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The problematics of financialization: Critical reflections

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ABSTRACT

Andersson et al. (this issue) add to developing literature on financialization in reflecting on the bio-pharma industry. Their theorising is both an account of a process of financialization and a problematisation with a substantive resonance. The concern here is to contribute to a critical appreciation of the problematics of financialization through reflecting upon the developing thesis as indicated in the Andersson et al.'s study.

1. Introduction

Andersson et al. (this issue) offer an account of financialization and value on the market in elaborating their complementary financialized business model of small and medium-sized bio-pharma enterprises (SME bio-pharma). In so doing, they add to developing literature on financialization, providing an account of a financialization process and making provocative suggestions that help add to a financialization thesis as one that is critical in problematising financialization in context. Here, the concern is to contribute to a critique of financialization as a developing theorising in focusing upon the contribution of Andersson et al. (this issue). The structure of this commentary is as follows: a summary of Andersson et al. to bring out salient features of their thesis for the purposes of this commentary; a critical appreciation of the problematics of financialization elaborated by reference to a developing thesis of financialization as indicated in the Andersson et al.'s study (in relation to the wider literature on financialization); concluding comments.

2. Overview of key argumentation of Anderson et al.'s study

As Andersson et al. (this issue) point out, a critical literature on financialization has been developing. One variant of it (*subter*) has been concerned to juxtapose capital market reality with a substantive socio-economic reality. The latter includes the strategic priorities of corporations and nations. That is, this literature is potentially critical, at least, in relation to several dimensions. It may problematise actual manifestations of financial value in the market and thus associated forms of governance at micro- and macro-levels. It may bring into question the structures within which, or in relation to which, governance beyond these structures, including markets, operate.[1] Further, to the extent that this literature gives substance to the view that corporations and governments do not trust the market place, this at least poses questions about the market (in regulatory context).[2] Such a critique is important and has a great potential.

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[1] Several studies (that actually constitute the type of financialization study that Andersson et al. (this issue), is informed by) touch on more than a single dimension or issue. For instance, Lazonick (2008) problematises both capital market valuation processes and processes of innovation and product development (see Froud et al., 2006).

[2] Lazonick (2008) indicates that the focus on shareholder value has led firms to downsize and distribute rather than sustain research and development investment in innovation. Governments are often reported as seeking to encourage corporate research and development activity through their own interventions and related costs or fundings (see Froud et al., 2006).

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The emphasis of Andersson et al. (this issue) is the character of the bio-pharma industry. This is an industry in which enterprises are typically dependent on the capital market for funding because they usually need significant amounts of financial resource input during the early phases of product development – categorised by the authors into three phases. Andersson et al. (this issue) emphasise in relation to this the differentiation of their study from prior critical financialization studies, although it is worth already pointing out that it is also of relevance to stress the overlapping concerns with the past studies (albeit they are far from hidden, being indicated in the references cited) in terms of the critical appraisal involved (*subter*). The authors stress that information (e.g. a milestone report) plays a significant role in linking activities to funding. Favourable reports – in this industry, narratives about product achievement are likely to be more forthcoming than conventional corporate financial information – tend to increase the possibility of extra funding. The authors suggest that this will positively influence investment analyst opinions about value in the market place (and opportunities to buy or sell the investments). And they note that this helps to boost executive bonuses tied to the value of stock options.

The authors emphasise that this context is one giving rise to speculation and one in which analysts' expectations can be inflated (a point made in several papers in this area, including Newberry and Robb, 2008; see Froud et al., 2006). In the industry focused upon, the knowledge of relevance is typically deeply embedded within the organisation. The authors elaborate how large bio-pharma firms are often the acquirers of SME bio-pharma firms (some of them coming out of universities and thus benefiting from government funding) at some stage in the development process, that is the larger firms do not do all their product development in-house (the point is valid enough but is not articulated in relation to a theory of capitalism). Further, the large bio-pharma firms find it crucial to keep coming up with new successful products given that patents on products run out. The authors report that from 2001 to 2007 the number of bio-pharma companies listed on AIM (the London Alternative Investment Market) increased from 10 to over 70, apparently indicative of growth in the activity focused upon.

Aside from the importance of bio-pharma reporting in the early phases of development, the authors point out that capital market conditions, notably capital market liquidity, matter. Of particular relevance, they matter in relation to maintaining the flow of funding that is usually necessary to sustain SME bio-pharma operations.

The authors consider the operation of the financialized business model they develop in the case of three UK SME bio-pharmas (Ardana, Vernalis and Antisoma). Ardana failed through lack of cash injection. Vernalis made serious efforts to reduce cash burn and was in effect saved by investments of large bio-pharma enterprises – Servier and GlaxoSmithKline (GKN) entered into partnership agreements with Vernalis to fund two products that were in pipeline towards regulatory approval. Antisoma was especially keen to acquire (if then adding value to) promising early stage products from academic and commercial institutions. As product candidates progressed to the later phases of development, Antisoma was explicitly and actively concerned to bring in pharmaceutical industry partners. Further, Antisoma itself acquired other companies with a view to diversifying away from drug discovery towards the development of already promising products (a strategy, incidentally, that arguably echoes the strategies of the larger Bio-Pharma).

3. Problematics of financialization

Although for this reader the study is consistent with a promising research approach (if in this case, the study may well have benefited from a combining of quantitative analysis with the primarily qualitative analyses of the case studies) and does serve to problematise key dimensions of the socio-economic context, there are senses in which this study, consistent with prior studies on financialization, undersells the problematisation and undersells its critical character more generally.

With regard to research approach, as in the claim of Froud et al. (2006), the study is helpfully concerned to go beyond constraining perspectives as well as to embrace an interdisciplinary or supradisciplinary perspective (see Gallhofer and Haslam, 2007). In this regard, although the point is not so fully followed through, Froud et al. (2006, p. 6) refer to cultural turn academic analysis and stock-market research not in terms of absolute opposites but more appropriately as points in the same field that might be held in a dialectical relation of tension to transcend a false opposition of technical and cultural.[3]

With regard to problematisation, a much more explicit problematisation is possible. From Andersson et al. (this issue), financial values on the market are less than solid and not to be trusted. Publicly available corporate information is influential but very suspect: there is profound and persistent uncertainty – or what we might term ignorance – in the public realm, engendering dissimulation, speculation and unreasonable expectations. Share re-purchases may take off, raising market prices. And this is seen to feed into executives' financial rewards. Financialization is potentially dysfunctional for the economy. There is also the issue about arguably free-riding on (substantially government sourced) university funding. These points ought properly to be given substantial emphasis. They might properly inform a developing theoretical position.

In relation to the disclosure dimension, secrecy (or 'confidentiality') about business is important in real world forms of capitalistic order. Too much disclosure can demotivate or fail to provide adequate incentive to those who might engage in innovation and research and development. In a real world (imperfect markets) context, too much openness can facilitate oligopolistic or monopolistic collusion (Arrow, 1962; Gallhofer and Haslam, 2007; Lipsey and Lancaster, 1957; Puxty and Laughlin, 1983). Further, public disclosures will be used for different purposes by different, conflicting, groups, with consequences that do not suggest easy policy decisions in respect of such disclosures (Gallhofer and Haslam, 2007; Stiglitz, 2002).

[3] It is helpful and positive that Froud et al. (2006) write that they are not 'fundamentally opposed to systematic empiricist techniques to extract generalizable quasi-causal relations between variables' (although this is not seen as relevant in Froud et al., 2006) (see Gallhofer and Haslam, 1997).