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The Impact of Venture Capital Ownership on Corporate Financialization: Evidence from A-Share Listed Companies

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Abstract

The tendency of non-financial firms to allocate capital to financial assets, often referred to as the shift from real to virtual investment, has attracted growing attention. However, it remains unclear which external governance mechanisms can help curb excessive financialization. This paper will use a sample of 4,438 A-share listed companies with 37,837 firm-year observations over 2016–2025 to measure the degree of corporate financialization by using the proportion of financial assets to total assets, represent venture capital (VC) holdings in three forms, whether there are VC owners or not, the quantity of VC owners, and their collective ownership ratio, and utilize a firm and year fixed effects model. We have found that VC shareholding significantly decreases corporate financialization and this finding is robust to robustness and endogeneity tests and the channel tests give initial evidence of the agency-cost and liquidity-constraint channel and the impact is greater on firms with less leverage. These results offer empirical support to the notion of market-based governance forces that restrict the tendency of firms toward a real-to-virtual shift.

Keywords

venture capital, corporate financialization, agency cost, liquidity constraint, real-to-virtual shift

1. Introduction

The recent trend of Chinese non-financial companies to invest in financial assets, also known as the shift from real to virtual investment, has received much attention recently. As it is demonstrated by the existing research, overallocation of financial assets lowers real investments [1], displaces innovations in companies [2], undermines future core-business performance [3] and increases financial risk [4]. The mean value of financial assets /assets of listed companies in the sample considered in the present paper is equal to 8.86% which means that financial assets have become a significant orientation of asset allocation. Hence, what governance powers can limit excessive financialization is a query that should be addressed.

Venture capital is a significant form of outside equity investor which does not just supply capital to businesses but also plays a role in corporate governance and monitors the management; it has been viewed as a means of solving financing issues as well as minimizing agency costs. Can VC ownership restrain corporate financialization? According to existing research, there is no consensus on this question. As per the direction of the impact, Xiao and Zhu [5], Zhou et al. [6], and Xie et al. [7] report that VC ownership discourages

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corporate financialization or prompts companies to shift from virtual back to real investment, whereas Wu et al. [8] report that VC involvement encourages a real-to-virtual shift. With respect to the channels, the authors of Xie et al. [7] claim that the effect is realized mainly by enhancing governance supervision and Zhou et al. [6] point to the enhancement of real investments. In general, most of the current research emphasizes the disparity in the nature of VC itself (e.g., its reputation, state-ownership background, and presence of co-investment) rather than how this interacts with the internal motives of the firms to allocate their assets.

This paper focuses on the use of Shanghai and Shenzhen A-share listed companies between 2016 and 2025 to explore how VC ownership affects corporate financialization and how these effects vary across contexts. With regard to measurement, this paper will reflect VC ownership in three dimensions, i.e., whether there are VC shareholders, how many VC shareholders there are, and what their overall shareholding ratio is, to reduce the chances of bias being introduced by any given measurement method. To address the identification strategy, the paper uses a fixed effect model at the firm and year level and also deals with possible endogeneity by changing the definition of variables, altering the clustering level, propensity score matching and the two-step procedure of Heckman. In terms of contextual differences, the paper also explores heterogeneity by leverage. The results revealed that the financial-asset-to-total-assets ratio of companies with VC shareholders is, on average, 0.60 percentage point lower.

The possible marginal contributions made by this paper can be divided into three parts. First, as a research perspective and data, this paper broadens the governance implications of VC to corporate financial asset allocation and adds an updated sample period of 2025. Second, in terms of mechanisms, this paper will use the administrative cost ratio to measure agency costs and cash holdings to measure the liquidity of the firm, and has found that VC ownership is correlated with both agency costs and levels of liquidity which are themselves related to corporate financialization. Third, in terms of contextual boundaries, the paper concludes that the inhibitory effect of VC is mostly observed among companies that have lower leverage, which means that the range of its influence depends on company motivations to allocate financial assets.

The rest of the paper will be structured in the following way. Literature review is discussed in Section II; theoretical analysis and hypothesis are presented in Section III; in Section IV, research design is described; Section V provides baseline regression findings; additional analyses are shown in Section VI; and in Section VII, conclusions and policy implications are provided.

2. Literature Review

Concerning the reasons of firms allocating financial assets, current studies have largely followed two reasons; precautionary savings and substitute investment. The study by Hu et al. [9] shows that on average, listed companies in China have financial assets as a form of liquidity reservoir, although there is an alternative reason involving non-cash financial assets.

Based on this basis, researchers studied the factors of corporate financialization using various perspectives. As Du et al. [10] prove, the level of corporate financialization of companies is increased by a significant amount by CEOs with a financial background; Peng et al. [11] prove that the financialization trend is hindered by increasing economic policy uncertainty; Wang and Huang [12] prove that internal control quality of the firm is negatively related to financialization whereas Gu et al. [13] state that social responsibility fulfills the need to increase financialization as it reduces the financing constraints; finally, Du and Sui [14] discover that there is an inverse U-shaped correlation between the equity pledges of controlling shareholders and corporate financialization. Also, Wan et al. [15] discuss the close phenomenon of the involvement of firms in venture capital funds.

Another thread of literature has been on the economic effects of corporate financialization. According to Zhang and Zhang [1], economic financialization strongly decreases real investment rates; Wang et al. [2] demonstrate that financialization, in general, displaces the innovation of the corporation and the crowding-in effect is only observed once the share of financial assets exceeds 23 percent; Du et al. [3] indicate that financialization negatively impacts the future performance of the core business of firms and the crowding-out effect outweighs the liquidity reservoir effect; Huang et al. [4] show that financial asset allocation reduces firm financial risk over the short term but increases it over the long term. This means that overspending on financial assets is detrimental to the growth of the core business of firms.

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The influence of VC on portfolio companies is another research strand. Bottazzi et al. [16] report that the human capital of VC organizations is positively related to their intensity of post-investment involvement and the success of portfolio companies; Guo and Jiang [17] observe that Chinese VC-backed companies do well in performance and R&D, and it is due to project screening and post-investment monitoring. Of the local literature, Hu et al. [18] report that VC involvement minimizes pre-IPO earnings management in ChiNext firms; Huang et al. [19] report that VC-backed firms demonstrate greater investment volumes and faster rates of investments; Cai [20] reports that, when viewed through the lens of the grandstanding motive, VC-backed firms have increased earnings management at the time of their IPO and worse long term performance; Dong et al. [21] make further classification between the concepts of value-adding services and monitoring and control as the former can enhance the performance of an entrepreneurial firm whereas the latter has no significant effect on it. Also, Chemmanur et al. [22] demonstrate that VC ownership leads to the defamilization of the executives of family businesses and increases the valuation of IPOs; Zhang et al. [23] and Ge et al. [24] both suggest that government-sponsored VC does not displace private VC and usually invests in industries supported by policies which encourages the innovative activities of the firm. Therefore, VC has screening, monitoring and value adding roles, but they are not always positive, which forms the basis of analyzing how it influences the corporate financial asset allocation. Moreover, Chen [25] systematically examines data sources and institutional background of Chinese VC and provides some references to identify the existence of VC ownership.

The research that is most directly related to the paper under consideration is research on VC and corporate financialization. According to Xiao and Zhu [5] who based their research on A-share data between 2007-2020, they report that VC ownership has a significant role in preventing the post-listing financialization of non-financial companies; Zhou et al. [6] (who use a sample of A-share companies that had made an initial public offering between 2009-2019) report that VC may lead companies to shift from virtual back to real investment, primarily by stimulating real investment; Xie et al. [7] (who use a sample of non-financial listed companies between 2007-2019) define VC ownership in three dimensions, i.e., presence of any shareholder, number of shareholders, and shareholding ratio and report that VC ownership decreases the level of corporate financialization which is mainly attained through enhanced governance monitoring. The results obtained by Wu et al. [8], who considered a sample of A-share manufacturing companies during 2015-2019, are contrary: VC involvement prompts a real-to-virtual shift.

3. Theoretical Analysis and Research Hypotheses

The practice of allocating a portion of corporate assets to financial instruments has become increasingly common among Chinese listed companies. Hu et al. [9] indicate that financial assets are held by companies as a precautionary saving measure as well as a replacement of real investment; too much financial asset allocation drives out real investment and innovation [1,2] and increases the level of financial risk [4]. The current research has focused largely on the determinants of corporate financialization based on the characteristics of managers, the external environment, and ownership structure with a few studies focusing on external shareholders like VC that focus on entrepreneurial firms. VC does not only supply capital to portfolio firms but also engages in corporate governance, and can so influence the financial asset allocation choices of firms. The present paper considers the problem in this context.

Being an active external shareholder, VC has the potential as well as the motivation to affect the investment choices of the portfolio firms; the failure tolerance of VC will also impact the investment in innovation of the portfolio firms [26]. On the one hand, VC organizations filter projects and constantly follow companies, thus reducing the information asymmetry between firms and outside sources of capital and easing financing restrictions [16,17]. Financing constraint relaxation reduces precautionary savings motives related to firms holding financial assets but at the same time, it can also give firms more funds to invest financially, and previous studies have shown that the release of financing constraints leads to greater financialization of enterprises [13]. Hence, the overall impact via the financing route is uncertain. However, VC organizations normally protect investment value through involvement in corporate governance and supervising management and can limit opportunistic conduct by management in the allocation of financial assets to achieve short-term performance. Available evidence indicates that VC ownership has the potential to lower the level of earnings management in listed companies [18] and enhance the quality of governance structure in the portfolio companies [22]; Hochberg [27] finds that VC-backed firms exhibit greater board independence and a lower

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incidence of CEO duality following the IPO. As far as direct proof is concerned, the majority of studies report that VC ownership prevents corporate financialization [5-7], but there are some studies that suggest that VC involvement leads to a real-to-virtual shift [8]. Within the Chinese setting, where the duration of VC holdings is relatively long and participation in corporate governance is relatively active, the monitoring effect is more probable.

Accordingly, this paper proposes the following hypothesis.

H1: Ceteris paribus, venture capital ownership reduces the level of corporate financialization.

4. Research Design

4.1 Sample Selection and Data Sources

The paper takes Shanghai and Shenzhen A-share listed companies in China between 2016-2025 as the research sample and treats the initial sample by the following procedures: (1) eliminating financial industry listed companies; (2) excluding companies listed on the Beijing Stock Exchange; (3) removing observations having missing values on the dependent variable, independent variables, or control variables. The final sample consists of 4,438 firms and 37,837 firm-year observations. Financial data, corporate governance data, and ownership structure data are all derived using RESSET database. In order to address extreme value effects, all continuous variables are winsorized at the 1st and 99th percentiles.

4.2 Variable Definitions

4.2.1 Dependent Variable: Corporate Financialization (fin)

In line with Hu et al. [9], Du et al. [3], and Xie et al. [7], this paper uses the measure of corporate financialization to be the ratio of financial assets to total assets, which is computed using Equation (1).

$$\text{fin} = (\text{Trading financial assets} + \text{Available-for-sale financial assets} + \text{Other non-current financial assets} + \text{Investment properties} + \text{Long-term equity investments}) \div \text{Total assets} \quad (1)$$

It is worth noting that the sample period spans the implementation of the new financial instruments standard in 2019, which eliminated the available-for-sale financial assets account; investments previously recorded under this account are now classified as either trading financial assets or other non-current financial assets. All of these five accounts have been included in this paper as the consistency of measurement before and after the change of the standard should be maintained; a bigger ratio means more corporate financialization.

4.2.2 Independent Variables: Venture Capital Ownership (VCDUM, VCNUM, VCSHR)

Based on the methods of Xie et al. [7] and Chen [25] in determining the VC shareholders, this paper has set keywords using the naming practices common among VC institutions, including terms such as venture capital, venture investment, and VC fund. Using this as a basis, the names of the ten largest shareholders of listed companies are compared and those containing matching keywords are considered as VC shareholders.

To obtain three measures of the independent variable, the presence, breadth and intensity of VC ownership are captured. The fact that a company has VC shareholders (VCDUM) is a dummy variable that equals 1 when at least one of the company's top ten shareholders in a particular year is a VC institution, and 0 in all other cases; the count of VC shareholders (VCNUM) corresponds to the number of VC institutions within the top ten shareholders of a particular company in a given year; the VC shareholding ratio (VCSHR) is the total of the shareholding ratios of the VC institutions among the top ten shareholders of a particular company in a given year. To decrease the contingency of using one measurement tool, this paper utilizes the presence measure (VCDUM) as the independent variable in the baseline regression and presents the findings on the number and ratio measures in the robustness tests.

4.2.3 Control Variables

As suggested by prior studies, the present paper will control six firm characteristics which are defined by the following variables; firm size, financial leverage, return on assets, revenue growth rate, board size, and the

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percentage of independent directors. Each variable is identified by its name, symbol, and measurement method which are all listed in Table 1.

Table 1: Variable Definitions and Measurement

Variable Type	Variable Name	Symbol	Definition
Dependent variable	Corporate financialization	fin	(Trading FA + AFS FA + Other non-current FA + Investment properties + Long-term equity investments) ÷ Total assets
Independent variables	Presence of VC shareholders	VCDUM	1 if at least one of the top ten shareholders is a VC institution in the year, 0 otherwise
	Number of VC shareholders	VCNUM	Number of VC institutions among the top ten shareholders in the year
	VC shareholding ratio	VCSHR	Sum of shareholding ratios of VC institutions among the top ten shareholders in the year
Control variables	Firm size	size	Natural logarithm of total assets at year-end
	Financial leverage	lev	Total liabilities / Total assets
	Return on assets	ROA	Net profit / Total assets
	Revenue growth rate	GROWTH	(Current-year revenue − Prior-year revenue) / Prior-year revenue
	Board size	BDSIZE	Natural logarithm of the number of board members
	Independent director ratio	OUTD	Number of independent directors / Total number of board members

4.3 Model Specification

In order to analyze how VC ownership affects the financialization of firms, the present paper develops the following panel data regression model:

$$fin_{i,t} = \beta_0+\beta_1 VC_{i,t}+\Sigma\beta_k Control_{k,i,t}+\mu_i+\lambda_t+\varepsilon_{i,t} \quad (2)$$

where i denotes the firm and t denotes the year; $fin_{i,t}$ is the firm's financialization level in year t; $VC_{i,t}$ is VC ownership; $Control_{k,i,t}$ is control variable; μ_i and λ_t are firm fixed effects and year fixed effects, respectively; and $\varepsilon_{i,t}$ is the random disturbance term.

The estimation of Equation (2) in this paper is based on the panel fixed-effects model. The fixed effects of firms are used to capture the unobservable heterogeneity between firms and time-invariant omitted variables that can cause endogeneity; the errors are clustered by firm to deal with serial correlation of observations within the same firm over the years. A significant negative value of the regression coefficient β_1 would suggest that corporate financialization decreases as VC ownership grows.

5. Baseline Regression Analysis

5.1 Descriptive Statistics

Table 2 reports the descriptive statistics of the main variables.

Table 2: Descriptive Statistics of Main Variables

Variable	N	Mean	SD	Min	Median	Max
fin	37837	0.0886	0.1139	0.0000	0.0448	0.5599
VCDUM	37837	0.1297	0.3359	0.0000	0.0000	1.0000
VCNUM	37837	0.1749	0.5152	0.0000	0.0000	6.0000
VCSHR	37837	0.0080	0.0360	0.0000	0.0000	0.7236
lev	37837	0.4221	0.2050	0.0616	0.4109	0.9595
size	37837	22.3210	1.3253	18.9754	22.1171	26.3863
ROA	37837	0.0292	0.0741	−0.3538	0.0339	0.2142
GROWTH	37837	0.1184	0.3434	−0.6216	0.0735	2.0029
BDSIZE	37837	2.3411	0.2906	1.6094	2.3026	3.0910
OUTD	37837	0.3712	0.0886	0.1818	0.3636	0.6000

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With respect to the dependent variable, mean of corporate financialization (fin) is 0.0886 and median is 0.0448, which indicates that the average percentage of financial assets in total assets in the sample companies is 8.86 percent, with half of the companies having a percentage less than 4.48 percent; the distribution has a strong right-skewness. Zero is the minimum and the maximum is 0.5599, which is a large cross-firm difference.

Concerning the independent variables, the average of VCDUM is 0.1297, which means that about 12.97 percent of the observations in the firm-year have at least one VC institution among their top ten shareholders; the average of VCNUM is 0.1749 institutions and the highest number is 6; the average of VCSHR is 0.80 percent and the highest number is 72.36 percent. The three measures all have a median of 0, which means that VC ownership is not extensive in the sample firms and has a very high right skew.

5.2 Bivariate Analysis (Group Mean Comparison)

In order to provide an initial view of the relationship between VC ownership and the main variables, the sample is divided into a VC group (VCDUM equals 1, 4,906 observations) and a non-VC group (VCDUM equals 0, 32,931 observations), and the mean differences in corporate financialization and the control variables between the two groups are compared in Table 3.

The mean financialization of the VC group is 0.0763, against 0.0905 for the non-VC group, a difference of -0.0142 with a t-statistic of -8.14, which is significant at the 1 percent level and initially indicates that companies with VC shareholders allocate a smaller share of their assets to financial assets. The two groups also differ significantly in firm size, financial leverage, return on assets, revenue growth, board size and the independent director ratio: the VC group is smaller (mean difference -0.5172) and less levered (mean difference -0.0468), and has a higher return on assets and revenue growth (mean differences of 0.0075 and 0.0310). These differences show that companies with and without VC shareholders differ systematically in firm characteristics, which makes it necessary to control for these characteristics in the regression analysis and to further alleviate sample selection through methods such as propensity score matching.

Table 3: Bivariate Analysis: Mean Differences between the VC and Non-VC Group

Variable	VC group	Non-VC group	Difference	t-statistic
fin	0.0763	0.0905	−0.0142	−8.14***
size	21.8709	22.3881	−0.5172	−25.72***
lev	0.3814	0.4282	−0.0468	−14.97***
ROA	0.0357	0.0282	0.0075	6.65***
GROWTH	0.1454	0.1144	0.0310	5.91***
BDSIZE	2.2856	2.3494	−0.0638	−14.38***
OUTD	0.3752	0.3706	0.0045	3.33***

*Notes: The VC group covers firm-year observations whose top ten shareholders include at least one VC institution, and the non-VC group covers those without; the difference is the mean of the VC group minus the mean of the non-VC group; *** denotes significance at the 1 percent level.*

5.3 Baseline Regression Analysis

In order to analyze how VC ownership affects corporate financialization, Equation (2) is estimated by a panel fixed-effects regression in this paper, with the findings being reported in Table 4. Column (1) controls only on firm fixed effects; Column (2) additionally controls on year fixed effects; Column (3) contains all control variables and forms the central regression finding of this paper. Firm-level clustered robust standard errors are used in all regressions.

Table 4: VC Ownership and Corporate Financialization: Baseline Regression Results

Variable	(1) fin	(2) fin	(3) fin
VCDUM	−0.0122***	−0.0062***	−0.0060***
	(0.0024)	(0.0023)	(0.0023)
lev	−0.0588***	−0.0750***	−0.0854***
	(0.0071)	(0.0070)	(0.0073)
size	0.0124***	−0.0055**	−0.0041*
	(0.0021)	(0.0024)	(0.0024)
ROA			−0.0586***
			(0.0093)
GROWTH			−0.0051***

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Variable	(1) fin	(2) fin	(3) fin
			(0.0013)
BDSIZE			0.0069**
			(0.0027)
OUTD			−0.0003
			(0.0075)
Firm FE	Yes	Yes	Yes
Year FE	No	Yes	Yes
Observations	37837	37837	37837
Number of firms	4438	4438	4438
Within R^2	0.0117	0.0647	0.0689

*Notes: Robust standard errors clustered at the firm level are reported in parentheses; ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively.*

Column (3) shows that the coefficient on VCDUM is −0.0060 and is statistically significant at the 1% level, which means that companies where the list of the top ten shareholders contains at least one VC have an average financial-asset-to-total-assets ratio that is lower by 0.60 percentage points, or approximately 6.82% of the sample mean (8.86%). The values of coefficients in Columns (1) and (2) are -0.0122 and -0.0062 correspondingly and they are statistically significant at the 1 percent level which suggests that the negative relationship exists even when we do not consider the complete set of control variables.

5.4 Robustness Checks

The four perspectives used in this paper to perform robustness tests on the baseline conclusions are alternative independent variable definitions, lagged independent variables, alternative clustering methods, and ownership nature. The findings are presented in Table 5. All columns have the control variables, fixed-effects specification and firm-level cluster robust standard errors of the baseline regression.

5.4.1 Component Tests of the Dependent Variable

To assess whether the baseline result is driven by a single accounting account, the numerator is decomposed into three groups and each group is regressed separately: trading financial assets and investment properties (coefficient -0.0004, t-statistic -0.25, not significant), available-for-sale and other non-current financial assets (coefficient -0.0029, t-statistic -4.34, significant at the 1 percent level), and long-term equity investments (coefficient -0.0027, t-statistic -2.62, significant at the 1 percent level). The three coefficients sum to about -0.0061, which is close to the baseline coefficient (-0.0060), indicating that the inhibitory effect of VC ownership is mainly reflected in the two groups of medium- and long-term financial assets, namely available-for-sale and other non-current financial assets and long-term equity investments, rather than being driven by a single account. Since long-term equity investments are commonly included in financial assets in the existing literature and are also included by Xie et al. [7], this paper uses the measure that incorporates this account as the baseline.

5.4.2 Alternative Independent Variable Definitions and Lagged Treatment

Column (1) addresses contemporaneous reverse causality by taking the lagged value of the independent variable as its regressor; the number of observations in that column is 33,321 and the coefficient on VCDUM is -0.0044, which is statistically significant at the 10 percent level.

Columns (3) and (4) report results with the independent variable replaced by alternative measures.

5.4.3 Alternative Clustering Levels and Fixed-Effects Specifications

Column (2) alters the clustering level to the CSRC industry category level to enable correlating the disturbance terms across the firms in the same industry; the coefficient on the VCDUM is -0.0060 and is significant at the 1 percent level. Moreover, the paper uses two-way clustered robust standard errors at both firm and year; the coefficient on VCDUM is -0.0060 and it is significant at 5%. Adding further industry-by-year interaction fixed effects into equation (2), the coefficient on VCDUM is -0.0051, and the coefficients on VCNUM and VCSHR are -0.0037 and -0.0637 respectively, which are all significant at 5%; the conclusions do not change.

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5.4.4 Controlling for Ownership Nature

To reduce the effects of variation in ownership nature of firm on financial asset allocation, column (5) incorporates a state owned controlling dummy into the control variables. It is calculated based on the ratio between the number of shares owned by the state and the whole share capital reported in the RESSET database and takes the value of 1 if the share ratio equals or exceeds 30; companies which do not report state-owned shares are regarded as 0. The findings indicate that the coefficient on VCDUM is -0.0060 and it is significant at 1 percent, which is very similar to the baseline result.

Conclusively, with the replacement of the independent-variable measure, the one-period back-lagged independent variable, an alternative clustering level and joint industry-year fixed effects, as well as additional control of ownership nature of the firm, the estimates of the core independent variables are still consistent in the direction of the baseline results and significant, which means that the baseline findings have been quite robust.

Table 5: Robustness Checks

Variable	(1) Lagged one period	(2) Industry clustering	(3) VCNUM	(4) VCSHR	(5) Control ownership
VCDUM	−0.0044*	−0.0060***	—	—	−0.0060***
	(0.0023)	(0.0023)			(0.0023)
VCNUM	—	—	−0.0043***	—	—
			(0.0015)		
VCSHR	—	—	—	−0.0700**	—
				(0.0302)	
Controls	Yes	Yes	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes
Observations	33321	37837	37837	37837	37837
Within R^2	0.0551	0.0689	0.0689	0.0689	0.0696

*Notes: Clustered robust standard errors are reported in parentheses; except for Column (2), which clusters at the CSRC industry category level, all other columns cluster at the firm level; ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively.*

5.5 Endogeneity Tests

The findings discussed in the previous section can also be prone to endogeneity issues. On the one side, VC ownership is not randomly allocated; investment companies might choose to invest in companies that have lower levels of financialization or stronger governance structures, which results in self-selection issues. On the other hand, both VC ownership and the distribution of corporate financial assets could be simultaneously influenced by unobservable variables, which leads to an omitted variable bias. In order to address these concerns, this paper uses propensity score matching and the Heckman two-step procedure, respectively.

The method of propensity score matching considers VCDUM as the treatment variable, takes all control variables and year dummies as covariates, calculates the propensity scores by utilizing a Logit model, and matches treated observations with similar controls by using 1:4 nearest-neighbor matching with replacement, common support and a caliper of 0.01. Mean standardized bias of covariates reduces from 18.7% to 0.4 percent and median to 0.1 percent after matching, and the p-value of the joint significance test is 0.991 which indicates good quality of matching. Column (1) of Table 6 gives the regression outcomes considering the matched sample; controlling two-way fixed effects, the coefficient on VC ownership is -0.0049 and significant at the 10 percent level, which is very near to the base regression outcome (-0.0060). The average treatment effect on the treated (ATT) after matching is -0.0157 with a t-statistic of -8.31 that is significant at the 1% level and consistent in direction with the baseline regression.

The first-stage Probit estimation results of the Heckman two-step process are given in column (2) of Table 6. In this paper, the author estimates a model where the VC ownership dummy is the dependent variable and control variables, industry and year dummies and the VC participation rate of other listed companies in the same industry and year are the explanatory variables. The coefficient on the industry-year VC participation rate is -2.4732 and is statistically significant at the 1 percent level, which means that the VC participation of other companies in the same industry and year is related to the VC ownership of the company itself, and thus

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meets the relevance criterion. Once the inverse Mills ratio has been calculated, the second-stage regression results are reported in column (3) of Table 6. The coefficient on VC ownership is -0.0105 and statistically significant at the 1% level; the coefficient on the inverse Mills ratio is not significant (-0.0074), which indicates that even after taking into account the observable attributes, the sample selection bias is not strong. Since the identification of this variable depends on the exclusion restriction of the industry-year VC participation rate of other firms, this paper considers it as supporting evidence to overcome the issue of sample selection rather than as a perfect identification of the causal effect. On the whole, the findings based on both propensity score matching and Heckman two-step procedure are in line with the baseline regression and serve as the supportive evidence to the findings of the present paper.

Table 6: Endogeneity Test Results

Variable	(1) PSM matched sample	(2) Heckman first stage	(3) Heckman second stage
VCDUM	−0.0049*	—	−0.0105***
	(0.0027)		(0.0029)
Inverse Mills ratio	—	—	−0.0074
			(0.0082)
Industry-year VC participation rate	—	−2.4732***	—
		(0.2252)	
Controls	Yes	Yes	Yes
Firm FE	Yes	No	No
Year FE	Yes	Yes	Yes
Industry FE	No	Yes	Yes
Observations	18716	37634	37634
Within R^2 / R^2	0.0793	—	0.1521

*Notes: Robust standard errors clustered at the firm level are reported in parentheses; ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively. Column (1) reports results based on the propensity score matched sample (1:4 nearest-neighbor matching); Column (2) reports the first-stage Probit results of the Heckman two-step procedure; Column (3) reports the second-stage results. The industry-year VC participation rate is calculated from the VC ownership of other listed companies in the same industry and year.*

6. Further Analysis

6.1 Mechanism Tests

Based on the findings presented above, this section continues to explore other potential channels of VC operation. With the help of the features of VC organizations and the available literature, this paper analyzes the mechanisms of VC in the context of liquidity constraints and agency costs. On the one side, VC offers equity capital to companies and enables companies to access outside funding and can decrease the amount of financial assets used by companies as liquidity buffers due to easing liquidity constraints. On the other hand, VC can also limit opportunism in managerial decisions and minimize agency costs, which could inhibit the desire of a firm to use financial assets to benefit managers privately. In order to test these channels, this paper uses the mediation testing process suggested by Wen et al. [28] (combination of sequential testing and Sobel test).

On the basis of the baseline model, this paper constructs the following mediation models:

$$M_{i,t} = \alpha_0 + \alpha_1 VC_{i,t} + \Sigma\alpha_k Control_{k,i,t} + \mu_i + \lambda_t + \varepsilon_{i,t} \quad (3)$$

$$fin_{i,t} = \gamma_0 + \gamma_1 VC_{i,t} + \gamma_2 M_{i,t} + \Sigma\gamma_k Control_{k,i,t} + \mu_i + \lambda_t + \varepsilon_{i,t} \quad (4)$$

where M is the mediator variable; Equation (3) measures the impact of VC ownership on the mediator, and Equation (4) re-estimates the impact of VC ownership on the financialization of corporations, once the mediator has been controlled; the rest of the variables have the same meaning as in Equation (2).

6.1.1 Liquidity Constraint Channel

Besides being involved in corporate governance, VC contributes to equity capital of companies and assists them in securing external financing, which relieves the liquidity constraints of companies. The need to meet future funding requirements is also a significant reason why firms may hold financial assets under the so-called

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"liquidity reservoir" motive [9], and the financing constraint is an influential aspect that can influence the corporate financial asset distribution [13]. With the improved access to stronger funding support and increased liquidity, the use of financial assets as precautionary reserves becomes less necessary. Consequently, since VC would act by enhancing the liquidity conditions of firms, its ownership ought to be linked to the cash holding levels of firms and, by this path, to corporate financialization. In this paper, the cash holding level (CASH) is chosen as a proxy of the liquidity constraint channel, which is defined as the ratio of monetary funds to total assets.

This test is in line with mediation model requirements of Equations (3) and (4), where the mediator is substituted by the cash holding level (CASH); the other variables have the same meanings as those in Equation (2).

Regression findings are given in Table 7. Column (1) shows the total impact of VC ownership on corporate financialization; the coefficient on VCDUM is −0.0060 and is statistically significant at the 1 percent level, as in the baseline regression. Column (2) takes cash holdings as the dependent variable; the coefficient on VCDUM is 0.0065 and is statistically significant at the 5 percent level, which means that companies with VC shareholders have a monetary-funds-to-total-assets ratio, on average, 0.65 percentage points higher. Column (3) has both VCDUM and CASH; the coefficient on CASH is -0.2121 and is statistically significant at the 1 percent level; the coefficient on VCDUM is -0.0047 and is statistically significant at the 5 percent level and has an absolute value lower than in Column (1). The result of the Sobel test is a negative z-statistic of -2.24, which is significant at the 5 percent level.

Table 7: Mediation Test of the Liquidity Constraint Channel

Variable	(1) fin	(2) CASH	(3) fin
VCDUM	−0.0060***	0.0065**	−0.0047**
	(0.0023)	(0.0029)	(0.0023)
CASH			−0.2121***
			(0.0084)
Controls	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes
Year FE	Yes	Yes	Yes
Observations	37837	37837	37837
Within R^2	0.0689	0.0724	0.1317

*Notes: Robust standard errors clustered at the firm level are reported in parentheses; ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively.*

These findings imply that holding VC ownership is related to increased cash holdings and decreased percentage of financial asset investment, which can be used as an initial statistical support of the liquidity constraint channel. It must also be stated that cash holdings and the financial asset ratio are both based on total assets as the denominator and there might be a mechanical relationship between them. When the natural logarithm of monetary funds is used as the mediator instead of the cash-holding ratio, the Sobel z-statistic is -1.43 and the mediating effect is no longer significant, which indicates that the evidence for this channel is sensitive to the measurement of cash holdings.

6.1.2 Agency Cost Channel

VC can also influence the financial asset allocation behaviour of firms by decreasing agency costs. In the context of the separation of ownership and control, management could invest money into financial assets in order to achieve investment returns due to the reasons of short-term performance assessment and the need to build a good reputation; agency issues also turn out to be one of the main determinants of corporate financialization, and prior studies have reported that companies with worse levels of corporate governance and less effective internal control quality are more financially active [12]. VC institutions, being professional investors dealing with entrepreneurial firms, usually have high information acquisition and monitoring capacity and can limit opportunistic managerial action by constant monitoring, engaging in corporate governance, and creating incentive structures, which helps minimize agency costs. The administrative expense ratio (ADM), defined as administrative expenses over total operating revenue, is used in this paper as proxy of the agency cost channel.

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The test adheres to the mediation model specifications given by Equations (3) and (4) where the mediator is replaced by the administrative expenses ratio (ADM); the remaining variables have the same meaning as in Equation (2).

Table 8 contains the reported results of the regression. In column (1), the overall impact of VC ownership on corporate financialization is given; the coefficient of VCDUM is −0.0060, which is statistically significant at the 1 percent level and agrees with the baseline regression. Column (2) has administrative expense ratio as the dependent variable; the coefficient of VCDUM is -0.0030 and it is statistically significant at the 5 percent level, meaning that companies with VC shareholders have an administrative expense ratio that is, on average, 0.30 percentage points lower. Column (3) includes both VCDUM and ADM; the coefficient on ADM is 0.0899 and it is statistically significant at the 1 percent level, showing that firms with high administrative expense ratios spend more money on financial assets; the coefficient of VCDUM is -0.0058 (statistically significant at the 5 percent level and its absolute values are slightly lower than in Column (1)); the indirect effect is -0.0003, as expected. The Sobel test results in a z-statistic of -1.98, which is significant at the 5 percent level.

Table 8: Mediation Test of the Agency Cost Channel

Variable	(1) fin	(2) ADM	(3) fin
VCDUM	−0.0060***	−0.0030**	−0.0058**
	(0.0023)	(0.0013)	(0.0023)
ADM			0.0899***
			(0.0226)
Controls	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes
Year FE	Yes	Yes	Yes
Observations	37837	37837	37837
Within R^2	0.0689	0.2622	0.0709

*Notes: Robust standard errors clustered at the firm level are reported in parentheses; ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively.*

These findings suggest that VC ownership is linked to a decreased administrative expense ratio whereas an increased administrative expense ratio is related to a larger portion of financial asset allocation which can serve as a preliminary statistical indication of the agency cost channel. The fact that the indirect effect of this channel comprises about 4.4% of the overall effect needs to be taken into consideration; the scale of it is relatively small; the administrative expense ratio is also merely a simplistic representation of agency issues, and the relevant evidence is still preliminary.

6.1.3 Further Tests of Ownership Intensity

The VC impact can also depend upon the ownership qualities. With higher shareholding ratio, VC will have more of a voice as well as more incentive to monitor the company and its monitoring function might become more noticeable; if the number of VC organizations increases, whether it has a stronger monitoring capability or not depends on whether various organizations are able to establish effective alliances. In order to analyze these differences, this paper creates a high-ownership dummy (VCHIGH), which takes a value of 1 when the total shareholding ratio of VC shareholders exceeds 5% and 0 otherwise as well as a co-investment dummy (VMULT), which takes a value of 1 when the number of VC shareholders is two or more and 0 otherwise and incorporates both the VC ownership dummy into the model.

The regressions are given in Table 9. The coefficient on VCHIGH in Column (1) is -0.0073 and is statistically significant at the 10 percent level, which means that the overall effect in the high-ownership category is around -0.0114 and in the low-ownership category around -0.0041, where the magnitude of the former is roughly 2.8 times that of the latter. This is a descriptive comparison of group averages, however, and should not be interpreted as implying a proportional increase in causal strength. When the number of VC institutions increases in Column (2), the coefficient on VMULT is -0.0026, which is not statistically significant, which means that the number of VC institutions will not add any extra inhibitory effects.

Generally, the inhibitory power of VC increases with its shareholding percentage but the rise in the number of VC institutions is not accompanied by greater inhibitory impact which means that the implementation of its governance function is significantly driven by the voice associated with shareholding rather than the number of institutions involved.

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Table 9: Tests of Ownership Intensity and Co-Investment

Variable	(1) High ownership	(2) Co-investment
VCDUM	−0.0041	−0.0055**
	(0.0025)	(0.0024)
VCHIGH	−0.0073*	
	(0.0038)	
VMULT		−0.0026
		(0.0041)
Controls	Yes	Yes
Firm FE	Yes	Yes
Year FE	Yes	Yes
Observations	37837	37837
Within R^2	0.0691	0.0689

*Notes: Robust standard errors clustered at the firm level are reported in parentheses; ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively.*

6.2 Heterogeneity Analysis

The above findings indicate that the ownership by VCs has an overall negative effect on the financialization of corporations, and the negative impact is correlated in direction with the agency costs and liquidity constraints channel evidence. Nevertheless, there is a difference between firms in terms of industry affiliation and their individual operational and financial features; managerial reasons behind the allocation of financial assets differ as well as the area of opportunities to control them through VC. As a result, there are three dimensions of group tests in this section: industry attributes, growth, and leverage. Industry attributes are segmented into manufacturing and non-manufacturing according to the industry category; growth is segmented at the sample median of the revenue growth rate; leverage is segmented at the sample median of the asset-liability ratio. Each group regression has the same model specifications as in the baseline regression; the estimation results are represented in Tables 10 and 11 respectively.

Estimation results by industry attributes are reported in Columns (1) and (2) of Table 10. The coefficient on VCDUM is -0.0060 and is significant at the 5 percent level in the manufacturing subsample; it is -0.0054 and not statistically significant in the non-manufacturing subsample. Manufacturing is the foundation of the real economy and the directions of core-business investments are relatively well-defined; once VC ownership is established, it is simpler to urge companies to invest resources into the core business and limit financial asset investment. In contrast, non-manufacturing firms have more varied asset structures and business models, and thus, the targets and routes of VC monitoring are not as clear, and the inhibitory influence is, in turn, less strong. The p-value of the inter-group coefficient difference test is 0.687; the difference mentioned above is primarily represented by the significance of the coefficients and does not represent significant differences between the groups.

The estimation results organized by growth are indicated in columns (3) and (4) of Table 10. The coefficient of VCDUM is -0.0098 in the low-growth group and is statistically significant at the 1% level, whereas in the high-growth group, the coefficient is -0.0024, but it is not statistically significant. Small-growth companies do not have many core-business investment opportunities, and they tend to distribute their financial investments based on the quest of short-term gains, and thus, there is a higher margin of VC surveillance of such behavior, whereas large-growth companies should focus on allocating their resources to increase their core-business and VC is also likely to invest heavily on their core-business investment, and therefore, the allocation of financial assets can be less common and the marginal contribution of VC is proportionately lower. The inter-group coefficient difference test has a p-value of 0.337.

The estimation results are reported in Table 11 according to leverage. The low-leverage group has a coefficient of VCDUM of -0.0077 that is significant at the 5 percent level, whereas the high-leverage group has a coefficient of 0.0014 that is not statistically significant. Inter-group differences in coefficients are significant at the 1-percent level. Financial assets of high-leverage firms tend to perform more often as a liquidity reservoir; this allocation is highly precautionary in nature and is not contrary to the VC goal of preventing a real-to-virtual shift. Low-leverage firms are subjected to lower debt stress, and owning financial assets is motivated more by a substitute motive of earning investment returns, thus making VC monitoring

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more actively useful. This finding agrees with judgment about financial asset allocation motives made by Hu et al. [9].

Table 10: Heterogeneity Analysis (I): Industry Attributes and Growth

Variable	(1) Manufacturing	(2) Non-manufacturing	(3) Low growth	(4) High growth
VCDUM	−0.0060**	−0.0054	−0.0098***	−0.0024
	(0.0028)	(0.0042)	(0.0035)	(0.0028)
Controls	Yes	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Observations	25196	12641	18919	18918
Within R^2	0.0769	0.0579	0.0554	0.0765

*Notes: Robust standard errors clustered at the firm level are reported in parentheses; ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively. The p-values for inter-group coefficient difference tests for Columns (1)–(2) and (3)–(4) are 0.687 and 0.337, respectively.*

Table 11: Heterogeneity Analysis (II): Leverage

Variable	(1) Low leverage	(2) High leverage
VCDUM	−0.0077**	0.0014
	(0.0036)	(0.0022)
Controls	Yes	Yes
Firm FE	Yes	Yes
Year FE	Yes	Yes
Observations	18920	18917
Within R^2	0.1137	0.0393

*Notes: Robust standard errors clustered at the firm level are reported in parentheses; ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively. The p-value for the inter-group coefficient difference test for Columns (1)–(2) is 0.0001.*

All things considered, the only dimension of the three grouping dimensions that has a statistically significant inter-group difference is the leverage grouping (p-value = 0.0001) with the inhibiting effect of VC on corporate financialization being predominant in companies with low leverage. Both the inter-group difference tests of industry attributes and growth are not significant (each has p-values of 0.687 and 0.337, respectively), and variations in coefficient significance are considered merely directional properties, but not as strict inferences. It means that the range of impact of VC is determined by the reasons of firms to distribute financial resources. If the precautionary purpose is the main motivation behind holding financial assets, the monitoring role of VC is unlikely to be effective, and if the purpose of holding financial assets is more profit-oriented, the governance role of VC is more likely to be realized.

6.3 Supplementary Test: The Role of Board-Level Monitoring

Because corporate governance structures can also be represented in institutional characteristics at the board level, this paper additionally performs group tests on these two dimensions, namely the independent director ratio and the board size. The former is a representation of the professional aspect of board monitoring, whereas the latter is a representation of board size and its hierarchical complexity. The grouping approach is similar to that of Section 6.2 and the model specification is the same as that of the baseline regression.

The findings of the group are represented in Table 12. In the high independent director ratio group, the coefficient on VCDUM is -0.0086 and it is significant at the 1 percent level; in the low independent director ratio group, the coefficient is -0.0050 and it is not statistically significant; the p-value of the inter-group coefficient difference test is 0.539. In the small board size group, the coefficient on VCDUM is -0.0053 and is significant at the 10% level; in the large board size group, the coefficient is -0.0034 and it is not statistically significant; the p-value of the inter-group coefficient difference test is 0.041 and is significant at the 5 percent level. These results show that the inter-group difference by independent director ratio is not significant, whereas the inhibitory effect of VC ownership is stronger in companies with a smaller board. By direction, there might be more room for VC to have an effect in companies that have high board independence and less complex hierarchy.

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Table 12: Supplementary Test: Independent Director Ratio and Board Size

Variable	(1) Low indep. dir.	(2) High indep. dir.	(3) Small board	(4) Large board
VCDUM	−0.0050	−0.0086***	−0.0053*	−0.0034
	(0.0032)	(0.0032)	(0.0031)	(0.0034)
Controls	Yes	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Observations	19491	18346	19798	18039
Within R^2	0.0559	0.0798	0.0921	0.0488

*Notes: Robust standard errors clustered at the firm level are reported in parentheses; ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively. The p-values for inter-group coefficient difference tests for Columns (1)–(2) and (3)–(4) are 0.539 and 0.041, respectively. The independent director ratio and board size are grouped at the sample median; values above the median are coded as 1.*

7. Conclusions and Recommendations

7.1 Research Conclusions

This paper investigates how VC ownership affects corporate financialization using a sample of Shanghai and Shenzhen A-share listed companies in China between 2016 and 2025 and comes up with the following findings.

To begin with, following controls on two-way fixed effects and inclusion of all control variables, companies with VC investors have an average financial-asset-to-total-assets ratio that is 0.60 percentage points lower, or about 6.82 percent of the sample mean, and this finding remains stable in robustness tests that replace the independent-variable measure, change the clustering method, and control for ownership nature.

Second, even after reducing the impact of sample selection differences the same conclusions remain valid. The current paper re-estimates with propensity score matching and the Heckman two-step method, respectively: the coefficients on VC ownership are highly significant and negative in each case, and both methods offer supporting evidence of the baseline findings.

Third, the agency costs and the liquidity constraints can be considered as the routes by which VC influences corporate financialization. VC ownership is linked to a reduction in the administrative expenses of the companies, and an increase in the cash reserves; its restraining effect is increased with a higher shareholding ratio and is mostly observed in the companies with less leverage where allocation of financial assets is more motivated by profits.

7.2 Policy Recommendations

On the basis of the above conclusions, the paper provides the following recommendations. First, the institutional framework of VC involvement in corporate governance needs to be further developed to allow VC organizations to legally exercise their rights as shareholders and to make important investment decisions, e.g., by clarifying their information and voting rights in the consideration of large investments and transactions with related parties so that external surveillance could effectively translate into restrictions on the overfinancialization of the corporate sector. Second, the support of VC and associated industrial policies must not be considered one-size-fits-all. In the case of companies that are more indebted and where the financial assets are mostly reserved as precautionary ones, the financialization level cannot be taken as an evaluation factor; it should rather be determined whether the funds have been allocated outside the core business. Firms with high cash flows and few core business investment opportunities may be advised to invest more in R&D and equipment so as to curtail the impulse toward a real-to-virtual shift. Third, as part of the process of identifying and addressing the real-to-virtual shift among non-financial companies, regulators may consider the existence and duration of VC shares as indicative information, provide relevant policy facilitation to VC institutions who have long-term stakes and governance, and focus on the changes in the financial asset structure of companies prior and post-VC exits.

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7.3 Limitations and Future Research

The present paper has the following shortcomings. First, VC investors are determined through the presence of keywords in the name of the shareholders, which can exclude institutions with the absence of the corresponding terms and fails to define the reputation, history, or investment stage of VC institutions. Second, financialization of corporations is calculated by summing up financial statement accounts, and it is not possible to measure accurately the particular structure of financial assets and their holding periods. Third, this paper does not control for certain variables that may also influence financial asset allocation, such as growth opportunities (Tobin's Q), and both the agency-cost and liquidity-constraint channel tests rely on the administrative expense ratio and cash holdings respectively as simplified measures. Future studies may involve finer data on the characteristics of VC institutions to better understand how various forms of VC have an impact.

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