



Symbiosis Institute of Management Studies Annual Research Conference (SIMSARC13)

## Financialisation and Accumulation: A Firm-Level Study in the Indian Context

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### Abstract

This paper attempts a firm-level study of financialisation in the Indian context. In the last few decades, many studies have shown that financialisation or the increased dominance of the financial sector tends to have a profound and mostly negative impact of real sector growth and accumulation. The consequent declining real investment and accumulation is likely to affect future growth adversely along with employment and income levels. This study attempts a firm level look at financialisation and real capital accumulation, using data on companies constituting the SENSEX.

We use the Least squares dummy variable model (LSDV) model for the short panel data to analyse if the impact of financialisation as estimated by dividend payouts and rentier shares on real capital accumulation is significant. The paper contributes to the existing literature in two ways: first, by introducing a microeconomic perspective on financialisation especially in the context of firms who are likely to be affected by financialisation and secondly, by introducing both dividend payouts along with rentier shares as independent variables representing financialisation.

The paper finds a negative impact of financialisation as reflected in higher dividend payouts and increasing rentier shares on real capital accumulation, suggesting there is a likely tradeoff between shareholder orientation and real capital accumulation. This implies that increasing rentier shares and dividend payouts affect negatively real capital accumulation which may lead to future growth being compromised. It is pertinent for firms to have a balance between shareholder value and long-run growth of the firm for which real capital accumulation will be important.

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Selection and/or peer-review under responsibility of Symbiosis Institute of Management Studies.

*Keywords:* Financialisation; physical capital investment; Least squares dummy variable model

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## 1. Introduction

Financialisation or increasing impact of the financial sector on real sector has been a subject of focus in economic literature for some time now. There is however, no single definition of the term and it is generally meant to cover a wide range of phenomenon. Definitions have spanned from the rise in financial flows in capital markets to the more specific increase in income share of rentiers. In the last few years, enormous growth in the financial sector has coexisted with real sector stagnation, rising unemployment and declining productivity, as well as rising inequality. The phenomenal growth in financial assets and increasing dominance of the financial sector, together with the recurrence of financial crises in the system continues to be in focus in economic literature [Demir (2009); Van Treeck (2009; 2007); Stockhammer (2007, 2004); Epstein and Power (2003); Chang and Yoo (2002); Crotty (2000); Lazonick and O'Sullivan (2000)].

Many studies have shown that financialisation tends to have a negative impact on real sector accumulation. The conflict of objectives for different groups within the firm, the management and the shareholder forms an important study of Post-Keynesian literature. Managers put emphasis on long-term existence of firms and the consequently likely to go for strategies that favor high accumulation. This is in contrary to shareholders who are presumed to have an inclination to maximize profits and thereby dividends and assign much lesser priority to physical capital accumulation.

Stockhammer (2004) has shown that financialisation over the last two decades has resulted in slowdown of physical asset accumulation and increasing financial investments by non-financial businesses; while Crotty (2000) pointed out that the evolution of the global financial system has adversely affected global growth. While policy change is often seen as an important factor affecting the developments, Epstein and Power (2003) have contended that the rise in rentier class has been instrumental in shaping this political change. In other words, the increasing clout of the rentier class has not only shaped policies in this period but also has determined to a large extent the economic scenario. The increasing share of rentier income over this period has again strengthened the above-mentioned trend. The rise in income accruing to the rentiers has again, not only influenced the flow of funds to developing countries and contributed to their market crisis, but has also affected the crises-management policies (Chang & Yoo, 2002).

This paper presents firm-level study of the impact of financialisation on accumulation taking sample of SENSEX companies. While most of the literature of financialisation underlines the impact of financialisation in the macroeconomic context, this paper attempts a firm level look at the impact of financialisation. For firm level

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