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THE PHENOMENON OF FINANCIALIZATION IN CONTEMPORARY WORLD ECONOMY

Over the past few decades, the world economy has undergone significant transformations. Particularly, the weakening of the profit-investment nexus has been observed primarily in developed economies, where the growing dominance of finance and shareholder power first emerged. Clearly, for developed economies and their corporations, financialization is a major explanation. Financialization is an increasing role of financial motives, financial markets, financial actors and financial institutions in the operation of the domestic and international economies.

The opening up of new markets through trade and capital account liberalization, the mushrooming of cross-border capital flows and mounting levels of private and public debt, as well as the revolution in information and communication technologies have marked a shift towards finance-driven globalization and financialized investment strategies.

At the corporate level, this shift towards financialized investment strategies is often associated with the rise of so-called “shareholder primacy”, referring to the growing power of shareholders in managerial decisions. Despite general recognition of their effectiveness in raising capital for large investment projects, “open” corporations (i.e. firms whose shares are publicly traded and are not controlled by a small group of investors) were initially considered an obstacle to shareholder primacy, due to the separation of ownership from control. This began to change in the 1960s: the firm, maximizing shareholder value gradually became the established objective of corporate governance. As a consequence, this encouraged a greater focus on short-term horizons of strategic decision-making, cost management and financial engineering, and invited asset stripping through mergers and acquisitions, buyouts and demergers.

Nowadays the rise of shareholder interest dominance has been further strengthened by three interrelated developments: the fragmentation of productive processes in global value chains, a refocusing of the activities of large conglomerates around their “core business”, and an increasing emphasis of institutional investors and professional asset managers on shareholder value. All these factors have contributed to a change in investment behaviour and a weakening of the profit investment nexus.

The globalization of corporate activity, the refocusing of corporate strategies and greater shareholder power were widely welcomed on the grounds that these would enhance economic efficiency and increase production. It was argued that the fragmentation of the production process into separate activities in different locations would facilitate a stronger focus on comparative advantages and a more efficient division of labour than would have been possible prior to the ICT revolution. Moreover, it was believed that corporate refocusing would improve firms’ results by helping reduce “excessive” diversification. Last but not least, as mentioned above, the growing role of institutional investors and professional asset managers in corporate decision-making was seen as promoting efficient corporate governance.

However, critics of this optimistic view highlight the potentially harmful effects of the financialization of corporate strategies, as it diverts resources away from real investment and innovation, and therefore also adversely affects employment generation. It pressures to generate short-term financial gains in the stock markets and the threat of hostile takeovers when profitability declines, are likely to dissuade managers from taking on projects with a longer term profitability horizon. Also it has been pointed out that the rise of "shareholder primacy" and the focus on the short-terms have been at the expense of investment in R&D, and have been an instrument of the deterioration of income distribution in developed economies.

Thus, the financialization of corporate strategies and the rise of shareholder primacy in developed economies may have contributed to the worsening of income distribution and deflationary expectations through slower growth of global demand. A major feature of this trend has been that a growing share of corporate profits, rather than being used for corporate reinvestment, is being used for purposes such as dividend payments and equity repurchases. This ultimately strengthens the role of financial intermediaries in capital allocation, which in turn contributes to economic instability and financial imbalances. Real investment therefore becomes excessively dependent on the expectations of asset managers, and corporate strategies generally are turning more and more towards short-term, profit-seeking activities.

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WHAT DOES EMOTIONAL INTELLIGENCE HAVE TO DO WITH BUSINESS?

What makes a good leader? These are honesty, ability to delegate, communication, sense of humor, confidence, commitment, positive attitude, creativity, ability to inspire, intuition – no doubt. However, recent research has shown that identifying or dealing with our own emotions, or the emotions of others, is not any the less important.

Emotional intelligence is a term that psychologists use to describe how well people can manage their own emotions and react to the emotions of others. Emotional