale of a company, inflating its value (Serfati 2008). Second, because it is valued through impairment. Unlike in amortization accounting, in which an assets' value is reduced according to a specific schedule, impairment involves valuing an asset - in this case goodwill - through a test that compares the total profit expected from that asset with its book value. Therefore, goodwill does not necessarily disappear from the accounts through time. Its value in the aggregate balance sheet of the US NFC sector has steadily increased, now representing more than 20% of total assets (Rabinovich, 2019). Prior to 2001 under the Financial Accounting Standards Board and 2004 under International Financial Reporting Standards, it was a requirement that goodwill be amortized over a maximum of 40 years (Leaver, 2018). Critical studies on accounting highlight how impairment, and more generally 'fair value' or 'mark-to-market' accounting techniques, have procyclical financial effects on the non-financial sector (Baker et al 2020, Boyer 2007, Palan 2015). Faced with diminished cash flows, for instance, NFCs will experience a rise in the cost of borrowing which could feed through via the discount rate into the value of assets held at fair value (not only goodwill) leading to impairment losses and further damaging balance sheets.

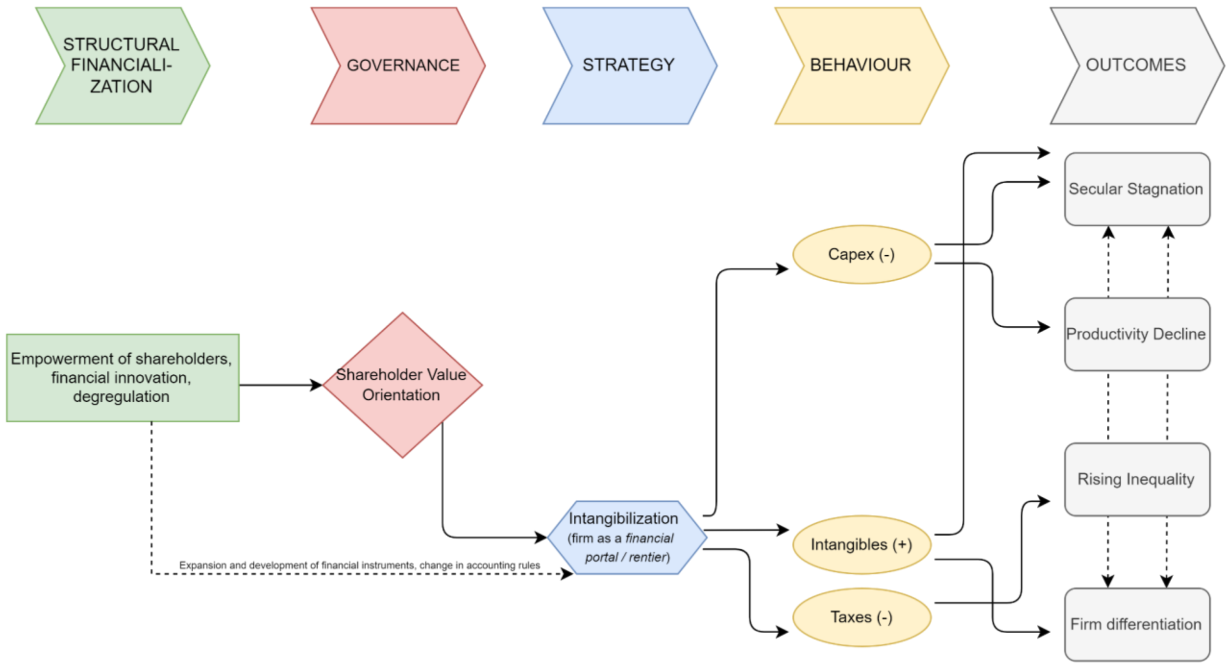
From a theoretical perspective, the emphasis on expectations attached to goodwill is based on the works of Keynes and institutionalists such as Veblen and Commons (the concept of futurity actually appears first in Commons). This is not necessarily the case in those accounts focussed on the broader category of intangibles. Faced with the same growing disconnection between book value and market capitalization, such accounts anchor the split more concretely in *existing, non-reproducible* and therefore *rent-generating* assets -which, in some cases, may not be properly reflected in the balance sheet as they don't have a market value- rather than market expectations. The pivotal role of intangibles in rent generation might to another long standing puzzle which has been central to the financialization literature - the decline of profit-investment nexus (Stockhammer 2005, Lapavitsas 2013, Durand and Gueuder 2018, Orhangazi 2018, Durand and Milberg 2020, Auvray *et al.* 2021, Rabinovich 2021). The puzzle here relates to firms' ability to remain profitable - and competitive - even as weaker investment diminishes their capacity to supply goods and services. The puzzle dissolves however if it turns out that profits have increasingly derived from the legal and non-legal rents facilitated by intangibilization (Orhangazi 2018, Durand and Milberg, 2020).

Several studies see intangibilization as constitutive of financialization (Baranes 2017, Baranes and Hake 2018, Klinge *et al.* 2020). The key difference between tangible and intangible assets, Baran (2017, p.352) argues, is that the latter "do not produce socially necessary goods and services on their own". They are better viewed as "ownership rights" that "increase the income stream already generated by the tangible asset" (ibid.). They effect a locking-out function with earnings coming to depend increasingly on 'sabotage' rather than efficiency, i.e., on the overall damage that an owner can inflict on the industrial process (Nitzan and Bichler 2009, p. 223). Generalized processes of the assetization and appropriation of knowledge are widely thought to have ushered in a new era of industrial organization: 'intellectual monopoly capitalism' (Pagano 2014, Rikap 2021) or the 'franchise model of corporate organization' (Schwartz 2022b). This is associated with a layered industrial structure, in which profits increasingly concentrate in intangible-intensive firms with low marginal propensity to invest, shifting the risks associated with fixed investment and labor management onto firms in other layers. The lower tiers are composed of (physical) capital-intensive firms at risk of excess capacity - which deters investment - and labor-intensive firms that engage in hyper-exploitation (Schwarts, 2022a).

Several writers connect intangibilization to the quest for shareholder value (Milberg and Winkler 2010, Davis 2011, Soener 2015, Baranes 2017). The move towards a focus on high-level, knowledge intensive functions and the "shed[ding] of physical assets" could be seen as part of the same imperative to concentrate on 'core competencies' (Davis 2011, p. 93). International outsourcing, an early form of intangibilization, allowed firms to recycle windfall profits into higher payouts, allowing firms to satisfy shareholder pressures according to Milberg and Winkler (2010). But these links are ultimately highly tenuous. Clearly technological forces bear primary responsibility for the advent of 'intellectual monopoly capitalism'. Legal changes have also been key. In the early eighties, the Bayh-Dole Act authorized US academic institutions to patent public-funded research results and to transfer this knowledge to private firms by providing exclusive licenses or creating joint ventures (Orsi and Coriat 2006, Bok 2009). This was the beginning of a massive process of knowledge enclosures that, with the support of US, European and Japanese transnational corporations, expanded at the world scale via the WTO and bilateral or regional trade agreements (Sell 2010, Dreyfuss and Frankel 2014). There's been no real attempt to establish the causal contribution of SVO independent of these structural dynamics. Intangibilization has been broadly cross-national and not confined to highly financialized countries (Gereffi et al., 2005; Lee & Gereffi, 2015).

There is, moreover, no clear theoretical reason to conflate intangibilization with financialization. They might be non-physical but intangible assets are not (generally) financial assets. Finance doesn't play any necessary role in the generation or use of the funds to which they give rise. On the other hand, strong intellectual property rights probably play a strong role in the generation of high financial profits as Schwartz (2022a) argues. Products that have been key to the super-profitability of the finance sector, like derivatives, are IP and human capital intensive. Financialization might better be subsumed under the IPR revolution than vice versa, Schwartz goes on to argue. A murky picture thus emerges regarding this element of CF. One aspect of intangibilization - the rise of goodwill - falls clearly within the conceptual field of CF. But its substantive importance for macro outcomes is unclear. Knowledge based intangibilization, on the other hand, has had clear and significant impacts on investment and distributional trends. But only through another instance of unwarranted conceptual stretching can it really be regarded as part of CF.

Figure 6. Causal map describing intangibilization



7. SVO: CONCEPTUAL AND SCOPE PROBLEMS

Short-termism and the meaning of SVO

In the preceding sections we've documented the many 'empiric' limits of CF theory - numerous challenges faced in showing how exactly financialization strategies have steered corporate behavior. An arguably more basic sets of problems - both conceptual and empirical in nature - surround the notion of shareholder value orientation, which as Figure 2 shows is the causal lynch pin of the whole story. Although largely unnoticed, there is a persisting lack of clarity about what SVO actually refers to. At the heart of the problem is the short-termist element of shareholder driven governance. Certain definitions of SVO, call them SVO II, treat short-termism as integral to the concept (Orhangazi 2008, p. 864, van Treeck 2008, p. 383, Hein and Treeck 2010, van der Zwan 2014, p. 108, Davis 2017b, p. 280, Fasianos *et al.* 2018, p. 45, Tori and Onaran 2018, p. 1397). SVO, in this rendering, is not about the prioritization of shareholders of such - but of *impatient* shareholders. This is arguably how financialization scholars ought to be defining SVO - since many of the theories above assume short-termism of some kind. Financial accumulation theories, for example, are premised on the notion that shareholders have a preference for quick yielding investments. 'Downsizing and distributing', in undermining the long run competitiveness of the firm, is an inherently short-termist strategy. Yet the importance of short-termism to the causal architecture of corporate financialization theory does not seem to be widely appreciated, including among those who include it in their definition of SVO. The field as a whole has paid precious little attention to the problem of short-termism (even if it is a ubiquitous focus in the wider scholarly engagement with shareholder value).

A more general definition of SVO - the one we started with in this paper - associates it with any governance framework which prioritizes shareholders in general. The practical-strategic upshot of such a framework is that managers seek to maximize share values or more broadly, shareholder returns. However this definition – call it SVO I – makes no assumptions about the horizons over which they do so. Yet in the absence of such assumptions, share value maximization becomes difficult to distinguish from simple profit maximization.[3] Share prices, afterall, reflect present values of expected future profits. If SVO reduces to profit maximization this will inevitably weaken its explanatory significance. Profit maximization is a high level objective, compatible with any range of strategies and business models, making it indeterminate of firm behavior within many of the contexts on which financialization research has focussed. Moreover profit maximization might fairly be seen not as an imperative endemic to any particular governance framework, but rather a structural one, imposed on the firm by basic facts of the market environment in which it is embedded. Governance institutions may suppress this imperative and elevate new ones - as is widely believed to have been the case in Keynesian era, when growth became the sine qua non of managerial success. Implicitly, many financialization theories treat the managerialist, growth-oriented firm as the counterfactual state against which the effects of SVO I (profit maximization) are judged. It's not clear this is legitimate. Managerialism was the product of a very particular historical conjuncture, and not any kind of normal state of affairs under capitalism. It is highly contested whether it in fact led to any significant displacement of the profit motive (Useem 1980).

The field evinces a lack of awareness of the distinction between SVO I and SVO II which results in definitional instability - a tendency to slip incongruously between the two, especially when the second, more stringent definition becomes threatened by the contravening evidence. We see this most clearly in the firm- and sector-level case study literature. That body of work has placed SVO II at the center of a wide range of outcomes including intangibilization in the apparel (Soener 2015) and pharmaceutical industries (Lazonick and Tulum 2011, Baranes 2017, Klinge *et al.* 2020); the globalization of value chains in retail (Baud and Durand 2012) and apparel (Soener 2015); the expansion of financial balance sheets and activities in auto (do Carmo *et al.* 2019, Lin and Neely 2020) and tech (Fernandez *et al.* 2020, Klinge *et al.* 2023); the cyclicality of investment trends in mining (de los Reyes 2017, Bowman 2018); and the increase financial payouts in all of the above. Yet it is striking that none of these papers offer evidence that the strategies driving these outcomes have been short-termist in nature. If anything the reverse seems true. The financializing firms featured in these papers mostly seem to have performed extremely well during their periods under study. They've achieved exceptional rates of profit (which have made possible generous handouts to shareholders), assumed positions of global dominance within core markets and maintained themselves at the innovative frontier.

It's of course possible that confounding factors have been at play - firms might have benefited from unobserved windfalls that have occluded the damaging effects of short-termism - but we're given no reason to think that this has been the case. Hence, having postulated SVO II, what these studies actually show is SVO I, without any acknowledgement of the slippage. While often socially regressive - the ways in which financialized firms have adapted their business models appear to be entirely rational from the standpoint of profit-making (and profit-dependent) institutions. In every instance these adaptations have been made in

[3] We are aware, as noted by Dallery (2009), that certain shareholders do not necessarily consider the profit rate, or the whole amount of profits earned by the firm, as their main objective but, rather, the part of those profits that can be claimed by them, the free cash flows. This distinction is relevant because while in his graphical representation the profit rate that maximizes free cash-flow is close to the maximum profit rate (Dallery 2009, p. 507), in reality there are many cases where firms distribute generous payouts while having negative operating income (Lazonick 2014).

response to new opportunities opened up by changing structural, institutional and political conditions - computerization, the spread of value chains, the roll back of labor unions etc. If SVO's only causal function was to ensure firm's adherence to the profit imperative, then it is not entirely clear why it, rather than these conditions, should be the center of our explanatory effort. Short-termism, in other words, is not an ancillary part of the financialization story - but one that seems critical to establishing its analytical relevance.

Heterogeneity, unevenness and the problem of SVO's scope

Whether a shareholder oriented firm fixates on its short-run share price or takes a less myopic approach to maximizing profits will depend in large part on *which* shareholders it is oriented to. The fuzzy conceptualization of SVO common in the financialization literature in this sense reflects an underlying problem - its brushing aside of the importance of shareholder heterogeneity. A "simplifying assumption" common in comparative political economy, which treats investors in market-based financial systems as uniformly impatient, seems widespread within the field (Deeg and Hardie 2016). This may be encouraged by the fact that shareholders are in general *relatively* more impatient than (autonomous) managers - Post-Keynesian models rooted in Chandlerian theories have tended to emphasize inter-stakeholder divisions above all. But in doing so they miss considerable intra-stakeholder variation. Institutional investors vary enormously in the asset structures, governance regimes and regulatory environments - and consequently in their investment strategies. Only certain of these investor types are likely to espouse the short-termist versions of share value maximization - SVO II. Shareholder primacy, in other words, is likely to imply very different things for business strategy depending on which kinds of institutional investors are being prioritized - a fact which the financialization literature has largely glossed over.

In recent years the dramatic ascendance of one particular investor class - passive index funds - has prompted greater awareness of shareholder heterogeneity issues within the field. Short-termist motives are harder to impute to passive asset managers. The Big Three funds which overwhelmingly dominate the sector have cast themselves as long-termists and advocates of socially responsible governance. Their voting records, however, show a more complicated picture (Baines and Hager 2023). Many believe that the low-margin business model of the industry will continue to make active stewardship economically insensible, whatever CEOs may claim. Passivity on behalf of the largest investors in the market may provide space for managers to recoup authority. Or it might simply create openings for other activist investors - like hedge funds - to assert themselves, enlisting the voting power of the Big Three to their campaigns. The unusual binary of 'asset manager capitalism' - concentration with diversification - yields an odd configuration: unparalleled *potential* for shareholder control but with highly ambiguous incentives for the exercise of that control (Braun 2020). Reddy and Rabinovich (2022) find ownership by index funds to be negatively associated with investment and positively associated with payouts and R&D in the US case.

Index funds are likely to add to the complexity and variegation of governance regimes. But the reality is that shareholder capitalism has always been not only variegated but *uneven* - another feature missed by much of the financialization literature. The field remains largely wedded to what Knafo and Dutta (2020) call a 'dominant model' account, which treats governance as transitioning between well defined institutional epochs. SVO principles are seen as having diffused universally following the victory of the shareholder revolution over managerialism. The reality is of course far more complicated. Shareholders and managers might have achieved some partial rapprochement after the hostile takeover subsided in the early 1990s - but by no means have intra-elite antagonisms been entirely superseded. As any regular reader of the business press would know, clashes between 'principals' and 'agents' remained a frequent and visible occurrence, right throughout the shareholder era. And even where conflict was less open, it cannot be assumed that governance was simply harmonious. As the literature on "symbolic management" suggests – managers often succeeded in diffusing conflict by signaling adherence to shareholder norms, while in practice pursuing their own interests: inflated payments to CEOs have spread without any corresponding improvement in performance (Westphal and Zajac 1998, Bebchuk and Fried 2004). Family and other forms of control have remained prevalent throughout the period. Surveying the terrain over a decade ago, Shin (2013) concluded that shareholder principles were "far from hegemonic" in the US.

What the variegation and unevenness of shareholder influence add up to is a problem of *scope*. If SVO - or really SVO II - is the main causal factor propelling corporate financialization then it behooves us to establish a detailed picture of its dissemination. But the financialization literature has overlooked this critical task. This naturally limits what we are able to conclude about macro dynamics from the evidence on partial effects, which has been the near-exclusive focus of quantitative work. This is true of the US, but far more so of the rest of the world, where there is even more reason to doubt the 'dominant model' thesis.

The heft of the evidence provides no support for the contention, often heard in the financialization literature, that SVO has become a global standard with the spread of financialization. In the rich world, "convergence" to the Anglo-Saxon mode of governance has been extremely gradual and highly uneven across different facets of governance. Italy appears to have retained almost all of the traditional features of its distinctive governance regime (Enriques and Volpin 2007, Bulfone 2017). In Spain there has been a slow process of marketization, but little progress on key reforms related to shareholder empowerment like board independence and variable compensation packages (Gutierrez and Surroca 2014, p. 1012). In Germany, a very slow process of Anglo-Saxonization appears to have been largely arrested following the 2008 crisis (Rühmkorf *et al.* 2019). In the Netherlands, Bezemer et al. (2015) show how resistance from anti-SVO corporate and family owners acted to partially stymie the advance of the shareholder revolution. Both Jung and Mun (2016) and Vogel (2019) conclude that, despite the increasing influence of foreign institutional investors, the stakeholder model of governance remains alive (if not entirely well) in Japan. Further towards the periphery of the world economy, SVO frameworks appear even less entrenched. Family and group control remain the dominant across wide swathes of the globe, including most of Latin America, large parts of Africa, Turkey, Tunisia, India and Israel (Claessens and Yurtoglu 2013). Short-termism is far less a feature of these types of concentrated ownership (Coffee 1998, p. 649). While SVO can be compatible with third- or later-generation family blockholders, more interested in cashing-out rather than growing the business, (Fiss and Zajac 2004, p. 510) the financialization literature has taken this almost for granted. State domination of the economy has held back financialization in the world's second largest economy, China (Xie *et al.* 2022).

8. CONCLUSION

Corporate financialization scholars have constructed an ambitious theory that connects deep structural processes of financialization to the transformation of corporate governance, and via this to a sweeping set of changes in business models and strategies encompassing investment habits, labor policies, organizational practices and allocative regimes. These new strategic orientations in turn account for novel patterns in the ways firms have generated, used and distributed revenues, generally in ways that have elevated the place of finance. In this way, corporate financialization theory supplies crucial microfoundations to macrostructural accounts of financialization - and directly connects the latter to aggregate trends of development like secular stagnation. The interconnected elements of financialization are widely viewed as having constituted a master process of structural change within the corporate sector, consistent with a widespread view that sees financial deepening generally as the dominant force acting on contemporary capitalism (Fine 2012, Hein 2022). But our review of the evidence urges caution.

Above, we identified four different sub-theories each pertaining to a different aspect of financialized business strategy. None of these have yet been adequately substantiated. Theories of ‘financial accumulation’ seem to rest on a straightforward misconstrual of the evidence - growing financial portfolios don’t appear to be connected to any generalized turn to financial profit-seeking. Theories of ‘downsizing and distributing’, on the other hand, seem to accord better with prominent stylized facts about investment and profit distribution. But they’ve yet to convincingly show that the rise shareholder oriented governance frameworks offers a better explanation of those facts than do a range of other structural-institutional changes occuring in contemporary capitalism. Similarly, the link between SVO and both intangibilization, and changing practices of liability management, is at this stage only conjectural. Were such links to be validated, the theory would still face a serious challenge in demonstrating that they can account for macro patterns of development. The belief that they can, has rested partly on the assumption that a well defined set of SVO practices have become entrenched and widely diffused throughout the world. The problems of scope we identified above challenge that assumption.

These ‘empiric’ limits to CF theory have been partly masked by the conceptual problems identified at the start of this article. As the causal links between the different parts of ‘corporate financialization’ have proved hard to verify, the meaning of the term has shifted and expanded once again. Increasingly, it's used not only to refer to financialized strategies but to the behaviors which are in actual fact *effects* of those strategies (the fourth column in Figure 2). Specifically, ‘corporate financialization’ gets equated to the expansion of financial balance sheets and to the increase in financial payouts. The problem arises because this definition gets adopted when there’s no evidence that these behavioral outcomes are related to the causal processes identified in the original theory. Consequently, any firm exhibiting these two phenomena is deemed “financialized”, irrespective of whether the underlying causes align with the original assumptions of financialization theorists.

This is the basis on which large tech firms have been inducted into the ranks of the ‘financialized’ even though, abiding by its earlier meaning, they represent the very antithesis of that term (Klinge *et al.* 2023). Institutional investors, for starters, have notably less influence over Big Tech than they do over firms in most other industries. Founders have generally retained substantial or absolute control through the widespread use of dual-class shares and other instruments. While their rhetoric might echo shareholder value principles, their actions have been closer to the ‘empire-builders’ of the managerialist era. Amazon is an important case in point - its aggressive pursuit of market share through predatory pricing, promiscuous acquisition and extremely high rates of reinvestment (in both plant and R&D) has landed it in the sights of antitrust regulators (Khan 2016). The company has leveraged both its platform and informational advantages to expand across a wide range of industries and activities including logistics, payments services, film production and hardware manufacturing. Its business model, in short, has thus been characterized by managerial autonomy, aggressive expansionism, long-termism, diversification and innovation intensity - a kind of perfect inverse of the archetypal financialized firm.

As tech firms have successfully monopolized intellectual property rights their marginal propensity to invest has declined without this compromising their market dominance (Schwartz 2022a). This has provided them space to distribute generously to shareholders from the giant "cash" reserves they've amassed largely in low tax offshore jurisdictions. In order to do this while still benefiting from tax arbitrage they've engaged in complex financial operations, issuing their own high-quality debts to fund payouts in the domestic (US) market while earning a spread by reinvesting cash hoards in sovereign debt and lower-tier corporate bond markets (Pozsar 2013). This has left them with bloated balance sheets at the same time payouts have ballooned. Hence these firms have "financialized" in the behavioral sense but through means and motives entirely distinct to what canonical theories would have assumed. Naturally, the practical and policy implications of this financialization are also very different - there is far less reason to suspect that either payouts or financial investing will feed through to declining investment (Reddy 2023). The case of Big Tech actually illustrates the scope limits of CF theory, but conceptual stretching obscures this and facilitates a narrative that places 'financialization' once again at the center of everything.

The point of the critique we've offered in these last pages is not to suggest that CF is a depleted field of research, or that it offers no insights into the forces transforming the corporate world. While some streams of research - like those on 'financial turn in accumulation' - might have run their course, others remain very much alive and generative, even if core hypotheses remain under substantiated. There is, however, a need for 'caution', to echo Christopher's (2015) advice for the wider field. The existing evidence does not show CF to have constituted any kind of 'master process' subsuming all other vectors of transformation. Particularly if our ultimate objective is to explain the major stylized facts of contemporary capitalism, like secular stagnation, CF is better seen as one - arguably smaller - "part of the puzzle" (Schwartz 2022a). Rather than trying to refract everything through its analytic lens, research should focus on more clearly defining its explanatory limits relative to other structural forces, like the rise of intangible capital (Orhangazi 2018), monopolization (Gutiérrez and Philippon 2017) and ongoing globalization (Im 2021). That will require greater conceptual discipline - a willingness to clearly define the boundaries of financialization and separate out its associated channels of influence from those related to other dimensions of structural change. We hope that this review has made some small contribution to that effort.

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Appendix 1

Figure 1 is based on the number of times that specific terms appear in the title, abstract or keywords in a selected sample of journals with closed links to -heterodox- political economy. These journals include: Cambridge Journal of Economics, Competition and Change, Economy and Society, International Journal of Political Economy, International Review of Applied Economics, Journal of Economic Issues, Journal of Post Keynesian Economics, New Political Economy, Review of International Political Economy, Review of Keynesian Economics, Review of Political Economy, Review of Radical Political Economics, Socio-Economic Review.

For ‘financialization’ we included the terms ‘financialization’ and ‘financialisation’.

For ‘corporate financialization’ we included the terms ‘corporate financialization’, ‘corporate financialisation’, ‘financialization of the firm’, ‘financialisation of the firm’, ‘financialization of the nonfinancial corporation’ and ‘financialisation of the nonfinancial corporation’.

For ‘globalization’ we included the terms ‘globalization’ and ‘globalisation’.

For ‘monopolization’ we included the terms ‘monopolization’, ‘monopolisation’, ‘monopoly’ and ‘monopolies’.

For ‘liberalization’ we included the terms ‘liberalization’, ‘liberalisation’, and ‘deregulation’.

For ‘intangibilization’ we included the terms ‘intangibilization’, ‘intangibilisation’ and ‘intangible’.