

Research on the Combination of Industry and Finance and Company Innovation

Shiqing Zhang^{1, a}, Brian Sheng-Xian Teo^{2, *}, Wenqi Li³

¹Graduate School of Management and Science University, Shah Alam, Selangor, Malaysia, PhD Candidate

²International Academic Affairs Department, Management and Science University, Shah Alam, Selangor, Malaysia

³School of Economics and Trade, Henan University of Technology, Zhengzhou, China

^aEmail: zsqzsm0520@gmail.com, *Corresponding author's e-mail: 15238099717@163.com

Abstract: Since financing is always a top priority for the sustainable development of companies, especially for small, medium, and micro-sized companies which account for more than 90% of China's total companies. Problems such as difficult and costly financing seriously affect companies' development. How to improve financing services has become one of the hot issues in the economic field of the new era. The combination of industry and finance mainly refers to the development mode that the industry and the financial industry strengthen internal integration through controlling holding shares, stake taking, equity participation, personnel participation, and other channels for the common goal to obtain overall benefits in the economic operation. Its characteristics of complementarity, permeability, two-way selection, optimal combination, and so on are beneficial to solving financing problems. This paper explores and analyzes the strategies of industry-finance combination and company Innovation to provide references for companies' financing channels expansion and sustainable development.

Keywords: Combination of Industry and Finance, Company Innovation.

1. Introduction

Since The values of the combination of industry and finance for companies' Innovation are listed below. Firstly, it can meet the needs of diversified development and operation, high-efficiency operation, and capital virtualization of companies. The combination of industry and finance is required after the company capital reaches a certain level and can support companies to achieve the Innovation target based on the integration of asset securitization, information sharing, and human capital. Secondly, through the combination of industry and finance, more capital will flow into the areas with profit potential, which leads the economic development, optimizes the business environment, supports the updating and iteration of company management, and increase competitiveness. Promoting the optimization and upgrading of industries through competition and scientifically allocating the means of production facilitates the healthy development of China's economy. Thirdly, for the financial system, the combination of industry and finance is beneficial to improving service concepts, adjusting strategic positioning, enriching financial services, and tightening the financial industry and industry. Based on this, in order to promote the steady development of China's economic system, it is particularly important to explore the combination of industry and finance and company Innovation.

2. Overview of The Combination of Industry and Finance

The combination of industry and finance unblocks the channels for the combination of financial capital and industrial capital. The two maintain the equity relationship and achieve the goal of combination through personnel participation and holding shares. From the perspective of the capital-based carrier, industrial capital generally refers to physical capital and monetary capital controlled and occupied

by non-financial institutions. Financial capital refers to the fictitious capital and monetary capital controlled by financial institutions, such as insurance, banks, trusts, securities, and funds. The combination of industry and finance can promote sales, reduce costs and increase production for the companies. Specifically, the combination of industry and finance can promote company innovation, enhance its competition level in the industrial chain, sustain business growth, expand the economic scale, develop new businesses and tap into the new market, and finally achieve the goal of company Innovation. Continuous capital injection into companies and fields with innovative potential keeps the industrial diversified, which is beneficial to strengthening the overall competitiveness of China's economy and ultimately realizing the goal of internationalization of companies.

At present, China's policy environment, economic environment, and business environment all support the combination of industry and finance, which is regarded as the kinetic energy of company Innovation. Taking the economic environment as an example, from the perspective of investment in fixed assets, the scale of investment in the primary industry in 2019 was approximately RMB1,263.3 billion, and the scale of investment in the secondary industry and the tertiary industry respectively was RMB16,307 billion, and RMB 37,577.5 billion, representing an increase of 0.6%, 3.2%, and 6.5% respectively as compared with the previous year. The scale of investment in infrastructure and private fixed assets has been expanded. This shows that the active investment market promotes the combination of industry and finance, and provides conditions for company innovation based on the combination of industry and finance under the background of industrial restructuring and in-depth reform of China's market.

3. Combination of Industry and Finance and Company Innovation

When the financing is constrained, the company will choose internal financing according to the change of marginal cost, on this basis, it will seek a good opportunity for debt financing, and finally will consider equity financing. The financing constraint theory points out that Innovation has a long cycle, certain moral hazards, and uncertain demand. It is difficult to regard innovation as a condition to attract external capital. The investment constraints of company innovation exist objectively, meanwhile, financing constraint also hinders the company's Innovation. The combination of industry and finance can release the financing constraint, and solve the problem of information asymmetry between borrowers and banks. The equity relationship between financial institutions and real companies is established, which enables companies to appoint employees to join the board of directors of financial institutions, provides conditions for the exchange of information between the two, and influences the investment of financial institutions.

The combination of industry and finance helps financial institutions to have a comprehensive grasp of the innovation dynamics of companies. The transparent information and smooth communication mechanism between the two sides can enable companies to ease external financing pressure and create a stable external funding support environment for company Innovation. The businesses of the financial capital and the industrial capital in different industries increasingly complement each other upon the synergy theory. Companies can absorb the capital of the financial industry through the combination of industry and finance, and give full play to the advantages of financial capital management; internally, they can reduce related posts of financial management and save management costs.

The listed company is the major type in the current industry-finance combination. The industry-finance combination can release positive signals, improve the credibility and reputation of companies, increase the investors' confidence in companies, and facilitate companies' external financing activities and innovation through equity. Based on the combination of industry and finance, the company strengthens the synergistic effect, has diversified operation modes, promotes its capital chain's integration, hedges regular negative impacts of the cyclical development of the market, and improves the operating level, and finally makes innovative investments in a good operating condition.

4. Investment Strategies of Company Innovation Under the Background of the Combination of Industry and Finance

4.1. The Government Level

The implementation of the industry-finance combination strategy is beneficial to improving the innovation level of companies. To promote the steady development of companies, the government not only increases financial subsidies to companies but also strengthens the support for the combination of industry and finance to reasonably prevent risks.

Firstly, it is necessary to overall promote the combination development of non-state-owned enterprises and local small

and medium-sized financial institutions. The branch number of small and medium-sized financial institutions' network is small, their business scope is relatively narrow, and the customers are mostly nearby merchants and individuals. The government should vigorously promote cooperation between Non-state-owned enterprises and local small and medium-sized financial institutions. Relatively speaking, the local small and medium-sized financial institutions know more about the companies' conditions and can execute policies according to companies' situations to promote the companies' healthy development. In addition, real companies should be encouraged to become shareholders of financial institutions, which can stimulate the operation vitality of small and medium-sized financial institutions and at the same time open the "last-kilometer" road of financial institutions serving private companies.

Secondly, to promote the combination of industry and finance should be market-oriented. More real companies should be allowed to create financial companies and other financial institutions, the government should appropriately relax standards, and reduce the approval process. This will not only push on the orderly development of financial markets but also promote the effective allocation of talents and funds. In addition, due to low credit ratings, insufficient mortgage assets, and difficulties in obtaining funds, the combination of industry and finance can reduce the financing pressure to a certain extent. In this process, the government should play a mediating role and act as a liaison between the two sides to promote the joint development of their respective businesses.

Thirdly, it is to prevent the risk of the industry-finance combination according to local conditions. From 2015 onwards, the number of companies that implemented the combination of industry and finance has sharply dropped in volume, which causes do not exclude the government's policy guidance to avoid the over-financialization of companies. The government should pay special attention to risks such as false capital injection and high leverage ratios during the process of promoting the combination of industry and finance. Especially in the eastern region, the number of companies that combine industry with finance in this region is the largest, which has played a leading role in the demonstration. And other regional governments can adopt the "release +control" combination method to achieve a virtuous circle between the industrial capital and the financial capital.

4.2. The Company Level

Firstly, it is to adjust the combination of industry and finance according to the industry characteristics. For example, manufacturing companies should make full use of the advantages of industry chain finance to integrate financial capital deeply into production, research and development, manufacturing, sales, and other processes. With IT technology as a support, the companies analyze the production and transaction information data to break down the industry barriers, dredge the industrial chain, supply chain, and value chain and create an ecological circle in which real companies and financial institutions interact and coexist.

Secondly, the companies choose to become shareholders of financial institutions according to their characteristics and they need to carefully consider direct equity participation or acquisition and merger of financial institutions. Whether taking a stake in a bank, a financial company, a securities company, or another financial institution, the companies should decide at their discretion. The companies should

analyze if their overall strength, the development status of basic businesses, and risk-taking ability match the capital model or not and consider whether the operating conditions throughout the life cycle are in line with the investment demand. The company shall regard investing in the finance company as a preferred option and diversified investment in other financial institutions is a relatively common and stable investment method. In the process of cooperation with the local urban commercial banks and the rural commercial banks, information disclosure should be strengthened to reduce transaction costs and promote mutualism between real companies and financial institutions.

Thirdly, non-state-owned enterprises should implement the combination of industry and finance as one of the ways to increase value. During the growth of the non-state-owned companies, there is a huge demand for capital, and the companies can cooperate with financial institutions according to their development and establish a channel for information exchange to break down barriers to financing and obtain more long-term and stable funds. For the state-owned companies with the largest proportion in the number of companies that implement the strategy of industry-finance combination, the government's intervention is greater. The state-owned companies should give full play to the role of "vanguard", and reasonably implement the combination of industry and finance, cultivate new competitiveness, and enter the international market.

Fourthly, the companies should avoid speculation and strictly control the risk of the combination of industry and finance. The implementation of the combination of industry and finance is based on the premise of standardized corporate governance, up-to-standard management capabilities, and stable operating revenue. On the one hand, the company should evaluate its profitability and capital allocation and choose the appropriate time and the appropriate funds to invest in financial institutions; On the other hand, the company should focus on developing main businesses and avoid blind investment.

5. Conclusions

To sum up, there is a close relationship between the combination of industry and finance and company innovation. Through the combination of industry and finance, the companies can expand business scales, give full play to the advantage of earning profits from intellectual property rights, and can form the agglomeration effect, which makes companies' investment in innovation have a higher success probability. Based on this, the companies attract more financial capital and industrial capital. Realizing the industry-finance combination promoting company innovation of investment goals still requires the companies to optimize the operation structure, improve the level of innovation, pay attention to investment risk prediction, and then strengthen the combination of industry and finance, which promotes the companies to complete the task of innovation and development.

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