

CORPORATE RESTRUCTURING AND FINANCIALIZATION OF NON-FINANCIAL CORPORATIONS: EVIDENCE FROM SPAIN

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ABSTRACT

Organizational changes carried out by firms over the past decades have often involved the segmentation of the corporation into a portfolio of multiple subsidiaries and the consequent proliferation of financial assets of group-related firms. Looking at a sample of large non-financial corporations (NFCS) in Spain, we show that these changes can be related to a greater exposure of NFCS to financial markets, stronger shareholder-value oriented performance metrics and a more active management of corporate assets. Thus, this growing segmentation of the corporation reflects an expansion of the financial view of the firm as another important aspect of the financialization of NFCS, complementary to the extensively documented downsizing processes often studied in the literature on financialization.

Keywords: Financialization, corporate governance, shareholder value, corporate restructuring, Spain.

JEL Classification: G340, G350.

REESTRUCTURACIÓN CORPORATIVA Y FINANCIARIZACIÓN DE SOCIEDADES NO FINANCIERAS: EVIDENCIA PARA ESPAÑA

RESUMEN

Los cambios organizativos llevados a cabo por las empresas no financieras en las últimas décadas frecuentemente implican una mayor segmentación de los activos corporativos en una cartera de múltiples filiales y la proliferación de activos financieros intragrupo. Centrándonos en una muestra de grandes empresas no financieras en España mostramos que estos cambios están relacionados con una mayor exposición a los mercados financieros, una mayor orientación a los intereses de los accionistas y una gestión más activa del perímetro corporativo. Así, esta creciente segmentación corporativa refleja la adopción de una visión financiera de la empresa como otro aspecto clave de la financiarización de las empresas no financieras, complementaria a los procesos de *downsizing* típicamente estudiados en la literatura de la financiarización.

Palabras clave: financiarización, gobierno corporativo, reestructuración corporativa, España.

Clasificación JEL: G340, G350.

1. INTRODUCTION

Financialization has become a popular topic in academic research. For the most part, the study of the financialization of non-financial corporations (NFCS) has revolved around the implications of greater financial market pressure on corporate decision-making and performance, encapsulated in the notion of shareholder value maximization (Aglietta, 2000; Boyer, 2000; Froud *et al.*, 2000a; 2000b; Lazonick and O'Sullivan, 2000; Aglietta and Breton, 2001; Dobbin and Zorn, 2005; Stockhammer, 2008; Dallery, 2009; Knafo and Dutta, 2020). In Lazonick and O'Sullivan (2000), this reorientation of corporate strategy was famously described as a two-sided effort of “downsizing and distributing”, leading to changes both *ad intra* (downsizing and re-dimensioning of corporate perimeters) and *ad extra* (greater distribution of funds to investors and changes in cash-flow patterns related to market financing).

The bulk of the literature has since paid more attention to the *ad extra* dimension of financialization and the potential impact this increased outflow of funds could have on variables of greater economic significance such as investment, income distribution or economic growth (Orhangazi, 2008; Lin and Tomaskovic-Devey, 2013; Álvarez, 2015, Davis, 2018; Tori and Onaran, 2018b; Kohler, Guschanski, and Stockhammer, 2019). As for the *ad intra* dimension, the literature appears to have generally accepted the downsizing framework with little consideration of other developments in corporate organization. However, internal reconfigurations of corporate structure in response to financial market pressures or value maximization for shareholders have been varied and are not solely limited to downsizing processes. One of the visible expressions of these reorganization processes, as we show later on, is the proliferation of financial assets of group-related firms (such as subsidiaries or other within-group relations), or what we call *intragroup financial assets*.

In this article we analyze the relation between forms of corporate reorganization that lead to an increase in the amount of intragroup financial assets, specifically the emergence of the Multi-Layered Subsidiary Form and similar forms of segmentation of the firm into multiple corporate assets, and the financialization of NFCs. In doing so, we seek to complement the existing analytical framework for the financialization of NFCs by highlighting the importance of intragroup dynamics, or what we call the *intragroup dimension* of financialization.

Our empirical analysis focuses on large NFCs in Spain from 1995-2019, a period in which the Spanish economy saw a very rapid expansion of financial markets that greatly impacted the ownership and organizational structures of NFCs (especially due to the inflow of foreign capital). Despite these developments, this country has rarely been considered in the literature on financialization, which has focused mainly on Anglo-Saxon countries. This article, therefore, contributes to broaden the geographical scope of analysis found in the literature on financialization.

Our study shows a growing importance of intragroup financial assets in the Spanish corporate sector over the past decades, in parallel to important developments in Spanish financial markets favoring an increase in both the number of domestic subsidiaries and the organizational complexity of NFCs in Spain. In addition, we perform a firm-level analysis for publicly listed corporations where we find that a greater

segmentation of the corporation is positively related to greater exposure to financial markets and a financial performance metrics that suggest a stronger shareholder-value orientation (for example greater dividend payments). Thus, our results suggest that the financialization of NFCs, that is, the openness to international financial markets and the adoption of financial market logics and concerns in corporate management, tends to favor the reorganization of corporate assets into a more segmented and flexible structure that better suits these financial demands.

The article is divided into five sections. In the next section we summarize the main findings made by the literature on corporate strategy and organizational structure regarding their relation to shareholder-value orientation and financial market pressures. Section three presents aggregate empirical evidence showing the importance of restructuring processes in Spain since the late 1990s together with the expansion of financial markets and the proliferation of intragroup financial assets. In section four, we provide a more precise account of these interconnections by looking a micro-level data for Spanish listed corporations, and section five concludes.

2. THE INTRAGROUP DIMENSION OF THE FINANCIALIZATION OF NFCs

The changes in ownership structure that took place as a result of the takeover wave in the 1970s and 1980s in the United States contributed to the emergence of shareholder-value maximization strategies in NFCs which pushed firms to focus on core-competencies in order to keep market valuations high (Aglietta, 2000; Boyer, 2000; Lazonick and O'Sullivan, 2000; Crotty, 2003; Stockhammer, 2004). These strategies will later spread from Anglo-Saxon economies to the rest of the Organisation for Economic Co-operation and Development (OECD) economies, as well as to European economies and Spain.

Certainly, these downsizing efforts noted by Lazonick and O'Sullivan (2000) have been an important aspect of corporate restructuring processes, but they have not been the only dominating trend in corporate organization. There have been other parallel developments, also aimed at maximizing shareholder-value, which have complemented the strategy of focusing on core competencies through downsizing efforts.

This is the case of what has come to be known as Corporate Portfolio Management (CPM). These practices were designed to inform decision

making at the corporate level to create value to the firm and to its shareholders by identifying weak or less profitable business units within the corporation —in line with the downsizing paradigm—, but also profitable investment opportunities not only within the corporation but also external to it —contributing to the growth of Mergers and Adquisitions (M&As) during these decades— (Nippa, Pidun and Rubner, 2010).

This approach to firm management gradually gave rise to a conception of the firm as a portfolio of corporate assets (business units), each valued individually in terms of return or risk and globally in terms of the synergies generated within the portfolio. In some interpretations, this portfolio of corporate assets could be assimilated to a portfolio of financial assets in terms of management criteria: “From a financial perspective, managing different businesses of a corporation resembles managing a portfolio of assorted investments that vary with regard to profit or return expectations, growth potential and risk” (Nippa, Pidun and Rubner, 2010, p. 52). Explicit models of CPM based on the risk-return trade-off typical in financial markets were even developed early on, exemplifying the expansion of a “financial view” of the firm that treats these corporate assets as tradeable investments (Tomaskovic-Devey and Lin, 2011) which are in essence disposable.

A second major development in corporate management that took place during the 1980s and 1990s was the emergence of the multi-layered subsidiary form (Prechel, 1997a; Boies and Prechel, 2002; Prechel and Zheng, 2016). These developments will also reach Spain from the end of the 1980s and, above all, in the 1990s and 2000s.

As noted in Prechel (1997a) the multidivisional form in which most NFCS were previously organized proved ill-suited for firms operating in highly dynamic markets combined with increasing pressures from investors. The Multi-Layered Subsidiary Form (MLSF) offered a legal liability firewall between the parent and the subsidiaries, the ability to raise funds by issuing stock of lower-level subsidiaries, a reduced cost for corporate control (only 50% of shares, plus one, are needed to exercise full control), an increased monitoring capacity due to financial market valuations of subsidiary performance and a greater flexibility to rearrange (buy and sell) assets (Prechel, 1997b; Prechel *et al.*, 2008). It is easy to see how all of these motives are instrumental to the adoption of shareholder-value orientation and are perfectly in line with a financial view of

corporate assets such as the one found in CPM. As a result, and with the appropriate changes made to corporate law to enable it (Prechel *et al.*, 2008), NFCs began to rapidly restructure into multiple separate legal entities (subsidiaries) under the control of a parent entity, rather than a single legal unit with multiple divisions. Spain will also modernize its legal framework to foster these changes, as we see in the next section.

The flexibility provided by the MLSF to acquire and sell off corporate assets, we argue, plays a fundamental role in the expansion of the '*financial view*' of the firm and in the subordination of corporate strategy to financial market demands. While reducing the degree of diversification may have been necessary for large conglomerates in the 1970s, there is growing debate regarding the optimal level of diversification of corporate groups (Nippa, Pidun and Rubner, 2010) and by no means is downsizing a fail-proof strategy in current corporate management practices.

This new internal conception of the firm as a group of assets actively managed to meet the financial expectations of shareholders and investors, and which materializes in the continuous and increasingly dynamic reconfigurations of corporate portfolios, is what we call the *intragroup dimension* of the financialization of NFCs. Though the shareholder-value orientation of these restructuring processes is widely acknowledged by the literature (Aron, 1991; Daley, Mehrotra, and Sivakumar, 1997; Campa and Hernando, 2004; Capron and Guillén, 2009), this idea becomes more significant when looked at through the lens of financialization.

As we show in this article, these processes of corporate restructuring are related to other key aspects of the financialization of NFCs such as greater exposure to financial markets and increasing alignment of corporate performance to market-oriented metrics. Previous studies have already shown that the expansion of the MLSF has led to an increased dependence on capital markets (Prechel and Zheng, 2016), and much like other aspects of financialization, "the corporate restructuring project suggests that in addition to making it viable to create and manage giant diversified corporations, the multilayered subsidiary form is an underlying mechanism to redistribute income and wealth to the managerial and investor classes" (Prechel *et al.*, 2008, p. 873).

The literature on financialization, however, has largely failed to look beyond the downsizing framework, with only a few indirect references to other corporate asset management practices (Krippner, 2005; To-

maskovic-Devey and Lin, 2011). Thus, its assessment of the effect of financialization on corporate management seems somewhat outdated, and the absence of any serious consideration of these developments in empirical studies we believe is a significant blind spot in the literature.

3. INTRAGROUP FINANCIALIZATION AND CORPORATE RESTRUCTURING OF SPANISH NFCs: AGGREGATE TRENDS

Despite the fact that Spain was one of the fastest growing economies in the European Union (EU) until the global financial crisis, largely due to international financial flows, it has received little attention in the financialization literature. Empirical studies regarding the financialization of NFCs have largely focused on the United States, with a few of them looking at the United Kingdom, UK (Tori and Onaran, 2018a), the EU (Barradas, 2017; Tori and Onaran, 2018a; Kata and Chmiel, 2020), and emerging economies (Demir, 2009; Akkemik and Özen, 2014). Even among Spanish scholars, the conceptual framework of financialization has rarely been used to study the non-financial corporate sector in Spain, with a few notable exceptions (Álvarez, 2012; Álvarez and Luengo, 2011; Massó and Pérez-Yruela, 2017) and some other studies that criticize or question the use of this conceptual framework in the case of Spain (Del Río Casasola, 2015; Mateo, 2019). When considering financialization as a global phenomenon, it is important to address this geographical bias since financial systems and corporate governance present different institutional settings in different countries (López-Iturriaga and Rodríguez-Sanz, 2001).

Like other continental European economies (*i.e.* France, Germany, Italy), the Spanish financial system falls into what is typically described as a traditional bank-oriented system (Díez-Esteban, Farinha, and García-Gómez, 2016). The vast majority of corporate funding in the Spanish economy had been articulated through bank credit rather than capital markets (Bernardino and Gutiérrez, 2012). In countries of civil law tradition, such as Spain, shareholder-protection rights have been somewhat weaker (Gibson, 2003), moderating the development of shareholder-value orientation.

However, Spanish corporations have not been isolated from global trends. During the 1990s and 2000s, Spain underwent important trans-

formations in the business sector. This period saw the culmination of the industrial reconversion of traditional sectors, such as mining, steel and shipbuilding and, in parallel, a significant process of privatization of state-owned companies in key sectors such as energy, telecommunications and transportation. Many Spanish companies began to expand internationally, especially to Latin America and Europe, and the entry into the EU (1986) and the adoption of the euro in 1999 required Spanish companies to adapt to more competitive international standards. In this context, important legislative changes were made to promote corporate restructuring, liberalization, increased access to financial markets, corporate governance in NFCs and shareholder-value orientation.

Law 19/1989 reformed the Commercial Code and adapted Spanish corporate law to international standards, introducing for the first time in a clear manner the concept of corporate group, the separate legal personality of subsidiaries and their subjection to the control of the parent company. In addition, the amendment of the Public Limited Companies Act in 1995 and 2003 improved the regulation of corporate governance bodies (shareholders' meeting and the board of directors), introduced rules to protect the rights of minority shareholders and facilitated the restructuring of companies into multiple separate legal subsidiaries under the control of a parent entity.

As of the early 1990s, corporations in Spain mostly followed a low-diversification strategy with a traditional monolithic structure (Sánchez-Bueno and Galán-Zazo, 2004), but Sánchez-Bueno, Galán-Zazo, and Suárez-González (2006) and Sánchez-Bueno and Suárez-González (2010) provide evidence that during the 2000s large Spanish corporations became more modular in their organizational forms, adopting multidivisional structures and increasing their number of subsidiaries. These changes in the organizational form of Spanish NFCs respond to the growing dynamism of markets in which these firms operate, to their larger degree of internationalization following EU integration and to their progressive opening to international financial markets.

Integration in the EU produced an accelerated liberalization of financial markets in Spain, along with harmonization to European standards regarding corporate law and capital-income taxes (Cárdenas, García, and Salas, 2020). During this period of fast financial liberalization, stock-market capitalization in Spain grew four-fold, from €189 million

in 1996 to over €840 million in 2005, and stocks traded over the same period grew by a factor of 10, from €75 million to €788 million (San-tana and Aguiar, 2007). Relative increases in the United States during the same period were roughly half as large in both figures (growing by a factor of 2 and 5 respectively)¹.

More recently, NFCs have turned to capital markets as a growing source of funding in response to the credit crunch experienced after the 2008 financial crisis. This has strengthened the role played by institutional investors, private equity and venture capital in corporate governance of NFCs (García and Garrido, 2019; García-Vaquero and Roibás, 2018).

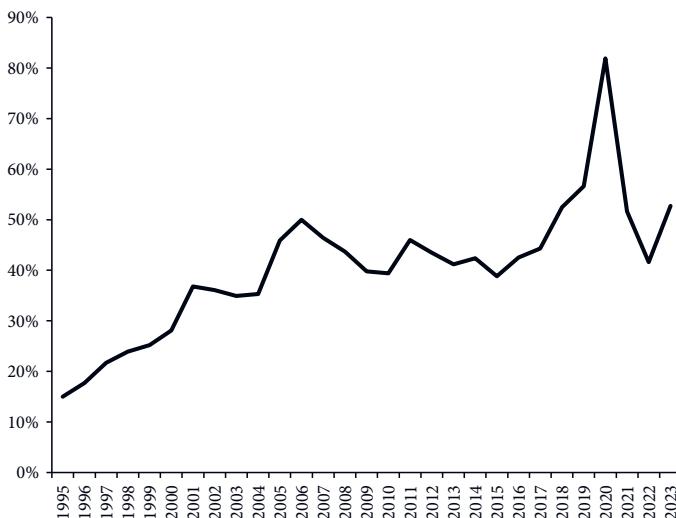
In the literature on financialization, dividend payments by NFCs to financial markets have been recurrently used as a clear indicator of shareholder-value orientation of firms, and as a proxy for the subordination of these firms to the new profitability requirements of capital markets (Dallery, 2009; Epstein, 2005; Hein and Van Treeck, 2010; Krippner, 2005; Orhangazi, 2008; Stockhammer, 2008). Therefore, this indicator has usually been taken as a measure that represents the dominance of finance over NFCs.

Dividend payments of Spanish corporations have risen steadily over the past decades, from low levels in the 1980s to comparatively high levels, well above other European countries such as the UK, France and Germany (García and Garrido, 2019). As we can see in Figure 1, in the mid-1990s dividends paid by Spanish NFCs were equivalent to 15% of their net operating surplus, a share that has risen to over 50% by 2023. These trends reveal that the Spanish corporate environment has experienced a strong and fast reorientation towards shareholder value over these past decades, at the same time that firms were adopting more complex organizational forms.

An important aspect of this financial liberalization in Spain was the rise in Foreign Direct Investment (FDI) inflows, mainly related to M&As of transnational corporations (Campa and Hernando, 2004; Carril-Caccia and Paniagua, 2018). Interestingly, foreign ownership of Spanish corporations, already in the 1980s and early 1990s, was directly related to the

¹ Data obtained from World Bank financial sector indicators: <https://data.worldbank.org/indicator>

Figure 1. Dividends paid by NFCs, Spain (% net operating surplus)

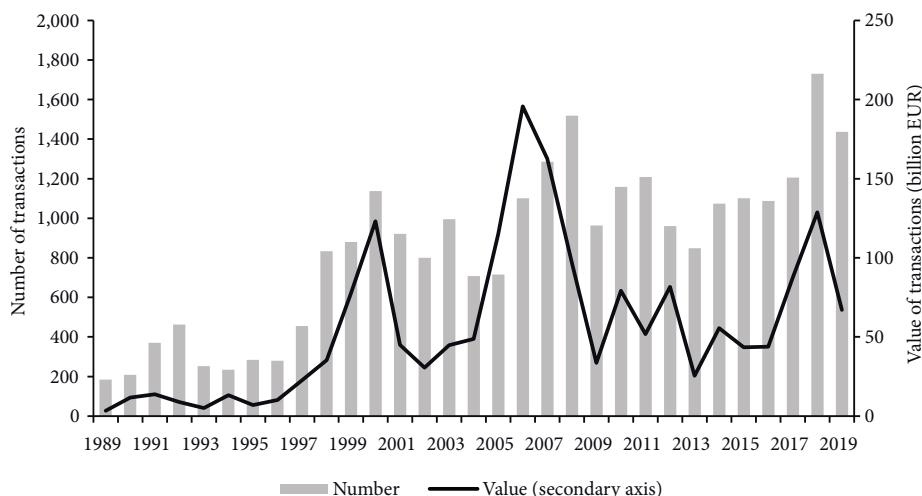


Source: *National Sector Accounts, Non-Financial Corporations*, Instituto Nacional de Estadística (INE).

adoption of more complex organizational forms (Sánchez-Bueno and Galán-Zazo, 2004). In other words, greater openness of Spanish firms to foreign capital appears to have played an important role in changing their organizational structure, likely driven by an importation of financial logics and concerns into corporate management and strategy. The growing presence of financial and institutional investors in companies' capital structure has implied the adoption and extension of corporate governance principles, fostering the preeminence of financial objectives within NFCs (Álvarez y Medialdea, 2010). Thus, the growing exposure of Spanish NFCs to foreign capital and international financial markets has been closely linked to the development of new management principles that consider the firm as a rearrangeable portfolio of financial assets.

Figure 2 shows the evolution of M&As in Spain since 1989. The average annual number of deals closed in the 1990s was 426, rising to an annual average of 1,015 in the 2000s, 1,181 in the 2010s and 1,354 in the 2020s. We observe a jump in the late 1990s in the value of transactions, a period in which the major privatizations and restructurings of Spanish listed companies were concentrated. While on the one hand

Figure 2. Evolution of mergers and acquisitions in Spain, 1989-2024



Source: Institute for Mergers, Acquisitions and Alliances (IMAA), statistics.

companies were divesting their non-core business lines, focusing on their core competencies, and segmenting themselves into independent business units, divisions with same competencies have merged with each other in an attempt to access greater economies of scale (Batsch, 1999).

The Spanish Association for Capital, Growth and Investment (ASCR), reports that private equity investments (which we could argue are most in line with the financial view of corporate assets) have been steadily becoming more important in M&A events in Spain since the early 2000s (ASCR, 2020). The same study notices that despite starting off at very low levels in the early 2000s, in 2019 Spain exceeded the European average private equity investment level in terms of Gross Domestic Product (GDP). As noted by Ruiz-Martín (2006), foreign private equity firms in particular have gained importance in the ownership structures of Spanish corporations, typically operating with firms that are well established in their respective markets and carrying out further restructuring processes.

There are a few indicators we can use to get an approximate picture of the growth of corporate segmentation and reorganization processes in Spanish NFCs. First, corporate reorganization into separate legal entities controlled by the same parent firm (Prechel, 1997a; 1997b; Boies and

Prechel, 2002) is likely to lead to an increasing number of subsidiaries within the corporate sector. Between 2009 and 2018, foreign subsidiaries of Spanish firms grew significantly, from 4,132 to 6,189. More impressively, however, subsidiaries of foreign NFCS in Spain grew from 8,064 to 14,361 in the same period².

Another indicator of the existence of complex corporate structures is the volume of *intragroup financial assets* held by NFCS, that is, financial assets that are issued by other firms within the corporate group. Corporate structures featuring multiple levels of parent-subsidiary ownership relations are likely to lead to a proliferation of these intragroup financial assets as a by-product of the segmentation of corporate assets into these different subsidiaries, and therefore, we can use this measure as a proxy of the degree of complexity in corporate structures.

Under the Spanish accounting norm (PGC2007), the category of “financial assets” includes shares and equity-related instruments, debt-securities, long-term and short-term loans and advances, and financial derivatives³. The Spanish accounting norm also separates financial assets of group-related and associated firms from financial assets of third parties. A firm is considered to be “group-related” when there is a direct or indirect ownership relation between two firms and “associated” when, lacking a group-relation, one firm has significant influence on the management decisions of the second firm (PGC2007).

Studies concerned with the accumulation of financial assets in NFCS have typically focused on financial assets of non-related firms (Orhangazi, 2008; Davis, 2016; Rabinovich, 2019) since these are taken to represent a new, financialized “accumulation pattern” in NFCS. However, the volume of intragroup financial assets can also be a meaningful measure of financialization if, as we show in the next section, the growth of more complex organizational forms is related to greater financial market pressures and shareholder-value orientation of corporate governance.

The Central Balance Sheet Office (CBSO) in Banco de España collects individual financial statements of Spanish firms available at mercantile

² Data obtained from the Instituto Nacional de Estadística website: <https://www.ine.es/>

³ Intangible assets (including goodwill) are a separate asset category under the Spanish accounting norm, as are cash-holdings and deposits (including high-liquid assets with maturity shorter than three months) and commercial credit and receivables.

registries and submitted voluntarily by NFCs in Spain (foreign subsidiaries of Spanish firms are not included in the sample). The number of firms included in the CBSO sample was more than 844,000 in 2016 (data for 2017 and 2018 are still preliminary)⁴ and the coverage ratio in terms of Gross Value Added of the non-financial private sector was 55%-60%, but the CBSO carries out a series of tests to guarantee the representativeness of the sample.

The CBSO provides aggregate figures of asset stocks for the non-financial corporate sector along with breakdowns for activity sectors and firm size (size categories are defined following EU Commission Recommendation 2003/361/EC on firm size classification)⁵. The total number of large NFCs⁶ included in the sample is largely stable for the entire time period considered and consists of approximately 20,000 firms. One of the main advantages that the data from the CBSO offers is that intersectoral financial positions are not netted out as in National Accounts. In other words, the aggregate figures do not represent the financial position of the NFC sector *vis-à-vis* other economic sectors (public sector, households, financial sector, foreign sector), but rather the sum of individual balance sheets.

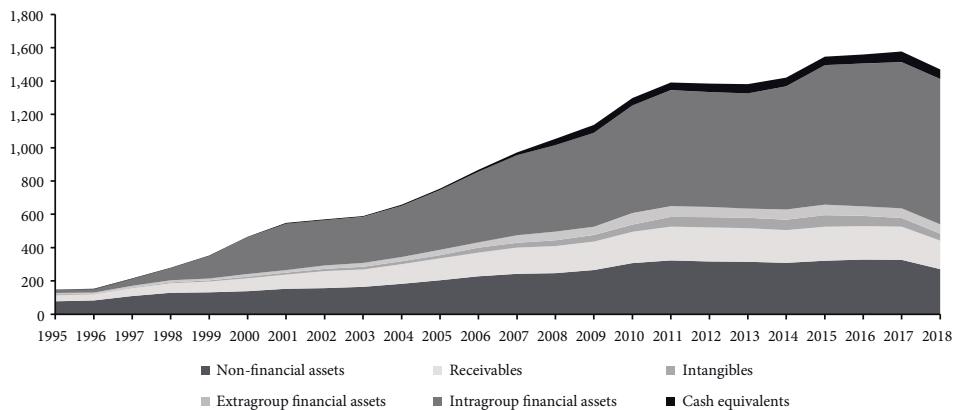
Looking at Figures 3 and 4, we observe an acceleration over the past decades in the growth of financial assets in large NFCs which is clearly dominated by the category of intragroup financial assets. Over this time period, intragroup financial assets grew by a factor of 45, so that in 2018 the aggregate volume of intragroup financial assets was 2.83 times that of non-financial assets, compared to 0.24 in 1995. These figures show us that there has been a significant proliferation of intragroup financial assets in the Spanish corporate sector, which we argue can be explained by processes of corporate restructuring in response to changes in financial markets and corporate governance.

⁴ Banco de España (2018).

⁵ These aggregates are publicly available at the CBSO website: https://app.bde.es/asc_web/consulta.html

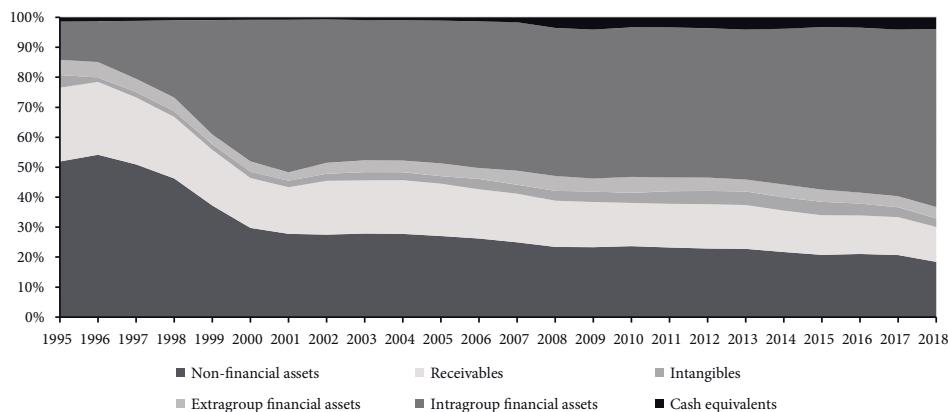
⁶ Firms with more than 250 employees, and more than 50 million EUR in annual turnover and/or more than 43 million EUR in total assets, following EU Commission Recommendation 2003/361/EC.

Figure 3. Evolution of asset volumes in large Spanish NFCs, 1995-2018 (million EUR)



Source: Banco de España, Central Balance Sheet Office. Authors' own calculations.

Figure 4. Evolution of asset category weights in large Spanish NFCs, 1995-2018 (percentage of total assets)



Source: Banco de España, Central Balance Sheet Office. Authors' own calculations.

There is another factor that should also be taken into account when interpreting these figures. As reported by Álvarez, Myro, and Vega (2016), during the late 1990s and early 2000s, Spanish corporations, particularly larger ones, set up international subsidiaries at a remarkably fast pace. In other words, the fast internationalization of Spanish firms could also

have accelerated processes of corporate reorganization similar to the ones described above and this could also help explain the larger volume of intragroup financial assets relative to non-financial assets in Spanish corporations shown in the previous graphs.

While this internationalization may have contributed to the growth in intragroup financial assets and corporate subsidiaries, we should also consider how financial market logics may have affected the process of internationalization. According to previous research, the vast majority of international subsidiaries follow a horizontal expansion strategy, where domestic parent companies replicate their core business and structure in other markets (Álvarez, Myro, and Vega, 2016). If the adoption of corporate forms similar to the Muti-Layered Subsidiary Form, both domestically and abroad, serves financial market demands, then the multiplicity of international subsidiaries in Spanish corporations, where many of these are multi-layered, can be seen as the result of both internationalization efforts and financially motivated changes in corporate governance.

Additionally, as we see in Figures 3 and 4 the weight of intragroup financial assets in firm balance sheets exhibits a very sharp increase during the late 1990s. As noted earlier, during these years the Spanish corporate sector went through significant changes related with financial liberalization. Therefore, even if the internationalization of Spanish firms may partly explain what we see in these figures, we suspect that the greater openness to financial markets also played an important role in the proliferation of intragroup financial assets due to corporate restructuring processes driven by financial market motivations (or *intragroup financialization*). As we show in the following section, a more detailed analysis of corporate segmentation and exposure to financial markets reveals a positive relation between these two phenomena.

4. INTRAGROUP FINANCIALIZATION OF SPANISH NFCs: LISTED FIRMS

To study the relation between corporate organization and exposure to financial markets in more detail we turn to listed NFCs. Most of the studies on the financialization of NFCs focus directly on listed corporations since information on ownership composition and payouts to financial markets (two key aspects for identifying financialization patterns) are more easily

found in this group of firms. The data used in our study is obtained from the Sistema de Análisis de Balances Ibéricos (SABI) database which contains standardized information from financial statements of Spanish firms.

Our sample consists of 129 listed NFCs after removing financial institutions and investment funds (including Real Estate investment funds). We use group-level qualitative information (that is, total number of firms in the corporate group and nationality of direct shareholders of listed firms) and financial information (that is, total assets, stock market capitalization relative to own funds and relative to total assets, dividend payments relative to own funds, the price/value ratio of firm shares, and return on equity) to perform our analysis. Additionally, for data on intragroup financial assets (netted out in consolidated financial statements) we also use the individual financial statements for all national subsidiaries of listed NFCs in the database.

Much of the literature on financialization uses consolidated financial statements (*i.e.*, information in which the data of firms and their subsidiaries are presented as if they were a single economic entity). While this approach makes sense to address the general behavior of corporate groups, we need to consider unconsolidated data if we want to analyze the evolution of intragroup financial assets (to assess internal reorganization in such business groups), as we do in this paper. The use of one type of data or another is not a minor issue, although it is rarely addressed in the literature. Moreover, considering consolidated or unconsolidated financial statements may have relevant implications, for example when sizing the financialization process itself, as Rabinovich (2019) has pointed out.

We first need to define a measure for the degree of corporate segmentation, in other words, how intensely firms have restructured towards a more stratified and segmented organizational form such as the MLSF. To avoid any alterations in corporate organization that may have taken place after the COVID-19 pandemic, we look only at the value in 2019 since further historical information is not available. A first approach could be to look at the total number of firms in each corporate group, but this measure is likely to be related to the size of the group in terms of total assets since larger firms are likely to have a greater number of subsidiaries. Though this would not necessarily invalidate using the number of firms as a measure of greater corporate segmentation (after

all, the inclination to organize business units as separate legal entities is precisely what we are looking for), it could result in spurious relations when looking at how organizational segmentation is related to financial market exposure (which is also typically higher in larger firms).

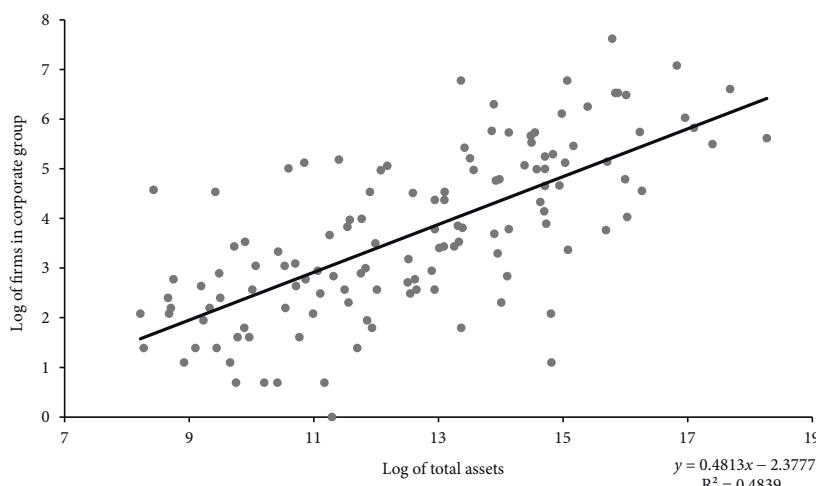
Indeed, if we look at the distribution of group size and number of firms in our sample, we find that they both follow a power-law distribution (Axtell, 2001) and that the logarithm of the number of firms in the corporate group is positively and linearly related to the logarithm of total group assets, as shown in Figure 5.

We can fit a simple linear regression model to obtain the expected value of log firms for each group size, allowing us to clean the effect of group size on the degree of organizational segmentation and obtain a size-independent measure of organizational segmentation which is defined as the difference between the observed and fitted values of log firms.

$$\text{group segmentation}_i = \log(\text{firms})_i - \widehat{\log(\text{firms})}_i$$

We can now use this new measure to study the relation between greater organizational segmentation and exposure to financial markets without having to worry about spurious relations related to group size.

Figure 5. Total group assets and number of firms in listed NFCs



Source: SABI. Authors' own calculations.

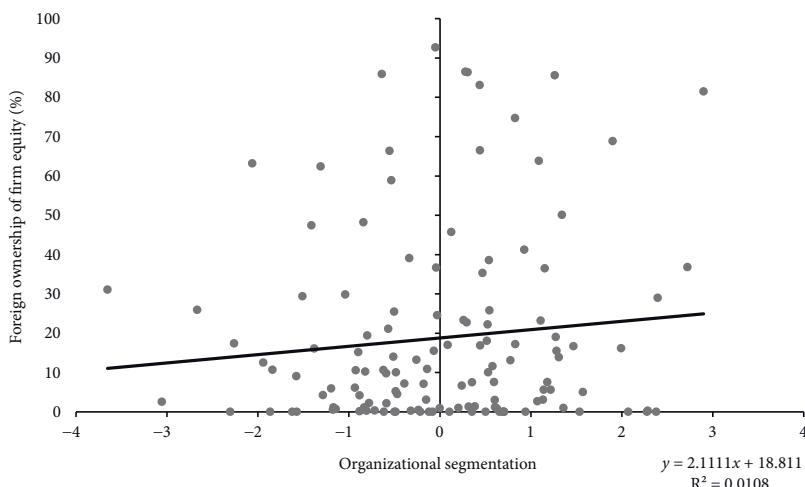
Exposure to financial markets is hard to quantify, but in the literature this is typically related to shareholder composition (Lazonick and O'Sullivan, 2000; Crotty, 2003; Knafo and Dutta, 2020), where a greater presence of institutional investors (*i.e.*, pension funds, insurance companies or other investment funds) is expected to lead to a greater shareholder-value orientation of firm strategy. However, as we saw earlier, in the case of Spanish corporations a greater presence of foreign shareholders can also be expected to indicate greater exposure to financial markets, since financial market liberalization in the late 1990s and early 2000s brought forth a very significant volume of foreign corporate investments.

An important role played by this foreign capital was the importation of a more financially oriented corporate culture, in which corporate governance and structure are key elements (Álvarez and Medialdea, 2010). Additionally, in order to attract foreign investment, domestic firms would need to implement changes in corporate governance and strategy making them more sensitive to financial market demands. Thus, for the firms in our study, the nationality of the direct shareholders of listed firms, that is, the percentage of shares held by foreign investors, can be seen as a reasonable proxy of their financial exposure or orientation.

This is, admittedly, still a limited measure of financial market exposure, since not all foreign owners (nationalities, investor types, etc.) are equally financially-oriented and since different degrees of foreign ownership (minority owners vs. majority) do not necessarily imply greater degrees of financial exposure. However, for the reasons we just mentioned, if the adoption of more complex or segmented organizational structures is related to a greater financial-market orientation, we would expect to find some kind of relation between these organizational structures and foreign ownership of Spanish firms.

Indeed, this is what we observe in Figure 6. We can see that a greater presence of foreign investors in Spanish corporations is somewhat positively related to a greater organizational segmentation. This results is consistent with previous findings mentioned above for the Spanish corporate environment, which point to a transfer of corporate organizational culture as a consequence of financial market liberalization and EU integration, but also with our main argument that greater exposure to financial markets favors a greater organizational segmentation of the

Figure 6. Foreign ownership of firm equity in listed NFCs, 2019



Source: SABI. Authors' own calculations.

corporation as investors look for greater transparency in asset valuation and flexibility in reshaping corporate perimeters.

There are not many other theoretical relations we can think of between greater organizational complexity and foreign ownership. While foreign investors may choose to invest in larger or better established firms, we have already cleaned any relation between number of subsidiaries and firm size in our measure of organizational complexity. Perhaps part of this relation could reflect foreign investors preferring more internationalized or diversified firms (with a larger number of subsidiaries after controlling for firm size). But again, if these more internationalized or diversified firms are set up as MLSFs, it is most likely to signal to the market the greater flexibility of their corporate perimeter and their ability to quickly respond to any threat on shareholder value.

Greater detail on types of shareholders including differences among institutional investors in terms of impatience or short-termism (Goyer, 2007; Dallery, 2009; Brossard, Lavigne, and Erdem Sakinç, 2013) or the importance of family-ownership (Morck, 2009), as well as a historical record of changes in ownership structures could offer some interesting insights regarding how these changes took place in the Spanish corporate sector. Nonetheless, this figure can be seen as a first indication that

corporate restructuring processes leading to a greater segmentation of the firm into separate legal entities are related to a greater exposure to financial markets and market interests and incentives.

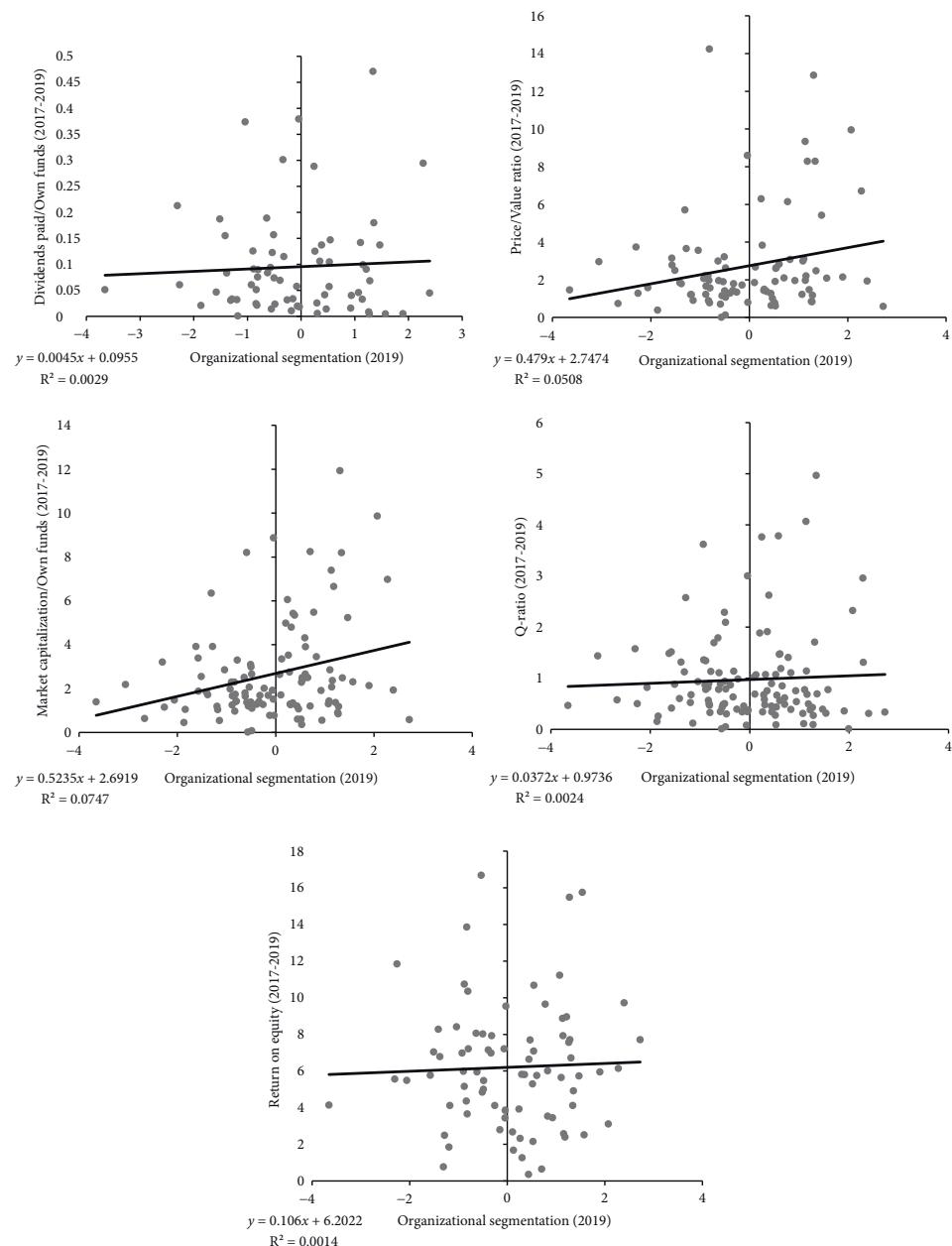
A further indication, however, is found in Figure 7, where we can see the relation between the organizational segmentation of listed NFCs and different market-oriented performance measures. Though the financialization literature has typically used dividend payments as a way to measure financial market pressure on firm management and shareholder-value orientation (Lazonick and O'Sullivan, 2000; Stockhammer, 2004; Hein and Van Treeck, 2010; Álvarez, 2015; Cordonnier and Van de Velde, 2015)⁷, in this figure we also include other financial metrics that reflect the orientation of firm goals and strategies towards financial market expectations: The price/value ratio of firm shares, market capitalization of shares relative to own funds, market capitalization relative to total assets (Q-ratio) and return on equity. In all five cases we use the three-year average (2019-2017) of these performance measures, rather than just taking the 2019 value, to obtain the typical behavior of each firm for the most recent time window.

All of the graphs in Figure 7 suggest a somewhat positive relation between corporate segmentation and financial market performance. We can see that greater organizational segmentation is indeed positively related to market capitalization relative to own funds and the price/value ratio of firm shares, and to a lesser degree to greater dividend payments relative to own funds (that is, a greater dividend retribution of firm equity), market capitalization relative to total assets (Q-ratio) or Return on Equity. This observation further supports the idea that corporate restructuring processes are not independent of the financial market orientation of firm behavior. Greater exposure to financial markets and shareholder value orientation appears to help deepen corporate restructuring processes that result in a greater segmentation of the corporation.

The weakness of the relation that we observe in some figures is not surprising when we consider that financial performance is highly variable

⁷ Though other authors have also signaled the importance of share buy-backs as a means of retribution for financial market investors (Lazonick and O'Sullivan, 2000), we do not have detailed information on buy-backs for our sample of firms.

Figure 7. Shareholder-value orientation and organizational segmentation of listed NFCs



Source: SABI. Authors' own calculations.

and corporate segmentation is no guarantee to financial success. Additionally, increased organizational segmentation is not exclusively linked to the process of financialization and the demands that financial markets place on NFCs. There are other reasons why NFCs have also developed segmentation processes (Prechel *et al.*, 2008). However, the specialized literature (Batsch, 1999), shows that one of the reasons behind the greater organizational segmentation of NFCs is the better market valuation by the capital markets of those firms that have a transparent internal structure, segmented and organized into independent and well-defined business units, focused on their core competencies. This 'organizational premium' given by the stock markets has been an important pressure for corporate reorganization of the main Spanish business groups during the last decades, and it is the one we identify in Figure 7.

Moreover, there is little theoretical basis for reverse causality—going from segmentation to greater financial performance—and so, even a weak positive relation seems to suggest that a greater segmentation of the corporation is preferred by firms which are more market-oriented in their goals and strategies.

If, as our data suggest, there is a preference in these shareholder-value oriented firms for a greater degree of corporate segmentation, this must be because it provides other qualitative features (such as greater transparency in asset valuation and greater flexibility of corporate perimeters) that are more in line with financial market demands. In other words, a greater exposure of NFCs to financial markets helps expand a "financial view" of the firm (Nippa, Pidun and Rubner, 2010; Tomaskovic-Devey and Lin, 2011) which treats the corporation as a portfolio of assets which can and must be rearranged when necessary in favor of shareholder value. Adaptability is key in order to keep shareholder value high, and so, corporations are pushed to restructure into more highly segmented (and flexible) structures.

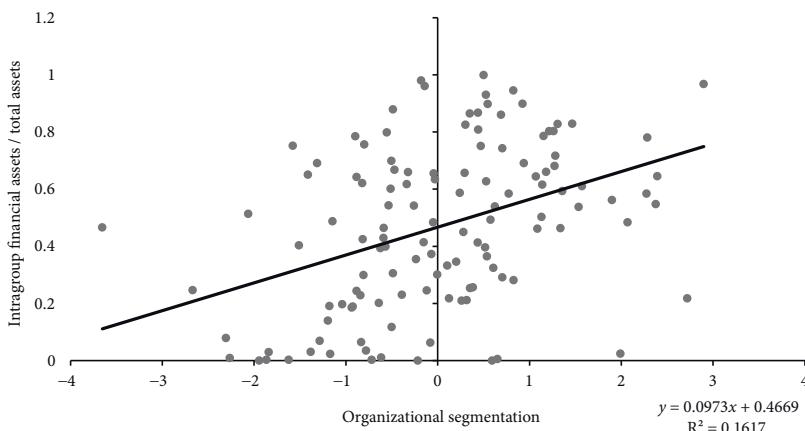
We should bear in mind that these conclusions are inferred from the graphs in Figure 7, which only show a positive relation between financial market performance and organizational complexity. While we argue that the basis for this relation is found in the shareholder-value driven corporate restructuring processes (or *intragroup financialization*), other factors such as firm size, internationalization or diversification, could also be worth considering. Though we have mitigated the effect of firm

size by using a relative measure of organizational complexity, further studies could hopefully work with a larger data set to control for these other effects.

Finally, we also find that organizational complexity is positively related to the weight of intragroup financial assets in firm balance sheets (see Figure 8). By summing up intragroup financial assets for all subsidiaries of listed firms, we can obtain the ratio of intragroup financial assets relative to total non-consolidated assets which, as shown in Figure 8, is positively related to a greater organizational segmentation of NFCs.

As expected, this shows us that as firms engage more intensely in corporate restructuring practices, the weight of intragroup financial assets in their balance sheets tends to increase as well. Therefore, the volume of intragroup financial assets in the non-financial corporate sector can help us detect a greater degree of intragroup financialization in NFCs. In other words, when we study the financialization of NFCs we should not only look at the growth of financial assets in the sense of a new accumulation pattern, but we should also specifically consider the growth of intragroup financial assets insofar as they may indicate the presence of the intragroup dimension of the financialization of NFCs.

Figure 8. Intragroup financial assets and organizational segmentation of listed NFCs in Spain, 2019



Source: SABI. Authors' own calculations.

Our data suggest that greater exposure to financial markets and a stronger shareholder value orientation are positively related to higher corporate segmentation. Corporate reorganization processes that lead to more complex and stratified organizational forms thus appear to be related to capital market pressures on NFCs and so, we argue, constitute another dimension of the financialization of NFCs (previously only hinted at in the literature) we call the “*intragroup dimension*”. This *intragroup dimension* of financialization consists in a reconceptualization of the firm by which corporate assets are treated as separate investments and financially managed to create shareholder value and therefore represents the expansion of financial motives and incentives to the internal management of NFCs.

The accumulation of *intragroup* financial assets in the non-financial corporate sector can potentially help detect this financial orientation in NFCs beyond the scope of previously used metrics. Looking at the aggregate ratio of *intragroup* financial assets together with more traditional indicators of financial pressures (*i.e.* dividend payments, ownership structure, financial income and accumulation of financial assets) may, in fact, deliver a more comprehensive assessment of the expansion of financial concerns within NFCs.

5. CONCLUSIONS

In this article we look at the internal and organizational changes carried out by NFCs as a result of a greater exposure to financial markets, or what we call the *intragroup dimension* of financialization. After acknowledging that the shareholder value orientation of firm strategy implied a two-sided change of “*downsizing and distributing*” (Lazonick and O’Sullivan, 2000), the literature on financialization largely moved on to focus on the distributive aspect of this reorientation and its potential implications for other economic variables, with fewer empirical enquiries on organizational aspects.

However, these organizational changes have not been limited to downsizing of large conglomerates, but have taken a more complex form, developing a combination of several complementary strategies: While the “*downsize and distribute*” strategy identified by Lazonick and O’Sullivan (2000) was pursued, a greater segmentation of the corporation

into separate legal entities and complex organizational structures (for example, the MLSF) was also developed.

Corporate assets are treated as separate investments which are financially managed to create shareholder value, revealing an expansion of the “financial view” of the firm (Nippa, Pidun and Rubner, 2010; Tomaskovic-Devey and Lin, 2011) and a further adherence of NFCs to financial logics and concerns.

Our study presents two important contributions to the literature on financialization. First, we show that, as firms become more exposed to financial market incentives, they tend to adopt more segmented organizational forms that provide greater transparency for asset valuation and greater flexibility for rearrangement of corporate perimeters, indicating that financial market pressures affect firm behavior not only in terms of payouts towards financial markets, but also in terms of internal reconfigurations of corporate structures. Second, we show that looking at the volume and relative weight of intragroup financial assets in firm balance sheets (a direct consequence of corporate restructuring processes) helps identify these processes of intragroup financialization.

In particular, we study the case of Spanish corporations prior to the COVID-19 pandemic. During the late 1990s and early 2000s, the Spanish economy saw a very large inflow of foreign capital related to the European integration process and financial market liberalization, which led to more complex corporate structures and a growing importance of M&A events. These changes were key in fostering internal changes that advanced the intragroup financialization of Spanish NFCs and that resulted in a significant increase in intragroup financial assets, a proliferation of corporate subsidiaries and the expansion of the financial management of corporate assets.

Looking at the firm level, our study also finds evidence of intragroup financialization for listed NFCs in Spain. We find that a greater segmentation of these firms into different legal entities is positively related to a greater exposure to financial markets (as reflected in the composition of shareholders) and a stronger shareholder-value orientation (represented by different financial market-oriented performance metrics such as dividend payments). We also show that corporate segmentation implies a greater weight of intragroup financial assets in firm balance sheets. In consequence, this measure can be used, both at the aggregate and micro

level, as a complementary indicator of financialization and shareholder-value orientation of NFCs, alongside other widely used metrics such as dividend payments or financial income.

We thus see how financial market pressures have led to a corporate reorganization that has combined focusing on company's core competencies (as pointed by Lazonick and O'Sullivan, 2000) with a further segmentation of the corporation into separate legal entities. At the same time as corporate main divisions have been shedding less relevant business lines, companies have segmented their activity into independent business units, so that the organization as a whole could be managed as a portfolio of financial assets that could be easily reshaping when required by financial markets. Downsizing and segmentation have thus been two sides of the same coin.

Little of what we show in this study is new to the literature on corporate strategy and governance. However, these trends gain new significance when looked at through the lens of financialization. To fully grasp the implications of the expansion of financial concerns and motives to non-financial activities, the effects of intragroup dynamics and changes in the management of corporate assets also need to be considered.

Intragroup financialization, or the internal changes associated with an expansion of the financial view of the firm, are likely to have effects on market structure and dynamism, labor relations or economic and financial instability, through ownership concentration of productive units within a given sector, greater separation of corporate management and the workforce, and the generalization of exit strategies during economic hardship. Though tightly related, these possible effects of intragroup financialization are in addition to the distributional and 'crowding-out' effects originally pointed at in the literature on financialization.

The data used in our study does present some limitations that could be amended by further research to improve our understanding of these intragroup financialization dynamics. Specifically, the lack of time series on the evolution of corporate perimeters and ownership relations limits our micro-level analysis to the most recent available year. An important development that could be made by future research would be to consider how corporate perimeters have evolved over these past decades in relation to ownership structures and other changes in the corporate environment.

Though our study is geographically bounded, we do not believe our results are only representative of the Spanish non-financial corporate sector since the trends in corporate restructuring and financial market exposure are also present in other advanced economies as shown by previous studies. Nonetheless, further research could also help determine the significance and specific materialization of intragroup financialization dynamics in other geographical contexts as well as their interrelations with different types of shareholders, family-owned businesses and institutional investors. Additionally, a more detailed analysis of the effects of intragroup financialization on income distribution through profit extraction of lower-level subsidiaries, crowding-out of investment, or labor relations would also be of great interest.

Finally, we could also expect a greater development of the financial view of corporate assets to give rise to new institutional arrangements in the market for corporate control, with interesting potential effects on market concentration, income and wealth distribution and economic instability, as suggested earlier. In this sense, a close monitoring of the institutional developments related to intragroup financialization, such as regulations regarding corporate trading and the consolidation of market-makers in corporate assets, could also provide a promising line of research for future studies. ◀

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