Impact of Perk on Corporate Performance: The Mediating Effect of Agency Cost

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Abstract

As an important part of the executive compensation，perks can play a unique role in facilitating corporate performance. The relationship among agency cost, perk and corporate performance is a key issue faced by scholars. This paper selects companies listed on the Shanghai and Shenzhen stock exchanges from 2011 to 2016 as samples, excluding ST, ST * companies and financial insurance companies. We found that executive's perk has a significant negative correlation with corporate performance. And executive's perk has a significant positive correlation with agency cost. Through the influence of perk on corporate performance and agency cost, this study found that agency cost has a partial intermediary effect between perk and company performance.

Key words: Perk; Corporate performance; Agency cost

INTRODUCTION

As an important part of the executive compensation，perks can play a unique role in facilitating corporate performance. In recent years, many researchers have done a lot of empirical research on the relationship between executive compensation and corporate performance, and have achieved many results. Among them, according to the theory of compensation incentive, the agency problem between shareholders and executives can be solved by establishing a reasonable incentive mechanism. Executives' incentive mechanism is related to the compensation level. The premise of effective incentive for executives is how to choose the appropriate compensation incentive mechanism. It is necessary to implement reasonable incentive for executives and reduce the agency cost effectively.

One of the most important reasons for corporate governance is the separation of ownership and control, which leads to the principal agent problem. Another important reason is that the controlling shareholders or major shareholders embezzle the rights and interests of minority shareholders, so that the contradictions between the controlling shareholders or major shareholders and minority shareholders become more obvious, which leading to the second type of agency problems. With the deepening development of the reform of state-owned companies in China, there is controversy surrounding the net effect of reducing perk expenditures (Louis, 2018, p. 83-95). Therefore, the relationship among agency cost, perk and corporate performance is a key issue faced by scholars.

1. LITERATURE AND HYPOTHESES

1.1 Perk and Corporate Performance

The perks provided by companies for managers are aimed at improving the efficiency of corporate management (Rajan & Wulf, 2006, pp. 1-33). Jensen believed that it is impossible to expect corporate agents to make decisions that are consistent with the interests of corporate principals without paying any cost and expense. In most cases, it will have negative economic effects, reduce the cost and lower

the company's value (Jensen & Meckling, 1976, pp. 305-360). Hart pointed out that perk is a means for executives to seek their interests and a hidden cost of agency costs (Hart, 2001, pp. 1079-1100). Luo Hong found that there is a significant negative correlation between perks and corporate performance in state-controlled listed companies through empirical research (Luo & Huang, 2008, pp. 139-147). Based on the foregoing discussion, the following hypothesis is offered for empirical testing:

H1 Perk exerts a negative direct influence on corporate performance.

1.2 Perk and Agency Cost

Jensen defined that non-monetary consumption for managers is called perk. Since then, many scholars have carried out empirical research according to this definition (Jensen & Meckling, 1976, pp. 305-360). Li Baobao explained "perk" as excessive consumption of managerial resources to maximize utility for managers (Li & Huang, 2012, pp. 76-81). As one of the basic factors affecting agency costs, perk increases the private utility of corporate executives and may also reduce corporate value. Williamson argues that perk is a factor that mediates conflicts between agents and principals, with negative economic effects that ultimately undermine corporate value (Williamson, 1979, pp. 233-261). Upon this basis, the following hypothesis is offered:

H2 Perk exerts a positive direct influence on agency cost.

1.3 Agency Cost and Corporate Performance

Chrisostomos analyzed some British listed companies and found that internal and external corporate governance mechanisms can reduce agency costs (Florackis, 2008, pp. 37-59). Kate Jelinek used the method of TAT and management cost to replace agency cost respectively in the study of agency cost. It was found that agency cost was negative related to company performance (Jelinek & Stuerke, 2009, pp. 156-178). Proceeding from the foregoing analysis, the following hypothesis is proposed:

H3 Agency cost exerts a negative direct influence on corporate performance.

1.4 The Mediating Effect of Agency Cost

Based on the "special evidence - result" approach, there are many research results that executive compensation incentive has a significant impact on corporate performance, but the use of "characteristics-behavior-result" to study the indirect impact of perk on corporate performance is less. In this paper, through the path model, the agency cost as an intermediary variable into the relationship between perk and corporate performance is a new idea. Proceeding from the foregoing analysis, the following hypothesis concerning the Mediating effect of agency cost is proposed:

H4 Agency cost exerts a mediating effect between perk and corporate performance.

2. DATA AND METHODOLOGY

2.1 Data

This paper selects companies listed on the Shanghai and Shenzhen stock exchanges from 2011 to 2016 as samples, excluding ST, ST * companies and financial insurance companies. After removing companies which frequently change executives, lacking complete data, 514 listed companies, a total of 2711 observation are as samples. Data is from Tai'an database.

2.2 Methdology

The Bootstrap method is used to analyze the intermediate effect, which has a high statistical effect. It can make the model parameter estimation more accurate and the research conclusion more reliable.

2.3 Variables

The following variables are used to test the foregoing hypotheses. Their definitions are described as follows (Table1).

Table 1
Variable Definition and Description

Variable	Code	Measures
Corporate performance	Roe	ROE
Perk	Perk	The logarithm of the total cost of the eight detailed items under "cash flow for other business activities"
Agency cost	AC	management expense ratio
Firm Size	Size	The logarithm of total assets at the end of the year
Financial leverage	Debt	Debt Asset ratio
Industry	Indu	Assign 1-12 of the industry excluding the financial and insurance industry

3. RESULTS

3.1 Hypothesis Testing

Correlation analysis refers to the dependencies between variables, usually expressed by Pearson correlation coefficient, and Table 2 is the correlation analysis between the main variables. From table 2, we can see that perk and agency cost are significantly related; perk and corporate performance are significantly related; agency cost and corporate performance are significantly related. Therefore, H1, H2 and H3 are verified and we consider perk, agency cost and corporate performance may interact with each other.

Table 2
Important Variables Correlation Analysis

Code	Roe	Perk	AC	Size	Debt	Indu
Roe	1					
Perk	-0.017**	1				
AC	-0.045*	0.02*	1			
Size	0.04***	0.17	0.161**	1		
Debt	-0.13*	-0.154**	0.102	0.126**	1	
Indu	0.012	-0.047*	-0.03	0.108**	0.117**	1

Notes: * $p<0.1$, ** $p<0.05$, *** $p<0.01$

3.2 Mediating Effect Testing

The variables include an explicit variable, an intermediate variable and a dependent variable. In this paper, we will use Bootstrap method to estimate the parameter confidence interval, and choose Mplus 7.0 as the analysis software.

According to the conclusion of correlation analysis, we find that perk, agency cost and corporate performance are all related, and preliminarily verify that agency cost may have intermediary effect between perk and corporate performance. Therefore, we assume that agency cost exerts effect between perk and corporate performance.

In model test (table 3), according to the Bootstrap method, the test coefficient C is significant, indicating a

mediating effect. (P = 0.039), coefficient B1 (P = 0.047) was significant at 5% significant level. According to the output confidence interval, the confidence interval of the parameter ab 95% is [0.001,0.008], indicating that the indirect effect is significant. Detection coefficient c', found that the coefficient c'(P = 0.023) was significant at 5% significance level, indicating that the direct effect is significant, there may be other intermediaries. Because the symbol of ab and c' are the same, there are partial mediating effects according to the checking process. From the above analysis, we can see that agency cost has a partial intermediary effect between perk and corporate performance. Therefore, H4 is verified.

Table 3
The Mediating Effects of Agency Cost Between the Perk and Corporate Performance

Effect	Estimate	SE	ai*bi 95%confidence interval (i=1,2)		P
			lower limits	upper limits	
X1->Y（c）	0.605	0.3558	0.180	0.310	0.025
X1->M1(a)	-0.570	0.0067	-0.072	-0.187	0.039
M1->Y(b)	-0.1469	0.0859	0.214	0.318	0.047
X1->M1->Y(a*b)	0.405	0.227	0.001	0.008	0.039
X1(C')	0.507	0.618	0.003	0.010	0.023
Fitting Test			P-Value=0.042 GFI=0.845 TLI=1.976 RMSEA=0.037 SRMR=0.032		

CONCLUSIONS

In this study, we present the impact of perk on corporate performance based on the mediating effect of agency cost. We found that executive's perk has a significant negative correlation with corporate performance. And executive's perk has a significant positive correlation with agency cost. Through the influence of perk on corporate performance and agency cost, this study found that agency cost has a partial intermediary effect between perk and company performance.

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