



The Impact of Corporate Financialization on Investment Efficiency: The Moderating Role of Board Characteristics and Ownership Structure

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1. Introduction

In recent decades, the financialization of non-financial firms has emerged as a critical topic in the field of corporate finance and strategic management. Financialization refers to the increasing involvement of firms in financial markets and the growing reliance on financial income rather than income derived from operational activities. Although financial markets and instruments provide various benefits such as improved liquidity, better risk management, and expanded investment options, they also present significant challenges, particularly when firms prioritize short-term financial gains over long-term productive investment. This tendency may become more pronounced in economies with underdeveloped regulatory systems or weak corporate governance. According to agency theory, managers may exploit financial instruments to pursue personal goals and enhance short-term profitability, potentially at the expense of shareholders' long-term interests. This behavior can lead to a deviation from the firm's core activities and reduce the efficiency of real investments.

This study investigates the impact of financialization on the investment

efficiency of firms listed on the Tehran Stock Exchange. Additionally, it examines the moderating role of board characteristics—including board independence and financial expertise—and ownership structure, specifically the presence of government shareholders. The rationale behind considering these governance mechanisms lies in their potential to curb opportunistic managerial behavior and align managerial decisions with the long-term interests of shareholders.

2- Hypotheses Development

Drawing upon agency theory, stewardship theory, and prior empirical literature, four hypotheses were formulated:

- Hypothesis 1: Financialization has a negative effect on investment efficiency in non-financial firms.
- Hypothesis 2: Board independence weakens the negative relationship between financialization and investment efficiency.
- Hypothesis 3: Financial expertise of board members weakens the negative effect of financialization on investment efficiency.
- Hypothesis 4: The presence of government ownership weakens the relationship between financialization and investment efficiency.

Each hypothesis reflects a specific theoretical expectation regarding the role of corporate governance mechanisms in shaping the investment behavior of firms under conditions of financialization.

3. Methodology

To empirically test the hypotheses, the study employed a screening sampling method to select a final sample of 163 non-financial firms listed on the Tehran Stock Exchange over a 10-year period from 2013 to 2023. Financial firms such as banks and insurance companies were excluded due to the inherent differences in their investment patterns and financial structures.

The dependent variable, investment efficiency, was measured based on the deviation from expected investment levels predicted by firm fundamentals, consistent with prior studies in corporate finance. The main independent variable, financialization, was operationalized using the ratio of financial assets to total assets. Moderating variables included the proportion of independent board members, the financial expertise of board members (measured by education and experience in finance or accounting), and the

presence of government ownership (coded as a binary variable). The research model was estimated using panel data regression with fixed effects, controlling for both year and industry effects to minimize omitted variable bias and capture unobserved heterogeneity.

4. Results

The results provide robust support for the first hypothesis: financialization has a statistically significant and negative impact on investment efficiency. This finding suggests that firms increasingly engaging in financial investments may allocate fewer resources to productive real investments, thereby reducing overall efficiency. Such behavior is consistent with the prediction of agency theory, where managerial preferences for short-term gains undermine long-term value creation. The second hypothesis was also supported. The interaction term between financialization and board independence was negative and statistically significant, indicating that a higher proportion of independent board members weakens the negative impact of financialization on investment efficiency. This result highlights the importance of board independence in monitoring managerial decisions and promoting prudent investment behavior. However, the third and fourth hypotheses were not supported. The interaction between financialization and financial expertise of board members was statistically insignificant, implying that financial expertise alone may not be sufficient to alter managerial incentives or investment decisions under financialization pressure. Similarly, the presence of government ownership did not have a significant moderating effect on the relationship between financialization and investment efficiency.

5. Discussion and Conclusion

The findings of this study underscore the potential adverse consequences of financialization for non-financial firms, particularly in emerging markets like Iran. While financial investments may offer temporary returns and flexibility, overreliance on them can weaken firms' commitment to core operations and lead to inefficient capital allocation. Importantly, the study demonstrates that board independence plays a critical role in curbing the negative effects of financialization. Independent directors, by virtue of their impartiality and oversight capacity, can constrain opportunistic behavior and redirect managerial focus toward long-term productive investments.

Conversely, financial expertise without independence or influence appears insufficient to counterbalance the temptations of financial returns, perhaps due to alignment with management or a narrow technical view of profitability. The non-significant role of government ownership may reflect the complexities and institutional weaknesses in public-sector governance, where political motivations, lack of accountability, or limited market orientation dilute the effectiveness of ownership as a disciplinary mechanism.

Based on the study's findings, it is recommended that managers adopt a balanced investment strategy considering both short-term profitability and long-term sustainability, avoiding excessive focus on financial and speculative investments that reduce real investment efficiency. To strengthen corporate governance and mitigate financialization's negative effects, increasing board independence is advised. Given the insignificant effect of financial expertise alone, selecting board members should also emphasize analytical ability, independence, and a long-term perspective. Additionally, since government ownership does not moderate the relationship, oversight and accountability mechanisms in state ownership should be strengthened, avoiding political interference to guide resources toward productive activities. Investors should consider real investment efficiency, operational focus, and board independence alongside short-term financial gains. Monitoring the ratio of short-term financial assets can also serve as an early warning of resource diversion risk and support better investment decisions.

For future research, it is recommended that, in addition to examining the impact of financialization on investment efficiency, the role of cultural and psychological factors of managers in this relationship be explored to gain a deeper understanding of their motivations and decision-making behaviors. Furthermore, the impact of financialization can be analyzed separately across different industries to identify sectoral differences within the economy. It is also advised to investigate the effect of financialization on investment efficiency in conjunction with other corporate governance characteristics, such as board gender diversity, institutional ownership, and so on.

Keywords: Financialization, Financial Assets, Investment Efficiency, Ownership Structure, Board Characteristics.