Impact of Securities Investment on Corporate Performance

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Abstract. In recent years, with the development of economic technology, securities investment by listed companies has become increasingly common. Using the Chinese listed firms from 2009 to 2020, this study investigates the effect of securities investment on corporate performance. This study finds that securities investment by listed companies has a positive impact on corporate performance. This paper contributes to the literature on the consequences of enriching research on the consequences of financialization in enterprises and studies on the evaluation of corporate performance. In addition, this study provides implications for listed firms, the weighting of securitized investments, and the evaluation of corporate performance.

Keywords: Securities Investment; Financialization; Corporate Performance.

1. Introduction

With the continuous development and improvement of the financial market, the status of securities investment by listed companies in the Chinese economy has become increasingly important. (Chen and Yan ,2017) Securities investment, as a financial tool, is one of the important business activities of listed companies, and has a profound impact on the company's financial situation, management decisions, and investment strategies. Rational and appropriate securities investment can not only provide opportunities for capital appreciation for listed companies, but also improve the company's risk management level and lay a solid foundation for the long-term development of the enterprise. Therefore, studying the impact of securities investment by listed companies on corporate performance is of great theoretical and practical significance.

Therefore, this paper aims to explore the impact of securities investment by listed companies on corporate performance and discuss optimization strategies for securities investment behavior of listed companies through empirical data, providing useful reference for securities investment decision-making of listed companies.

First, previous literature has examined the effects of securities investments by listed companies on various aspects such as corporate value, stock price performance, risk control, and information disclosure quality (Wang et al., 2020; Zhang et al.,2019; Huang and Lin,2017). Based on this foundation, this paper takes a unique perspective on corporate performance and completes the impact of securities investments by listed companies on corporate performance by estimating 2,469 annual samples of A-share listed companies. The findings of this study also enrich the literature on corporate performance evaluation and provide a supplement to the direction of corporate performance evaluation. Second, the study found that there exists both positive and negative relationships between securities investments and the performance of listed or non-financial companies. This discovery demonstrates the duality of securities investments, which indicates the complexity and risks of securities investments in practice. Listed companies should not blindly engage in securities investments, nor avoid securities investments due to the presence of risks. Instead, they should fully consider their own risk tolerance and investment capabilities when making securities investments, formulate reasonable investment strategies, and maximize the positive effects of securities investments on corporate performance while avoiding risks as much as possible.

The structure of this paper is as follows: the first part is the background and research significance of the paper, the second part is the literature review, the third part is the research framework and hypotheses, the fourth part is the research methods and data sources, the fifth part is the empirical results and analysis, and the final part is the conclusion and policy recommendations.

2. Literature Review and Institutional Background

(1) Literature Review

Securities investment is a way for companies to invest and raise funds, which can not only help companies increase asset returns but also optimize asset allocation. Early studies mostly focused on the impact of securities investment on the financial performance of companies, such as stock returns and stock market value. However, over time, more and more researchers have begun to pay attention to the impact of securities investment on the non-financial performance of companies, such as their growth capabilities and market value.

Some researchers believe that securities investment has a significant positive impact on company performance. Shin and Choi (2014) found that securities investment can significantly enhance a company's growth capability, making it more competitive in the market. Park et al. (2017) found that securities investment has a significant positive impact on a company's market value, especially in uncertain market environments, where securities investment can help companies improve their market value. At the same time, securities investment can help companies diversify risks, reduce their risk levels, and improve their performance (Saldanha et al., 2016). However, some researchers also point out that securities investment can have a negative impact on company performance. Securities investment may lead to the company's attention being scattered, resulting in poor management and ultimately having a negative impact on the company's growth (Kang and Kim, 2017). Securities investment may also have a negative impact on a company's market value, such as when the returns on some securities investment projects are not high, leading to a decline in the company's market value (Xu and Zhang, 2015). Securities investment may increase the risk for companies, especially in situations where the securities market is highly volatile, which can expose companies to higher risks (Kim and Kim, 2019).

(2) Institutional Background

On the one hand, in the period from the 1990s to 2004, the Chinese securities market was in its early stages of development, and the scale of securities investment by listed companies was relatively small, mainly through targeted issuance of shares to participate in equity investments. From 2005 to 2010, with the rapid development of the Chinese securities market, the scale of securities investment by listed companies began to grow rapidly. Listed companies began to engage in securities investment through the issuance of bonds, purchase of wealth management products, and other means, and securities investment income also became one of the important sources of income for listed companies. From 2011 to 2014, the Chinese securities market experienced a significant adjustment, and the scale of securities investment by listed companies also began to decline. Some listed companies began to clean up their securities investment and re-evaluate their investment income while strengthening the management of securities investment risks. From 2015 to the present, the Chinese securities market has entered a stage of standardized development, and the securities investment behavior of listed companies has also been subject to stricter regulation and standardization. According to the "2019 Annual Report on Securities Investment by Listed Companies" released by the China Securities Investment Fund Association, the proportion of securities investment in A-share listed companies' total assets reached 16.4%, an increase of 1.7 percentage points from the previous year. It can be seen that the proportion of securities investment in the total assets of listed companies is continuously increasing. At the same time, the investment targets are becoming increasingly diversified. In addition to traditional stocks and bonds, more and more listed companies are starting to invest in alternative assets, such as private equity funds, real estate, and commodity futures, to achieve asset allocation and risk management diversification. In the social environment of continuous development of the capital market, the investment focus of listed companies has gradually shifted from short-term speculation to long-term investment. Some listed companies have established their own investment departments, which are responsible for formulating investment strategies and making long-term investments in high-quality assets.

On the other hand, performance evaluation of enterprises is a management concept and tool that has emerged with the development of the market economy. In the planned economy era, the production and operation activities of enterprises were mainly guided and managed by government planning departments, and the enterprise's performance evaluation was not an independent and important assessment indicator. With the development of the market economy, the production and operation activities of enterprises gradually freed from the guidance and management of government planning departments. Enterprises need to pay more attention to their own operational and performance status to adapt to the needs of market competition.

3. Hypotheses Development

(1) Securities investment of listed companies has a positive impact on their performance.

Firstly, compared to physical investments, securities investments in listed companies can yield higher investment rates. Physical investments of listed companies usually concentrate on areas related to their main business, and most of these investments require large amounts of capital and resources with a long payback period and low capital efficiency. This means that listed companies need to bear long-term financial pressures and may need to raise more funds to support physical investments.(Zheng et al.,2019)Compared to physical investments, securities investments have greater liquidity and flexibility, allowing for faster adjustment of investment portfolios to adapt to market changes and investment strategies.(Liu and Sun,2019)Through investing in securities markets such as stocks and bonds, it is possible to achieve faster turnover of funds, improve capital utilization efficiency, and achieve higher investment rates, which have a positive impact on promoting corporate performance.

Furthermore, securities investment of listed companies to some extent diversifies their risks. According to the principle of risk diversification, rational investors do not put all their eggs in one basket. For listed companies, securities investment also involves allocating a portion of their funds to securities markets such as stocks, bonds, and funds, rather than concentrating all their investments in physical investments. (Wang and Feng,2020) The advantage of this approach is that it can reduce the risks of physical investments, while also obtaining higher returns through the securities market. If all the funds are invested in physical investments, once the real economy encounters unfavorable factors, such as economic fluctuations and policy changes, the company's risks will be very high. (Shang and Zhao,2020). However, if a portion of the funds are invested in securities markets, the overall risk can be reduced through diversified investment in the securities market. This lowers the risks involved in the investment decisions of listed companies and brings about more stable and sustained returns, providing a reliable basis for positive development of corporate performance.

(2) Securities investment of listed companies has a negative impact on their performance.

Firstly, securities investments bring high returns but also high risks to listed companies. There is a close relationship between securities investments and the operating performance and stock prices of listed companies, which means that fluctuations in the securities market will have an impact on the performance and stock prices of listed companies. On the one hand, securities investments can bring high returns, but the high volatility of the securities market also means that investment returns may decline or even result in losses during market instability. On the other hand, the high risk of securities investments can bring high risk exposure to listed companies, such as significant fluctuations in stock prices and increased operational risks (Chen ito.,2021). In academic theory, the Capital Asset Pricing Model (CAPM) suggests that the expected return on an asset is positively correlated with its risk. The risk of the securities market is also reflected in the investment returns of listed companies. If the risk of a listed company's securities investment portfolio is high, its expected return should also increase accordingly. However, the increase in expected returns brought about by high-risk investments is based on the investment decisions of risk-averse investors. As a business entity, listed companies typically have strong risk-bearing and management capabilities, and their securities investment behavior also carries greater risks. In addition, when the risk of the securities market increases, the securities investment portfolio of listed companies may face liquidity risk and credit risk, further increasing their investment risk (Li et al.,2021).

Moreover, securities investments by listed companies will increase the company's implicit costs. Listed companies need to pay certain costs when they engage in securities investments, including securities trading fees, information acquisition costs, and risk control costs. (Liu and Sun,2017) In addition, the returns on securities investments are also influenced by various factors such as market volatility, which may lead to fluctuations in investment returns. When the securities investment returns of listed companies are lower than expected or result in losses, there will be hidden costs, i.e., intangible economic losses. At the same time, securities investments by listed companies may also divert the company's business focus and resources, which may lead to insufficient investment in physical assets and core business areas, thus negatively impacting the company's development. Therefore, although securities investments can bring certain returns, their negative impact on company performance through implicit costs cannot be ignored. Based on the above analyses, this study proposes the following hypothesis.

H1: There is no association between secutization and corporate performance.

4. Research Design

(1) Sample and Data Sources

This article uses A-share listed companies from 2009 to 2020 as a sample to study the impact of listed company securities investment on corporate performance. The specific sample selection process is as follows: first, in order to avoid the impact of the financial crisis, 2009 was selected as the starting point for the sample. Second, to avoid the impact of the COVID-19 pandemic, 2020 was selected as the end point for the sample. Third, financial and insurance companies were excluded from the sample. In China, financial and insurance companies have significant differences from other listed companies in terms of securities investment, main business, company size, and information disclosure. Fourth, (*) ST-listed companies were excluded from the sample, as these companies have significant differences from other companies in terms of financial indicators and information disclosure. Finally, a total of 2,469 listed company-year sample observations were obtained. The securities investment data used in this article for listed companies comes from the WIND database, and financial data and corporate governance data come from the CSMAR database.

Table 1. Variable Definition.

Variable Type	**Variable Name**	**Variable Value Description**
Explained Variables	Performance	The impact of securities investment by listed companies on corporate performance.
	Tobin Q	Market value of the company/Net asset value of the company
Explanatory Variables	Finance	The behavior of whether a listed company engages in securities investment.
Control Variables	Firm Size (SIZE)	Natural Logarithm of the total assets of the company.
	Leverage (LEV)	Total liabilities/Total assets
	The proportion of fixed asset (PPE)	The net value of a company's fixed assets / total assets
	The proportion of operating cash flow to total assets (CFO)	Net cash flow from operating activities of a company / Total Assets
	The proportion of independent directors (INDEP)	The number of independent directors / The total number of members in the board of directors
	Board size (BOARD)	The natural logarithm of the total number of directors on the board.
	Industry	Dummy variables for industries.
	Year	Annual dummy variable.

(2) Empirical Model

Following Jin and Wu (2022), to verify the impact of listed companies on corporate performance (hypothesis H1), Model (1) will be used for empirical testing:

$$Performance_{i,t+1}=\alpha 0 + \beta 1Finance_{i,t} + \beta 2CONTR_{i,t} + YEAR\ FE + Industry\ FE + \varepsilon$$

Performance is the dependent variable in this study, representing the corporate performance of company in the t+1 period. The study will use the Tobin's Q ratio of listed companies as the performance indicators. Finance is the main independent variable, and the study constructs a multi-period DID virtual variable based on whether the listed company has conducted securities investments. If company has conducted securities investments in the t period, the value is 1 for that period and subsequent period, otherwise the value is 0. In the robustness test, the study has reset virtual variables related to the evaluation of listed company securities investments on corporate performance. CONTR represents all control variables in this study. Based on previous research, the study intends to control for company size (SIZE), leverage (LEV), the proportion of fixed assets (PPE), the proportion of operating cash flow to total assets (CFO), the proportion of independent directors (INDEP), and board size (BOARD). In addition, the study mainly controls for the fixed effects of year (YEAR) and industry (INDUSTRY). The independent variables and control variables use the lagged one-period values, and the definition and value of all variables are shown in Table 1.

5. Empirical Results

(1) Descriptive statistics

Table 2 reports the descriptive statistics of the key dependent and independent variables in the baseline model. The results in Table 2 show that the mean values of Tobin QA, Tobin QB, and Tobin QC are 2.102, 2.311, and 2.65, respectively, with standard deviations of 1.481, 1.692, and 2.051. The 25th percentiles of Tobin QA, Tobin QB, and Tobin QC are 1.243, 1.33, and 1.365, respectively, while the 50th percentiles are 1.625, 1.767, and 1.985, and the 75th percentiles are 2.355, 2.609, and 3.121. The mean value of Fin is 0.214, indicating that approximately 21.4% of the samples are listed companies involved in securities investment during the sample period. Regarding control variables, the mean value of Size is 22.163 with a standard deviation of 1.438, indicating variations in the total assets of listed companies. The mean value of Leverage is 0.439, indicating that on average, 43.9% of the total assets of listed companies are financed through debt. The mean values of PPE and CFO are 0.21 and 0.044, respectively, suggesting that listed companies generate relatively low cash flows from operating activities. The mean values of INDEP and BOARD are 0.38 and 2.288, respectively, with standard deviations of 0.071 and 0.258.

Table 2. Descriptive Statistics.

Variable	N	Mean	SD	p25	p50	p75
Tobin QA	32425	2.102	1.481	1.243	1.625	2.355
Tobin QB	32425	2.311	1.692	1.33	1.767	2.609
Tobin QC	32425	2.65	2.051	1.365	1.985	3.121
FIN	32425	0.214	0.41	0	0	0
SIZE	32425	22.163	1.438	21.157	21.936	22.9
PPE	32425	0.21	0.165	0.08	0.175	0.303
CFO	32425	0.044	0.074	0.005	0.044	0.087
LEV	32425	0.439	0.222	0.261	0.428	0.6
INDEP	32425	0.38	0.071	0.333	0.364	0.429
BOARD	32425	2.288	0.258	2.197	2.303	2.485

(2) Main results

The main regression results are presented in Table 3. Columns (1) and (2) use Tobin QA and Tobin QB as the dependent variable. In columns (1), the coefficient estimates of Fin are significant at the

1 % level (Coefficient = 0.138 with t = 7.74), confirming that securities investment by listed companies has a significant positive impact on corporate performance. In columns (2) the coefficient estimates of Fin are significant at the 1 % level (Coefficient = 0.125 with t = 6.18), suggesting that the results are still robust after using Tobin QB as the dependent variable. Our results are statistically significant as well as economically significant. For example, the magnitude of the coefficients for Size and PPE, as estimated from the control variables in Table 3, indicates that, on average, the company's size and the proportion of fixed assets have a negative impact on corporate performance during the process of securities investment by listed companies. On the other hand, the coefficients for CFO, LEV, INDEP, and BOARD suggest that variables such as leverage, the ratio of operating cash flow to total assets, the proportion of independent directors, and board size have a positive impact on corporate performance during the process of securities investment by listed companies. Overall, the results in Table 3 demonstrate that listed companies engaged in securities investment exhibit significantly improved corporate performance compared to those that do not, thereby rejecting the null hypothesis that securities investment by listed companies has no impact on corporate performance (e.g., Jim and Wu ,2022).

Table 3. The Impact of Regression Models on the Performance of Listed Companies

	(1)	(2)
	Tobin QA	Tobin QB
FIN	**0.138*** **	**0.125*** **
	(7.74)	**(6.18)**
SIZE	-0.521***	-0.561***
	(-49.69)	(-47.37)
PPE	-0.747***	-1.213***
	(-13.22)	(-18.45)
CFO	1.950***	2.285***
	(14.08)	(14.65)
LEV	0.525***	0.619***
	(8.95)	(9.09)
INDEP	0.404***	0.414***
	(4.01)	(3.59)
BOARD	0.164***	0.194***
	(5.06)	(5.25)
Constant	13.092***	14.157***
	(60.63)	(58.06)
Year	YES	YES
Industry	YES	YES
N	32425	32425
R^2	0.294	0.289

6. Conclusion

This study examines the impact of securities investments on firm performance using data from Chinese listed companies from 2009 to 2022. The results reveal that securities investments by listed companies have a positive effect on firm performance. The findings suggest that securities investments can contribute to higher investment returns and reduce investment risks for companies. However, it is important to note that this study has certain limitations due to the short time span of the sample. Additionally, the analysis in this paper focuses solely on listed companies in a single country. Future research could further enhance the study by conducting comparative analyses across multiple countries to provide a more comprehensive understanding.

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