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THE FINANCIALIZATION PROCESS IN THE ACTIVITY OF POLISH COMPANIES

The subject of this paper is financialization and its effects presented in the financial statements. The purpose of the paper is to analyze the effects of financialization on the activity of the fuel companies quoted on the Warsaw Stock Exchange. The author sets out to investigate how financialization affects the financial activity items presented in the balance sheets of the companies in question. The first part presents the essence and features of financialization in terms of macro- and microeconomic. Subsequently, the paper discusses the effects of financialization, i.e. the financial assets presented in the financial statements. The last part concerns the empirical study, the aim of which is to identify the effects of financialization in Polish companies. The author analyzes the financial assets presented in the statement of financial position of the surveyed companies. Achieving the paper's objective requires the use of adequate research methods including the analysis of literature and legal regulations as well as financial analysis methods.

Keywords: *financialization; financial assets; statement of financial position.*

Introduction. In the age of advancing globalization, the financial sector plays an ever increasing role in the global economy. As a result, financial markets are gaining more and more importance and become detached from the foundations of a real economy. As regards a business activity, the financial area is growing at the expense of the manufacturing area. The above phenomenon, referred to as «financialization», has made doing business much more complicated. More and more often the financial conditions of a company depend on the situation on financial markets rather than on its operating results.

Financial statements provided by the accounting system present information on entity's assets, finance, equity and financial results. They constitute the basis for evaluating performance and determine economic decisions taken by financial statements users. Therefore, such statements should present the financial condition of an entity in a fair and clear manner. Simultaneously, they should constitute the collection of useful data satisfying their users' need for information.

This paper analyzes the phenomenon of financialization from the microeconomic perspective and looks at its consequences presented in financial statements.

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To pursue the objective formulated above, the following structure of deliberations was assumed:

- the presentation of the essence and attributes of the financialization process;
- the determination of the effects of financialization presented in balance sheets;
- the empirical analysis of selected financial statements in the area of financial assets.

Achieving the paper's objective requires the use of adequate research methods including the analysis of literature and legal regulations as well as financial analysis methods.

Essence of the financialization process. Although the notion of financialization has become fairly common in international literature, it is still a relatively new concept in Poland [7, p. 281]. As with any new phenomenon, it is difficult to find in literature its clear definition, generally accepted by researchers. According to A.Kamela-Sowiska «the missing definition is the ultimate proof that the phenomenon is still being analyzed, named and defined by researchers» [2, p. 110]. Theorists have taken an attempt at defining the term «financialization» and identifying its features and symptoms. There are many mutually-linked definitions of various degrees of detail. In Polish literature, the English term «financialization» has multiple equivalents [6, p. 208].

Financialization is the process of increasing the effect of the financial area on economic policies and its influence on economic results. Thus, financialization needs to be analyzed in its both broader and narrower meaning, i.e. from the macro and microeconomic perspective.

In its broader meaning financialization is referred to as:

- the process of autonomization of the financial area from the real area, or even superiority of the former over the latter [7, p. 282];
- the overgrowth of the financial sector as compared to the real manufacturing sector or the goods and services sector [5, p. 57];
- the increasing role of financial markets, institutions or motivations in national and international economy [9, p. 354];
- the growing role of financial stimuli, markets, entities and institutions in the functioning of both national and global economy [1, p. 3];
- the form of accumulation whereby profits are generated through financial channels rather than through manufacturing and trade [3, p. 174];
- the disproportionate growth of the financial area [11, p. 27].

The analysis of the above definitions allows us to identify characteristic features of financialization. It seems that the most important of those features is a the advantage gained by the financial area over the real area of economy, which in its turn leads to increasing the value of revenues generated by the financial area and its growing influence on economic decisions taken by entities from non-financial sectors.

Apart from the dominance of the financial sector, other more specific features of financialization include such processes and phenomena as [4, p. 221]:

- 1) the omnipresence and quick expansion of financial markets;
- 2) the deregulation of financial systems and individual economies;
- 3) the constantly growing range of financial instruments and institutions;
- 4) social and economic policy decisions conducive to the growth of financial markets;
- 5) the growth of credit-sustained consumption;
- 6) the general and constantly growing presence of financial institutions, markets, instruments and schemes in economic and social life;
- 7) the development of a particular (individualistic, pro-market, utilitary) financial culture.

The above features are true for financialization seen from the macroeconomic perspective.

In the narrower meaning financialization means the greater share and importance of financial activity in the overall business of non-financial entities. In M.Ratajczak's opinion, financialization in a narrower meaning is associated with the growing importance of financial activities undertaken by non-financial entities [7, p. 282].

So, it is understood that financialization is reflected by the growing (or sometimes even dominating) position of financial assets in total assets and financial revenues and costs in the total value of the corresponding profit and loss categories.

Bearing in mind both macro and microeconomic perspectives, one needs to agree with R.P. Dore's statement who said that financialization is the «growing dominance of [Dore 2002, as quoted in: 11, pp. 172–173]:

- the financial sector in economic activity;
- financial control tools in the corporate management process;
- financial assets in the overall value of assets;
- securities (mostly shares) in financial assets;
- a stock market as the regulator of a corporate activity;
- stock market fluctuation as the determinant of economic cycles».

As the discipline reflecting the economic reality of entities, accountancy operates in a microeconomic scale. With regard to the phenomenon of financialization, accountancy – by means of particular principles and methods – measures, values and records the «benefits» related to financialization, i.e. financial assets and the related profit and loss categories in the form of financial revenues and costs.

Presentation of the effects of financialization in a balance sheet. Being the supreme corporate information system, the accounting system provides information (in the form of financial statements) on a number of economic categories. The role of financial statements in a market

economy is indisputable. They constitute a significant information package used both for evaluating the activity of a business company and for taking decisions by stakeholders [8, p. 171].

Irrespectively of the aims and addressees of financial statements and legislative systems adopted in a given country and its political and economic relations, the data contained in financial statements should always be prepared in accordance with the concept of a true and fair view. This concept requires that the economic reality of an entity is presented faithfully and without any material misstatements. Adherence to the true and fair view concept ensures an adequate quality of information generated by accounting. The pursuance of this concept governs other accounting principles such as the materiality principle which applies to the information aspects of accounting and concerns the manner of presenting information contained in financial statements. The use of the materiality principle manifests itself in that financial data grouped and classified so as to highlight all important (material) information, necessary both for decision-making and for evaluating the condition of the entity's assets and finances. Information is considered material if its omission or distortion can affect economic decisions taken by financial statement users [8, p. 67].

The acceptance of the claim proposed by the theorists [7, p. 282; 4, p. 223; 11, pp. 172–173] that the role of financial activity in overall activity of non-financial entities is growing and allows one to formulate a thesis on the necessity to record and present the effects of the financialization process in financial statements.

The goal of general-use financial statements is to provide information on financial condition, achievements and cash flows of an entity. Particularly in the recent years, due to rapid changes in the business environment, the pursuance of this goal has required many structural changes aimed at increasing the usefulness of financial information. The study held by the FASB working group among financial statements users showed considerable correlation between the place of presenting the given piece of information in financial statements and its usefulness in decision-making process [10, p. 327].

In the balance sheets prepared in accordance with Polish accounting regulations, financial assets are presented either among fixed assets (as financial fixed assets) or among current assets (as current financial assets), depending on the date of their expected disposal or maturity calculated as from the balance sheet date. Financial assets (both short and long term), broken down into those in affiliated entities and those in other entities, are divided into four categories in the balance sheet:

- Stock and shares;
- Other securities;
- Loans awarded;
- Other financial assets.

The first and the third category seem fairly clear as regards their thematic scope. However, «Other securities» include debt securities purchased for resale, representing notional-amount receivables maturing at a predefined date (e.g. bonds, bank and treasury bills, covered bonds), or the securities contingent on accidental causes (e.g. insurance policies). In its turn, «Other financial assets» include in particular time deposits.

On the other hand, for the purpose of financial assets' valuation the division into the following four categories is required [Regulation of the Minister of Finance of December 12, 2001, Clause 5 (1)]:

- Financial assets held for trading;
- Financial assets held to maturity;
- Loans awarded and receivables not held for trading;
- Financial assets available for sale.

In the financial statements prepared in accordance with the IFRS, the statement of financial position must show Financial Assets. The standard does not specify any further subdivision or criteria. However, based on the temporal criterion the division between long-term and short-term fixed assets is generally applied.

Such a diversity of items does not promote comparability of reporting information from different companies. The in-depth analysis requires investigation of explanatory notes to financial assets.

For the valuation purposes in accordance with the IFRS (and in accordance with the Polish balance-sheet regulations), financial assets are assigned to one of the following four categories:

- assets valued at fair value through profit and loss;
- investments held to maturity;

- loans and receivables;
- financial assets available for sale.

Methodology and conclusions from the empirical study. The above theoretical deliberations based on the review of the literature and the current legislation have inspired the author to ask the following research questions:

1) do the current balance sheets of Polish companies show greater shares of financial assets than earlier balance sheets?

2) what is included in financial assets?

3) what are the dominating financial assets?

In an attempt at answering the above research questions, the author analyzes the financial statements of domestic fuel companies listed on the Warsaw Stock Exchange.

The aim of the empirical study is to identify the effect of financialization on the business activity of Polish companies.

Due to space constraints, the scope of the study includes financial assets only. The study group consists of all domestic companies from the fuel industry, listed on the Warsaw Stock Exchange. The study group was selected intentionally based on the type and importance of the companies' business. These companies play an immense role in the national economy, manage assets of a significant value and do not operate in the financial sector.

Companies constituting the study group are listed in Table 1.

Table 1

Basic financial information on the analyzed companies from the fuel industry quoted on the Warsaw Stock Exchange – as of December 31, 2014, PLN '000

Company name	Acronym	Total assets	Total equity	Net profit/loss
<u>GRUPA DUON SPÓŁKA AKCYJNA</u>	<u>DUO</u>	231 014	192 816	5 968
<u>GRUPA LOTOS SPÓŁKA AKCYJNA</u>	<u>LTS</u>	14 339 743	6 346 776	(1 285 910)
<u>PETROLINVEST SPÓŁKA AKCYJNA</u>	<u>OIL</u>	1 514 449	1 148 661	(223 289)
<u>POLSKIE GÓRNICtwo NAFTOWE I GAZOWNICTwo SPÓŁKA AKCYJNA</u>	<u>PGN</u>	35 356 000	23 780 000	1 895 000
<u>POLSKI KONCERN NAFTOWY ORLEN SPÓŁKA AKCYJNA</u>	<u>PKN</u>	37 978 000	16 302 000	(4 672 000)

Source: by the author on the basis of financial statements of the analyzed companies

The empirical study involved the method of analyzing the financial data contained in individual financial statements of the companies. The timeframe of the study includes 2005 (before the global financial crisis), 2010 (during the crisis) and 2013, 2014 (the most recent financial statements).

The value and structure of the financial assets in 2014 were analyzed first. Since IFRS does not prescribe the form of financial statements, the companies use different names of balance sheet items related to the financial assets. Table 2 presents items containing the financial assets.

Table 2

Financial asset items in statements of financial position of the analyzed companies

Name of financial asset item	DUO	LTS	OIL	PGN	PKN
1	2	3	4	5	6
Long-term financial assets					
Stock and shares		x	x		
Stock and shares in affiliated entities					x
Investments in subsidiaries	x				
Financial assets available for sale				x	x
Remaining financial assets			x		
Other financial assets				x	
Receivables and loans	x				

Other long-term assets*		x			x
<i>Continuation table 2</i>					
1	2	3	4	5	6
Short-term financial assets					
Trade accounts receivable and other receivables	x		x	x	x
Trade accounts receivable		x			
Derivative financial instruments		x			
Derivative financial instrument assets				x	
Short-term investments			x		
Other financial assets	x				x
Cash and cash equivalents	x	x		x	
Cash			x		x
Other short-term assets *		x			
Other assets*				x	

Source: by the author on the basis of financial statements of the analyzed companies

* These items contain financial and non-financial assets

The following conclusions can be made based on the analysis of the above comparison:

1) companies post the financial assets under various items of their balance sheets which adversely affect data comparability;

2) the financial assets are also posted under the items the names of which are very general, such as «Other fixed assets» or «Other assets». An attempt at determining the value of financial assets requires an additional analysis of explanatory notes.

For a more in-depth analysis, the author has investigated the changes in the value of financial assets over time, the share of financial assets in the total value of assets, as well as the structure of financial assets, using their realization period as the classification criterion. Table 3 presents financial assets held by the analyzed companies.

Table 3

Financial assets and their relationships in 2005, 2010, 2013 and 2014

Item	2005	2010	2013	2014
1	2	3	4	5
GRUPA DUON SPÓŁKA AKCYJNA				
Long-term financial assets, PLN'000	*	*	173 833	219 334
Short-term financial assets, PLN'000	*	*	8 171	4 433
Total financial assets, PLN'000	*	*	182 004	223 767
Total assets, PLN'000	*	*	189 349	231 014
Share of FA in the total value of assets, %	*	*	96,12	96,86
Share of LTFA in the total value of financial assets, %	*	*	95,51	98,02
Share of STFA in the total value of financial assets, %	*	*	4,49	1,98
GRUPA LOTOS SPÓŁKA AKCYJNA				
Long-term financial assets, PLN'000	686 507	1 055 530	1 347 034	1 458 235
Short-term financial assets, PLN'000	1 499 330	1 862 516	1 932 625	2 534 867
Total financial assets, PLN'000	2 185 837	2 918 046	3 279 659	3 993 102
Total assets, PLN'000	5 375 563	14 686 730	15 559 412	14 339 743
Share of FA in the total value of assets, %	40,66	19,87	21,08	27,85
Share of LTFA in the total value of financial assets, %	31,41	36,17	41,07	36,52
Share of STFA in the total value of financial assets, %	68,59	63,83	58,93	63,48
PETROLINVEST SPÓŁKA AKCYJNA				
Long-term financial assets, PLN'000	x	832 036	1 585 325	1 408 727
Short-term financial assets, PLN'000	x	353 003	2 041	662

Total financial assets, PLN'000	×	1 185 039	1 587 366	1 409 389
Total assets, PLN'000	×	1 239 137	1 677 922	1 514 449

Finish table 3

1	2	3	4	5
Share of LTFA in the total value of financial assets, %	×	70,21	99,87	99,95
Share of STFA in the total value of financial assets, %	×	29,79	0,13	0,05
POLSKIE GÓRNICITWO NAFTOWE I GAZOWNICTWO SPÓŁKA AKCYJNA				
Long-term financial assets, PLN'000	5 006 261	8 680 329	12 508 000	13 014 000
Short-term financial assets, PLN'000	4 594 524	4 612 369	5 696 000	4 135 000
Total financial assets, PLN'000	9 600 785	13 292 698	18 204 000	17 149 000
Total assets, PLN'000	19 203 888	25 550 931	35 424 000	35 356 000
Share of FA in the total value of assets, %	49,99	52,02	51,39	48,50
Share of LTFA in the total value of financial assets, %	52,14	65,30	68,71	75,89
Share of STFA in the total value of financial assets, %	47,86	34,70	31,29	24,11
POLSKI KONCERN NAFTOWY ORLEN SPÓŁKA AKCYJNA				
Long-term financial assets, PLN'000	3 957 435	11 611 204	10 721 000	7 743 000
Short-term financial assets, PLN'000	3 113 896	7 755 596	9 294 000	4 681 000
Total financial assets, PLN'000	7 071 331	19 366 800	20 015 000	12 424 000
Total assets, PLN'000	19 210 120	39 894 058	42 063 000	37 978 000
Share of FA in the total value of assets, %	36,81	48,54	47,58	32,71
Share of LTFA in the total value of financial assets, %	55,96	59,95	53,56	62,32
Share of STFA in the total value of financial assets, %	44,04	40,05	46,44	37,68

Source: by the author on the basis of financial statements of the analyzed companies.

* DUON was founded in 2012.

× PETROLINVEST has been quoted on the Warsaw Stock Exchange since 2007 (it has published its financial statements since then)

The following conclusions can be drawn from the analysis of the investigated companies' balance sheets:

- 1) the data on the financial assets in earlier balance sheets are far less abundant than today, which may imply greater interest in the financial assets and existence of more diversified portfolios of such assets;
- 2) the value of financial assets grew in each of the analyzed companies;
- 3) financial assets' share in the total assets is either constant or slightly growing;
- 4) the long-term financial assets dominate in nearly all companies, which may indicate that the companies perceive the financial assets as a source of economic benefits in longer rather than shorter perspectives.

The above conclusions allow one to claim that the certain symptoms of financialization can be noticed in financial statements of the analyzed companies. Such a claim is supported both by absolute and by relative values of the financial assets, as well as by the changes observed in the analyzed years.

Conclusions. The global advances of financialization can also be noticed in the Polish economy, and its consequences are visible in the business activity of Polish enterprises. The dominance of the financial sector in the country's economy and the growing importance of financial activity in overall business activity of enterprises are particular symptoms of financialization.

The empirical study discussed in this paper confirms the thesis on the growing role of the financial area in the business activity of Polish enterprises. The growing value and diversified structure of the financial assets are tangible effects of the financialization process.

The author is aware that limiting the scope of the paper to the financial assets only is a profound simplification. However, due to space constraints it was impossible to extend the study area. Therefore, the deliberations presented here can serve as a basis for further research.

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* Список використаної літератури наведено відповідно до вимог оформлення літератури в Республіці Польща.

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Research interests:

- Consolidated financial statements;
- Accounting of jointly controlled entities;
- Accounting theory & policy;
- International Financial Reporting Standards.

Стаття надійшла до редакції 22.09.2015.