

# Financialization of Non-financial Corporations, Executive Shareholding and Audit Pricing

Mingxiu Xia

School of international economics and trade, Anhui University of Finance and Economics,  
Bengbu 233000, China

## Abstract

With the development of the market economy and the securities market, the phenomenon of entity enterprises allocating financial assets is becoming more and more common, the problem of economic "derealization to virtuality" is becoming increasingly significant, and the risk of enterprises has increased, which has brought about a series of economic consequences. Taking all A-share listed companies except the financial industry as a sample from 2014 to 2019, this paper examines the impact of the financialization of non-financial enterprises on the pricing of external audits of enterprises, and the regulatory role of corporate executive shareholding incentives. The study found that: (1) the financialization of non-financial enterprises increased the company's audit pricing; (2) the higher the shareholding ratio of senior executives, the more obvious the impact on alleviating corporate financialization and increasing audit pricing.

## Keywords

Financialization of Non-financial Corporations; Risk; Audit Pricing; Executive Shareholding.

## 1. Introduction

The financial economy originated in and served the real economy, and the two are linked in blood. Financial security has been one of the key concerns of countries since the 2008 financial crisis. The report of the Nineteenth National Congress of the Communist Party of China pointed out that winning the three major battles is a must for winning the all-round construction of a well-off society, one of which is to prevent and resolve major risks, in order to achieve this goal, General Secretary Xi Jinping has repeatedly emphasized that the focus of preventing and resolving major risks is to prevent and control financial risks. Financial security is related to national security, economic security, and the overall situation of social development, and we must strive to maintain financial security. With the intensification of the modern economy's "derealization to virtuality", the names of various financial assets began to appear on the balance sheets of a large number of entity enterprises. The hustle and bustle of the financial economy has seriously threatened the status of the real economy and led to a series of economic consequences. At this stage of society, China is experiencing a strong financial regulatory cycle of "deleveraging" and "de-financialization", and the pace of financial system reform is accelerating, under the background of this change, the academic community will also focus a lot of attention on the problems and impacts of corporate financialization.

In December 2001, the Csrc (CSRC) promulgated regulations that the audit fees paid by listed companies to firms need to be disclosed in the annual report, thus initiating a literature study on the relevant aspects of audit fees. At present, due to the increasingly common phenomenon of the allocation of financialized assets in the entity industry, a series of operational and financial risks have been triggered, and the systemic risks of the industry have also increased,

so the audit risks faced by external audit institutions have also increased, which will affect the decision-making standards of audit institutions on corporate fees, resulting in an increase in audit fees.

By combing through the existing literature, we can find that the academic community does not have a consistent conclusion on the impact of the financialization of physical enterprises on enterprises, external institutions and even society. There are generally two factions: one is the positive impact of the financialization of real enterprises on enterprises and society, and the other is the negative consequences of enterprises and society. However, there is little literature in academia on the impact of the financialization of non-financial firms on the charging decisions of external audit institutions. Auditing institutions serve listed companies and have a close relationship with enterprises, and the consequences of enterprise behavior are inseparable from the audit decisions of institutions, and audit fees, as the most direct connection of interests between audit institutions and enterprises, are extremely sensitive. Therefore, on the basis of various rich and novel studies of the predecessors, this paper studies the impact of the degree of financialization of non-financial enterprises on audit pricing, and uses the executive shareholding index as a regulatory variable to observe its regulatory role in the mechanism of financialization and audit pricing of non-financial enterprises.

The research contributions of this paper are divided into the following points: First, this paper expands the relationship between the financialization of non-financial enterprises and the audit fee. Second, based on the agency theory, considering the shareholding ratio of senior executives as one of the internal governance factors, to what extent can alleviate the impact of financialization leading to the increase in audit fees, and put forward targeted opinions on internal governance for corporate financialization; third, to provide empirical evidence for the financial and economic reform of entities, encouraging the reduction of financial risks and audit fees.

## 2. Literature Review

### 2.1. Research on the Financialization of Entity Enterprises

First, understanding corporate financialization begins with a study of the motivations for financialization. On the one hand, financialization is manifested in the increasing proportion of financial assets in corporate assets, and on the other hand, it is also reflected in the gradual separation of enterprises from their main business and moving closer to the profits of virtual economy investment. Regarding the reasons why non-financial enterprises invest in financial assets, some scholars have proposed the two purposes of "preventing savings" and "pursuing profits" (Wang Hongjian et al., 2017) [1], which can also be called "preparing for the future" and "taking advantage of the situation" (Zhai Shuping et al., 2021) [2]. The former means that when the external financing cost of the enterprise is too high and the operating income is unstable, it can improve the utilization rate of funds and increase the income by allocating appropriate financial assets, which is conducive to subsequent financing, which is a long-term consideration for the sustainable development of the enterprise. The latter is short-term speculation, in order to obtain high returns, it will lead to excessive financial investment of enterprises, which in turn will lead to investment risks. The "crowding out" effect and the "reservoir" effect produced under these two motivations will have different effects on audit pricing, and when the "crowding out" effect is greater than the "reservoir" effect, too much financialization will increase the audit fee, and vice versa will reduce the audit fee (Du Yong et al., 2019) [3].

Secondly, on the basis of understanding the motivation of financialization, we found that there are many domestic and foreign research literature on the influencing factors of financialization, mainly from the internal and external directions of the enterprise. From an external perspective, the driver of financialization is mainly the impact of the macroeconomic environment. First,

due to the overall imbalance between the development of the virtual economy and the industrial economy, more and more corporate capital tends to be injected into the financial sector (Demir, 2009)[4] And due to the impact of the gap between the yield of finance and the real economy, the trend of corporate financialization will continue to expand (Zhang Chengsi et al., 2016)[5] Second, affected by fluctuations in the macroeconomic environment and the development of the market economy, the competition between entity enterprises is fierce, the market tends to be saturated, the overall market demand declines, the profits belonging to the entity enterprises are getting less and less, and the enterprises prevent risks and make up for profits by allocating financial assets. (Deng Chao Class, 2017)[6] Third, with the development of globalization, under the condition that corporate operating investment is certain, financialization can help entity enterprises reduce costs and increase revenues (Milberg, 2008) [7], strengthen the financial investment intentions of enterprises. Fourth, industrial policy will also promote financialization by alleviating financing constraints and reducing financing costs (Yu Lianchao et al., 2021)[8]. There is also no shortage of research on the inhibitors of financialization. Financing constraints and financial instability triggered by uncertainty in economic policies can lead to a reduction in the willingness of firms to allocate financial assets (Peng Yu Super Class, 2018) [9] Due to the impact of tax policy, in the environment of lower tax burden, enterprises are more willing to increase investment in fixed assets and investment in research and development, thereby reducing investment in financial assets (Davis, 2018) [10]. From an internal point of view, the company's own preference for financialized investment mainly has the impact of management and performance drive. Based on broker theory, management's investment decisions may be leaning toward personal gain. When enterprises allocate financial assets for investment, if short-term returns increase, most of the management's compensation increases, and when the enterprise loses short-term investment losses, management can use the systemic risks of the financial market to shirk responsibility (Xu Jingchang et al., 2010)[11] For example, Du Yong et al. (2019) found that CEO self-confidence can alleviate financing constraints, reduce financing costs and promote the degree of corporate financialization[12] In addition, the stock price is the performance display of listed companies, which bears huge performance pressure under the widespread attention of investors, has a stronger profit motivation, and has a strong motivation to achieve short-term performance goals through high financial asset allocation (Liu Yongming et al., 2019)[13].

Finally, in the case of listed companies competing to invest in financial assets, a series of economic consequences have arisen. On the one hand, financialization has positive implications. Some scholars have studied the positive significance of financialization on financing constraints, and studies have shown that financialization is conducive to amplifying the financial leverage effect of enterprises and thus alleviating financing constraints (Li Zengquan et al., 2008)[14] In addition, unlike the study on the "crowding out" effect of financial assets on fixed assets and R&D investment, Yang Zheng et al. (2017) believe that financial asset investment has a smoothing effect on it, and its mechanism of action is reflected in the fact that financial asset investment alleviates the lack of future investment[15]. Deng Super (2019) studied its relationship with the risk of stock price crash and found that there is a non-linear or "U-shaped" relationship between the financialization of non-financial enterprises and the risk of stock price crash, but it is more manifested as a "stock price stability" effect [16]. On the other hand, Peng Yuchao and others found out with Deng Super and so on for different results, i.e. Financialization Council Increase the risk of stock price crashes [17]. The "prosperity" of the virtual economy will trigger a financial crisis (Cheng Siwei et al., 2015) [18], so some scholars have proposed excessive Financialization Council Destabilizing the banking sector and thus triggering financial risks (Wang Yongqin and others, 2015) [19]. In addition to affecting financial stability, financial investment also has an adverse impact on micro-entities such as enterprises. Xie Jiazhi et al. (2014) studied the relationship between financialization and corporate innovation, and

found Financialization passed Reduce the willingness and ability of enterprises to innovate and change the corporate governance structure to inhibit the technological innovation ability of enterprises [20] Zhang Sicheng et al. (2016) found that due to the attractiveness of high returns of financial investment, the industrial investment rate of enterprises decreased significantly with the increase of financialization [21]. Xia Tongshui et al. (2021) found that the higher the degree of financialization of the company, the stronger the degree of cash flow manipulation of operating activities, which directly affects the quality of financial disclosure [22].

## 2.2. Research on Audit Pricing

At present, there are many studies in the academic community on the influencing factors of audit fees. First, from the perspective of the macro institutional environment, the intensity of regional law enforcement and the risk of environmental violations caused by local government environmental regulations will increase audit fees (Chen Xiaolin et al., 2007; Yu Haizong et al., 2018) [2]. 3-24]. Secondly, from the perspective of the main body of audit fees, audit fees are also closely related to the characteristics of accounting firms, and studies have shown that the international big four accounting firms charge 2-5 times higher fees than the average accounting firm (Chen Pingping, 2008). [25]. Third, the most relevant audit fee is the characteristics of the audited unit. For example, in academia, there are studies on the relationship between accounting management and shareholder agency conflicts, individual characteristics of executives, corporate social responsibility, etc. and audit pricing. Ma Jianwei et al. (2012) have shown that in view of the financial fraud motives of management, the audit costs and litigation risks of auditors are higher, which in turn leads to higher audit fees [26]. [Tang Zichun et al. (2018) pointed out that the more executive compensation and executive shareholding ratio, the worse the quality of internal control, the more audit fees [27]; Feng Gejian et al. (2019) research pointed out that Audit fees are negatively correlated with corporate social responsibility performance, and enterprises with good social responsibility performance tend to have fewer non-standard audit opinions [28]. Finally, the complexity of fair value measurement, a prominent feature of the financial asset itself, can also increase audit risk, which in turn leads to an increase in audit fees (Goncharov et al., 2017). 2014] [29].

## 2.3. Research on the Economic Consequences Related to the Financialization and Auditing of Non-financial Enterprises

Li Baixing et al. (2020) and others have studied the relationship between financialization and auditor choice and decision-making, and found that the management of enterprises with a high level of financialization often chooses lower-quality auditors out of concealment of performance and profit-seeking motives [30]. The decline in the quality of audits may increase the risk of financial fraud and is not conducive to the healthy development of the securities market. Similar to the study in this paper, Sun Hongfeng et al. (2019) study on corporate financialization and audit risk decision-making found that the degree of corporate financialization is positively correlated with the probability of auditors issuing non-standard opinions in the study of the relationship between financialization and audit opinions [31]; in addition, Yan Endian et al. (2018) believe that the number of shadow banking businesses involved in non-financial enterprises is positively correlated with the probability of auditors issuing non-standard audit opinions, which in turn leads to an increase in audit fees [32]. Overall, there is less literature on financialization and audit fees, and the research in this paper will further clarify the relationship between the two and consolidate the research results of the academic community.

### 3. Theoretical Analysis and Research Hypotheses

#### 3.1. Financialization and Audit Pricing of Non-financial Enterprises

First, the financial business audit is complex, which increases the audit procedures and difficulty of the audit operation, and the audit fee increases. Because financial assets are different from physical capital, their inherent virtuality makes the risk points in the field of corporate financial investment more hidden and difficult to identify. As a result, firms may need to send more capable auditors. The number of people is linked to the budget and the ability is linked to the salary of the position, which undoubtedly increases the cost. In addition, the auditor himself will have to invest more energy and effort to implement more and more complex audit procedures, and the time period may be longer, so the corresponding cost will also increase.

Second, the operational risk and financial risk are higher. This is embodied in the following aspects: First, according to the theory of resource allocation, under the "crowding out" effect of financial assets (Liu Yongming et al., 2019) [12], the allocation of fixed assets of enterprises is reduced (Tori and Onaran, 2018)[33]. Entity enterprise operation is inseparable from daily operations, fixed assets and innovation investment, etc., when the main business operating funds are reduced, it will affect the performance of enterprises (Du Yong et al., 2017) [34], increasing the operational risks of enterprises, and is not conducive to the future development of enterprises. Under the fiercely competitive modern market economy, excessive financialization will make entity enterprises lose competitiveness, reduce fundraising capabilities, and increase operational risks while increasing corporate financial risks. Secondly, the allocation of financial assets by enterprises may bring high returns, but it may also lose money, no matter which one, it is inseparable from the influence of the external environment, the financial market system is a risk, interest rate exchange rate policy, external factors supervised by the SECURITIES Regulatory Commission, etc. will lead to uncertainty in financial investment returns, and under the risk contagion effect, the financial risk of enterprises will inevitably increase (Huang Xianhuan et al., 2018) [35]. Because of the inherent operational and financial risks of enterprises with financial assets, the risk of failure of audits is higher, and audit fees are increased for the purpose of charging risk premiums.

Third, under the strong supervision of the CSRC, accounting firms face increased legal and litigation risks. General Secretary Xi Jinping has repeatedly stressed that maintaining financial security is a major event in China, so financial supervision has not been relaxed. As early as 2015, financial derivatives business was listed as one of the top five audit risk areas. Strict regulation in Chinese law makes audit error tolerance extremely small, firms and CPAs face higher risks in the future, and audit fees will increase in order to reduce possible litigation losses and reputational damage to firms.

Based on the above theoretical analysis, this paper proposes the following assumptions:

H1: The higher the degree of financialization of non-financial enterprises, the higher the audit pricing of the enterprise by external audit institutions.

#### 3.2. Executive Shareholding and Audit Pricing

Based on the principal-agent theory and the information asymmetry theory, management has the motivation to carry out behaviors that affect corporate image and management, such as report whitewashing and profit manipulation. First, the short-term high returns from financial investments may increase management compensation, but for financial investment losses, management can blame them on the risks inherent in financial markets, based on which management has an incentive to overinvest financially. Second, many scholars believe that financial asset investment can help management achieve surplus management and profit manipulation, which in turn plays a role in whitewashing financial statements (Hutton et al.,

2009[36]; Ma Jianwei et al., 2012[26]. Huang Bing et al., 2017[37]). As an equity incentive mechanism to alleviate agent conflicts, the role of executive shareholding is mainly that managers obtain sustained benefits from long-term corporate value, and managers will strive to maximize the value of the company in order to obtain greater benefits [38]. Therefore, executive shareholding helps to improve the company's governance level, improve the company's performance, reduce the company's operational and financial risks, and reduce the audit risk of external institutions, so that the audit fee is reduced. Based on this, we propose hypothesis two:

H2: The higher the shareholding ratio of corporate executives, the more it can mitigate the impact of corporate financialization on audit pricing.

## 4. Research Design

### 4.1. Sample Selection and Data Sources

This article selects all A-share listed companies from 2014 to 2019 as a sample. After excluding financial and ST-listed companies and samples with missing values, 15662 sample data were finally obtained.

The data used in this article mainly includes financialization, executive shareholding, audit pricing, and other control variables. The main data are derived from the Cathay Pacific Database. The social responsibility score data comes from Hexun Network.

### 4.2. Measurement of Key Variables

**Table 1.** Definitions and descriptions of variables

The nature of the variable	The variable name	Variable symbols	Variable descriptions
Dependent variable	Audit pricing	Fee	The natural logarithm of the total audit costs
argument	Financialization	End	Financial assets/total assets at the end of the period
Adjust variables	Executive shareholding	Hold	The number of shares held by the top three executives/the total number of shares
Control variables	Enterprise growth	Growth	(Current period operating income - previous period operating income) / Previous period operating income
	Cash flow sensitivity	Cf	(Current Assets - Current Liabilities) / Total Assets
	Enterprise size	Size	The natural logarithm of total assets at the end of the period
	Return on equity	Roe	Net Profit/Owner's Equity
	Gearing ratio	Lev	Total liabilities at the end of the period / Total assets at the end of the period
	Executive compensation	Salary	The natural logarithm of the total compensation of the top three executives
	Social responsibility	Nothing	Hexun network scoring
	Proportion of independent directors	Outdirate	Number of independent directors/number of board members
	Top 10 accounting firms	Big10	Dummy variables. If the audit institution is in the top ten of the "2019 Top 100 Information on comprehensive evaluation of accounting firms" issued by the Chinese Institute of Certified Public Accountants, it will take 1, otherwise 0 will be taken
	Audit Opinions	LagOP	Dummy variables. If the previous audit opinion is a non-standard audit opinion, 1 is taken, otherwise, 0 is taken



Regarding the core explanatory variable, the financialization of non-financial enterprises, this paper draws on the research of Zhang Chengsi and Zhang Butan (2016) to compare financial assets to total assets as a financialization indicator [21]. The specific indicators are calculated as follows:

$$\text{Fin} = (\text{Monetary Funds} + \text{Trading Financial Assets} + \text{Net Financial Assets Available for Sale} + \text{Net Investment Held to Maturity} + \text{Net Interest Receivable} + \text{Net Dividends Receivable} + \text{Net Investment Real Estate}) / \text{Total Assets}$$

The specific definitions of each variable are shown in Table 1.

### 4.3. Model Setting

To test the impact of financialization of non-financial firms on audit pricing, the following benchmark model is constructed:

$$\text{Fee}_{it} = \beta_0 + \beta_1 \text{Fin}_{it} + \beta_i \sum \text{Controls}_{it} + \sum \text{Year}_i + \sum \text{Industry}_i + \varepsilon_{it} \quad (1)$$

At the same time, in order to test that the fulfillment of corporate social responsibility is in mitigating the impact of corporate financialization on audit pricing, the interactive terms of corporate financialization and audit pricing are constructed, and the interaction terms are introduced into the benchmark model (1), and the extended model is obtained as follows:

$$\text{Fee}_{it} = \beta_0 + \beta_1 \text{Fin}_{it} + \beta_2 \text{Hold}_{it} + \beta_3 \text{Fin}_{it} * \text{Hold}_{it} + \beta_i \sum \text{Controls}_{it} + \sum \text{Year}_i + \sum \text{Industry}_i + \varepsilon_{it} \quad (2)$$

Among them, if the model (1) is significantly greater than 0, it means that the financialization of the enterprise will increase the audit pricing of the enterprise; if the coefficient in the model (2) is significantly less than 0, it means that the shareholding of the enterprise executive will alleviate the impact of the increase in the audit fee caused by the financialization, thereby helping to reduce the audit pricing. Wherein the formula  $i$  represents the enterprise,  $t$  represents the period,  $\varepsilon_{it}$  is the standard error.

## 5. Empirical Research Results and Analysis

### 5.1. Descriptive Statistics

Table 2 reports the results of descriptive statistical analysis of variables. It can be seen from the data in the table: the proportion of corporate financial assets to total assets, that is, the financialization index, the maximum value is about 0.98, the minimum value is about 0, indicating that the financialization asset allocation of different enterprises varies greatly, and the degree of financialization varies significantly; the average value of the audit pricing is about 13.76, the minimum value is about 11.85, the maximum value is about 19.40, and the standard deviation is 0.693, which can be seen that the audit pricing difference between different enterprises is large.

**Table 2.** Descriptive statistics of the main variables

Variable	N	Mean	SD	Min	Median	Max
Fin1	15662	0.06	0.121	0	0	0.9803802
Hold	15662	0.08	0.141	0	0.0025202	0.8100173
Fee	15662	13.87	0.693	11.8494	13.76432	19.40272
Cf	15662	0.22	0.267	-9.208858	0.2247529	0.969807
Growth	15662	0.48	15.967	-1.309156	0.1065848	1878.372
Size	15662	22.27	1.309	17.81321	22.09895	28.63649
Roe	15662	0.05	0.784	-41.5023	0.066354	43.61454
Lev	15662	0.42	0.236	0.0083591	0.4110183	10.49529
Salary	15657	14.46	0.688	11.71913	14.42473	18.04904
Nothing	15662	4.44	4.290	-15	4.08	28.02
Outdirate	15662	0.38	0.056	0	0.3636364	0.8
Big10	15662	0.57	0.495	0	1	1
LagOP	15662	0.97	0.168	0	1	1

**5.2. Correlation Analysis**

**Table 3.** Correlation analysis

	End	Fee	Hold	Cf	Growth	Size	Roe	Lev	Salary	Nothing	Outdirate	Big10	LagOP
End	1												
Fee	-0.127***	1											
Hold	-0.00800	-0.222***	1										
Cf	0.106***	-0.298***	0.208***	1									
Growth	0.00400	0.021***	-0.00200	0	1								
Size	-0.103***	0.766***	-0.292***	-0.329***	0.037***	1							
Roe	0.016**	0.0100	0.00800	0.034***	0.00200	0.018**	1						
Lev	-0.073***	0.355***	-0.199***	-0.719***	0.023***	0.430***	-0.038***	1					
Salary	-0.119***	0.414***	-0.075***	-0.00100	0.023***	0.438***	0.025***	0.108***	1				
Nothing	0.047***	0.126***	-0.069***	0.066***	0.025***	0.169***	0.060***	0.047***	0.160***	1			
Outdirate	-0.0100	0.00900	0.091***	0.024***	-0.00700	-0.014*	-0.016**	-0.00200	-0.021***	-0.00300	1		
Big10	0.016*	0.160***	-0.00100	-0.0100	0.0110	0.114***	0.019**	0.017**	0.107***	0.0110	-0.0110	1	
LagOP	0.015*	-0.029***	0.036***	0.150***	0.00300	0.042***	0.097***	-0.176***	0.046***	0.099***	-0.0120	0.033	1

As can be seen from Table 3, in addition to the control variables, the correlation coefficient between the financialization fin of the explanatory variable and the audit pricing Fee is



significantly negative at the level of 1%, contrary to the expected assumption, possibly because the relevant variables are not controlled, and further analysis will be explained in the regression analysis. Hold was significantly negatively correlated with Fee, suggesting that executive holdings can dampen the increase in audit fees. In addition, the correlation coefficients between the control variable and the interpreted variable are almost all significant.

### 5.3. The Results of the Basic Regression Analysis

**Table 4.** Financialization and audit pricing

	(1)		(2)	
	Fee		Fee	
End	0.095**	(2.15)	0.131***	(2.89)
Hold			-0.000	(-1.42)
Fin*Hold			-0.000***	(-3.74)
Cf	-0.105***	(-4.91)	-0.103***	(-4.78)
Growth	0.016*	(1.84)	0.018**	(2.06)
Size	0.373***	(87.26)	0.374***	(87.20)
Roe	-0.275***	(-8.71)	-0.271***	(-8.56)
Lev	0.048*	(1.69)	0.044	(1.54)
Salary	0.000***	(15.43)	0.000***	(15.59)
Nothing	0.005***	(6.08)	0.005***	(5.93)
Outdirate	0.095	(1.51)	0.104*	(1.65)
Big10	0.101***	(15.63)	0.101***	(15.70)
LagOP	-0.186***	(-8.41)	-0.187***	(-8.42)
year	control	control	control	control
In	control	control	control	control
_cons	5.560***	(59.16)	5.560***	(59.15)
N	15662		15662	
r2	0.630		0.630	
r2_a	0.629		0.630	

Note: The values in parentheses are t-values; \*\*\*, \*\* and \* are significant at the 1%, 5%, and 10% levels, respectively.

Table 4 reports the relationship between the financialization of non-financial firms and their external audit pricing under a full sample. (1) Taking the audit fee of the enterprise as the explanatory variable, from the regression results of the following figure, it can be seen that the coefficient of Fin is significantly positive at the significance level of 5%, indicating that the degree of financialization of the enterprise will lead to an increase in audit fees, and the results confirm hypothesis 1. The intersection of corporate financialization and executive shareholding

ratio is significantly negative at the level of 1%, indicating that the higher the executive shareholding ratio, the more it can alleviate the impact of financialization on audit pricing, and the results confirm hypothesis two.

## 6. Robustness Testing

Considering the impact of the company's asset size on the audit fees of external auditors, this paper makes the following robustness test: Drawing on du Yong (2019) [3] method, the audit fee rate is used to measure the audit pricing. The specific indicator calculation method is as follows:

$Feerate = \ln(\text{audit fee} / \text{total assets at the end of the period})$

The empirical findings are basically consistent with the research hypothesis and its conclusions.

**Table 5. Robustness test**

	(1)		(2)	
	Feerate		Feerate	
End	0.107**	(2.37)	0.145***	(3.12)
Hold			-0.000	(-1.51)
Fin*Hold			-0.000***	(-3.77)
Cf	-0.101***	(-4.68)	-0.098***	(-4.53)
Growth	0.021**	(2.37)	0.023***	(2.61)
Size	-0.621***	(-139.57)	-0.620***	(-139.31)
Roe	-0.284***	(-9.04)	-0.280***	(-8.90)
Lev	0.049*	(1.73)	0.044	(1.56)
Salary	0.000***	(14.77)	0.000***	(14.94)
Nothing	0.005***	(5.79)	0.005***	(5.64)
Outdirate	0.115*	(1.81)	0.124*	(1.96)
Big10	0.100***	(15.48)	0.101***	(15.56)
LagOP	-0.193***	(-8.99)	-0.194***	(-9.02)
year	control	control	control	control
In	control	control	control	control
_cons	5.447***	(55.62)	5.446***	(55.62)
N	15662		15662	
r2	0.779		0.779	
r2_a	0.779		0.779	

Note: The values in parentheses are t-values; \*\*\*, \*\* and \* are significant at the 1%, 5%, and 10% levels, respectively.

## 7. Conclusions and Policy Recommendations

A sample of all A-share listed companies from 2014 to 2019 is used to study the impact of the financialization of non-financial enterprises on audit pricing. The study found that the higher the degree of financialization of non-financial enterprises, the higher the audit fee, that is, the higher the audit price of the enterprise by the external audit institution. Further research found that the higher the shareholding ratio of corporate executives, the more it can alleviate the impact of corporate financialization on audit fees.

The findings of this paper are of great significance. Today's world economy is developing at a high speed, and in the era when the economy is constantly "detaching from the real to the virtual", the real economy, as the foundation of the economy, how to prevent the virtual economy from "making a fuss" and protecting the real economy is one of the important major events for the Chinese authorities to govern the country.

First, from the perspective of non-financial enterprises, enterprises should strengthen investment in the main business, optimize the asset allocation structure, and devote themselves to the development of entity enterprises. In addition, enterprises should strive to improve the internal governance structure and the quality of internal controls, improve the incentives for senior executive shareholding and other governance mechanisms, and reduce the operational risks of enterprises, thereby reducing audit fees.

Secondly, the audit institution should focus on the risks in the financial field, improve the ability of auditors to identify financial hidden risks, strive to reduce the audit risks caused by the auditors themselves, and ensure the rationality of audit fees.

Finally, from the government's point of view, there is a need for greater changes to the financial system. Under the current new normal of mixed industry operation, financial risks have intensified, and it is necessary for the Party Central Committee and local governments to actively improve the new dynamics of supervision and control, introduce new rules, and let the mixed industry have laws to follow, to reduce the various risks brought about by "financial freedom" and improve the overall environment of excessive financialization at the national and local levels.

## References

- [1] WANG Hongjian, CAO Yuqiang, YANG Qing, YANG Zheng. The Financialization of Entity Enterprises Promotes or Inhibits Enterprise Innovation: Based on the Experience of Listed Manufacturing Companies in China[J]. *Nankai Management Review*,2017,20(01):155-166.
- [2] ZHAI Shuping, SU Ye, MIAO Qing. Social Trust and the Financialization of Entity Enterprises: "Preparing for Momentum" or "Taking Advantage of the Situation for Profit"[J]. *Journal of Shanxi University of Finance and Economics*,2021,43(06):56-69.
- [3] DU Yong, HE Shuoying, CHEN Jianying. Does Corporate Financialization Affect Audit Pricing [J]. *Auditing Research*,2019(04):101-110.
- [4] Demir F.Financial Liberalization,Private Investment and Portfolio Choice:Financialization of Real Sectors in Emerging Markets[J]. *Journal of Development Economics*,2009,88(2):314-324.
- [5] ZHANG Chengsi, ZHANG Butan. Re-discussing Finance and Real Economy: The Perspective of Economic Financialization[J]. *Economic Trends*, 2015(6): 56-60.
- [6] Deng Super, Zhang May, Don Ying. Analysis on the Influencing Factors of Financialization of Non-financial Enterprises in China[J]. *Finance -Physio-Theory & Practice*,2017,38(2):2-8.
- [7] Milberg W.Shilfting Sources and Uses of Profits:Sustaining US: Financialization with Global Value Chains [J]. *Economy&Society*,2008,37(3):420-451.
- [8] YU Lian-chao, ZHANG Wei-guo, BI Qian. Industrial Policy and Enterprises "Derealization to Virtuality": Market-Oriented or Policy Arbitrage? [J]. *Nankai Management Review*, 2021(5):1-23.

- [9] PENG Yuchao, HAN Xun, LI Jianjun. Economic Policy Uncertainty and Corporate Financialization[J]. China Industrial Economics, 2018(1): 137-155.
- [10] Davis L E. Financialization and the Non-Financial Corporation: An Investigation of Firm-Level Investment Behavior in the United States [J]. *Metroeconomica*, 2018, 69(1): 270-307.
- [11] XU Jingchang, ZENG Xueyun. Fair Value Measurement and Management Compensation Contract[J]. Journal of Accounting Research, 2010(3): 12-19.
- [12] LIU Yongming, LUO Yunfeng. External profit pressure, diversified equity investment and financialization of enterprises[J]. Journal of Finance and Economics, 2019, 45(3): 73-85.
- [13] DU Yong, XIE Jin, CHEN Jianying. CEO Financial Background and Financialization of Entity Enterprises [J]. China Industrial Economics, 2019(5): 136-154.
- [14] LI Zengquan, XIN Xiangang, YU Xuhui. Financial Development, Debt Financing Constraints and Pyramid Structure: Evidence from Private Enterprise Groups[J]. Management World, 2008 (01): 123-135.
- [15] YANG Zheng, LIU Fang, WANG Hongjian. Allocation of Corporate Trading Financial Assets: Reserves or Speculation? [J]. Management Review, 2017(2): 13 - 25+34.
- [16] DENG Chao, XIA Wenke, CHEN Shengmeng. Financialization of Non-financial Firms: "Stock Price Stabilizer" or "Crash Booster"[J]. Financial Economics Research, 2019, 34(03): 120-136.
- [17] PENG Yuchao, NI Xiaoran, SHEN Ji. Enterprises 'Derealization to Virtual' and Financial Market Stability: Based on the Perspective of Stock Price Crash Risk[J]. Economic Research, 2018(10): 50-66.
- [18] Cheng Siwei. The virtual economy cannot be inflated[J]. Capital Market, 2015(1): 8.
- [19] WANG Yongqin, LIU Zihan, LI Chang, et al. Identifying the Shadow Banking Activities of Non-Financial Enterprises in China: Evidence from Consolidated Balance Sheets[J]. Management World, 2015 (12): 24-40.
- [20] XIE Jiazhi, WANG Wentao, JIANG Yuan. Manufacturing financialization, government control and technological innovation[J]. Economic Trends, 2014(11): 78-88.
- [21] ZHANG Chengsi, ZHANG Butan. The Mystery of The Decline of China's Industrial Investment Rate: The Perspective of Economic Financialization[J]. Economic Research, 2016, 51(12): 32-46.
- [22] XIA Tongshui, ZHENG Min, ZHANG Jing. Will heterogeneous financial asset allocation exacerbate operating cash flow manipulation? Empirical evidence based on analyst cash flow forecasting[J/OL]. Nankai Management Review: 1-24.
- [23] CHEN Xiaolin, PAN Keqin. Legal Environment, Political Relations and Audit Pricing: Empirical Evidence from China's Securities Market[J]. Journal of Finance and Trade Economics, 2007(S1): 90-95.
- [24] YU Haizong, HE Na, XIA Changyuan. Local Government Environmental Regulation and Audit Fees: Empirical Evidence from Private Heavily Polluting Listed Companies[J]. Audit Research, 2018 (04): 77-85.
- [25] CHEN Ping, DAI Zhiyan. Research on Audit Fees Based on Audit Relationship Subjects[J]. Journal of Finance and Accounting (Academic Edition), 2008(09): 13-15.
- [26] MA Jianwei, YANG Yajun, HUANG Wen. A Study on the Correlation between Classification of Financial Assets Measured at Fair Value and Audit Fees: Empirical Evidence from Shanghai A-shares from 2007-2010[J]. Journal of Central University of Finance and Economics, 2012(11): 85-90.
- [27] TANG Zichun, TANG Yihong. The Relationship between Executive Characteristics and Internal Control Audit Expenses: An Empirical Study Based on A-share Real Estate Listed Companies[J]. Modern Business, 2018(05): 204-205.
- [28] FENG Gejian, WANG Jianqiong. Corporate Social Responsibility and Auditor Decision-making: Evidence Based on Audit Fees and Going Concern Audit Opinions[J]. Modern Management Science, 2019(09): 96-98.
- [29] Goncharov I, Riedel E, Sellhorn T. Fair value and audit fees[J]. Social Science Electronic Publishing, 2014, 19(1): 210 - 241.

- [30] LI Baixing, ZHAO Qingqing, LI Ruijing. Corporate Financialization and Auditor Selection[J]. Auditing Research,2020(05):67-76.
- [31] SUN Hongfeng, LIU Chang. Will corporate financialization affect auditors' risk decisions? [J]. Auditing and Economic Research,2019,34(05):54-64.
- [32] Yan Endian, Sun Anqi, Chu Yiquan, etc. Shadow Banking, Accounting Firm Selection and Auditing Characteristics: An Empirical Study Based on Listed Non-Financial Enterprises[J]. Nankai Management Review, 2018(5):117-127.
- [33] Tori D,Onaran O. The effects of financialisation and financial development on investment:evidence from firm-level data in Europe[R].Greenwich Papers in Political Economy,2017.
- [34] DU Yong, ZHANG Huan, CHEN Jianying. The Impact of Financialization on the Future Development of The Main Business of Entity Enterprises: Promoting or Inhibiting[J]. China Industrial Economics, 2017(12):113-131.
- [35] HUANG Xianhuan, WU Qiusheng, WANG Yao. Financial Asset Allocation and Corporate Financial Risk: "Precautionary" or "Sacrifice the End"[J]. Journal of Finance and Economics, 2018(12):100-112+125.
- [36] Hutton A P, Marcus A J, Tehranian H . Opaque financial reports, R2, and crash risk[J]. Journal of Financial Economics,2009,94(1):67-86.
- [37] HUANG Bing, XIA Yidan, XIA Yunfeng. Does Fair Value Measurement Affect Audit Fees: Empirical Evidence from Listed Companies in the Financial Industry[J]. Journal of Finance and Economics, 2017 (10):99-110.
- [38] PAN Chunhua. Executive Shareholding, Quality of Internal Controls and Audit Fees (Master's Thesis). Chongqing University of Technology). ,2018,1-56.