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The Effect of Peer Firms on Corporate Financialization: The Role of Industry Competition, Financial Flexibility, and Corporate Risk-Taking

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1. Introduction

Over the past few decades, the financialization of non-financial firms has emerged as a prominent global trend. Financialization refers to the growing practice of firms allocating resources toward financial assets—such as stocks, bonds, and other market-based instruments—rather than focusing solely on real investments in production and operations. While financialization may offer firms opportunities for liquidity and short-term gains, it also raises concerns about underinvestment in core business activities, market volatility exposure, and systemic risk. In emerging markets, where financial systems are often less mature and information asymmetries are more severe, the determinants of firm-level financialization warrant deeper investigation.

Among various explanatory factors, peer behavior has gained increasing attention as a driver of corporate financial decisions. According to social learning and institutional theories, firms may mimic the behavior of their peers in an effort to reduce uncertainty, maintain legitimacy, or align with perceived best practices. Peer effects have been extensively examined in

domains such as capital structure, cash holdings, and investment efficiency, but their role in explaining firm-level financialization remains underexplored. Furthermore, firm-level traits such as financial flexibility and risk-taking propensity may condition the strength of peer effects. In competitive industries, firms may also feel compelled to replicate peers' financial strategies to protect or enhance their market position. This study seeks to extend our understanding of peer effects in financialization by incorporating these moderating variables in the context of Iranian listed firms.

2. Research Questions or Hypotheses

This study seeks to explore whether the financialization behavior of peer firms has a statistically significant impact on a firm's own financialization. Furthermore, it investigates how three contextual variables—industry competition, financial flexibility, and corporate risk-taking—moderate this relationship. The research is guided by the following hypotheses:

1. Peer firms' financialization has a positive and significant effect on the financialization of a focal firm.
2. Industry competition amplifies the effect of peer financialization on corporate financialization.
3. Financial flexibility strengthens the influence of peer financialization on the focal firm's financialization.
4. Corporate risk-taking intensifies the relationship between peer financialization and a firm's own financialization.

3. Methods

This is an applied, correlational study based on a panel dataset. The sample consists of 143 non-financial firms listed on the Tehran Stock Exchange between 2011 and 2023, selected based on criteria such as data availability, consistent fiscal years, and industry homogeneity. The dependent variable, corporate financialization (Fin), is measured as the ratio of financial assets to total assets. The independent variable, peer financialization (PeerFin), is calculated as the average financialization of firms in the same industry, excluding the focal firm. Moderating variables include:

Industry Competition (HHI): measured using the inverted Herfindahl-Hirschman Index. Financial *Flexibility (FinFlex):* computed based on deviations in cash holdings and leverage from industry medians. *Corporate*

Risk-Taking (ROAV): measured by the standard deviation of return on assets over the prior three years.

To test the hypotheses, four panel regression models were developed following Zhang et al. (2024), controlling for firm-level (size, leverage, institutional ownership, working capital turnover, growth) and industry-level characteristics. The models control for year fixed effects, and heteroscedasticity is addressed using GLS estimations with White corrections. No multicollinearity issues were found.

4. Results

The empirical analysis supports most of the proposed hypotheses. Peer financialization has a positive and statistically significant effect on firm financialization, confirming H1. Firms tend to emulate the financial strategies of their industry peers, especially under uncertain or dynamic market conditions. However, contrary to theoretical expectations, industry competition does not significantly moderate the peer effect (H2 rejected). This result is discussed in detail in the following section. Financial flexibility significantly moderates this relationship (H3 confirmed), suggesting that more financially flexible firms are better positioned to respond to peer behavior. Risk-taking also positively moderates the peer effect (H4 confirmed), indicating that firms with a higher tolerance for risk are more responsive to external cues from peer behavior.

5. Discussion and Conclusion

The findings confirm the existence of peer effects in corporate financialization, consistent with social learning theory and institutional isomorphism. In uncertain environments, especially in emerging markets, firms tend to rely on external information derived from peer behavior to guide financial decisions. The significant moderating roles of financial flexibility and risk-taking reinforce the view that internal firm characteristics influence how firms interpret and react to the actions of peers.

The lack of a significant moderating effect for industry competition may be attributed to several factors. First, in the Iranian market, competitive dynamics may be muted due to regulatory structures, market concentration, or the prevalence of state-owned enterprises, which reduces the strategic necessity for firms to imitate peers strictly as a means of surviving competition. Second, since the peer financialization variable is constructed at the industry level, it may already embed competitive dynamics, thereby

limiting the added explanatory power of a separate competition variable. Finally, mimetic behavior may be driven more by institutional pressures—such as conformity, legitimacy, and uncertainty avoidance—than by direct competitive threats.

This study contributes to the growing literature on peer effects in financial decision-making by extending the conversation to the realm of financialization. It also emphasizes the role of firm-level behavioral traits in shaping responses to peer strategies. From a practical standpoint, the findings suggest that corporate managers should monitor peer behavior in financial asset allocation, particularly when operating in volatile or opaque environments. Regulators and policymakers should also be aware that firm-level financialization is not solely driven by internal optimization but is influenced by strategic imitation and environmental perceptions.

Future research may benefit from exploring how institutional quality, market transparency, or managerial cognition further shape the peer–financialization nexus, especially in diverse economic and regulatory settings.

Keywords: Corporate Financialization, Peer Firms, Industry Competition, Financial Flexibility, Risk-Taking.