Religious Traditions and On-the-job Consumption of Executives

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Abstract: This article takes Shanghai-Shenzhen A-share listed company from 2010 to 2018 as a sample, with the help of empirical test, examining the influence of CEO power and religious tradition on the on-the-job consumption of executives. The study found that CEO power and executives have a significant positive correlation with on-the-job consumption, the greater the CEO power is, the higher the level of on-the-job consumption will be; with the strong religious tradition in the region where the company is located, the influence of company executive power on on-the-job consumption is effectively suppressed. The research conclusions of this paper have important theoretical and practical significance for the in-service consumption management of senior executives.

1. Introduction

In recent years, there are constant media reports on the high amount of on-the-job consumption of the management of listed companies in China, which has caused widespread concern in the regulatory and social circles. The reason is, when ownership and management rights are separated, managers actually have more discretion in corporate management (Berle and Gardiner, 1932), which leads to a principal-agent problem (Jensen and Meckling, 1976). Executives may use their power to pursue their own interests through various means (Shleifer and Vishny, 1997), one of the specific manifestations is executives may use their power to earn more for themselves, including on-the-job consumption as implicit compensation (Bebchuk and Fried, 2004), on-the-job consumption can be a shortcut to gaining personal benefits for executives, who can easily reimburse private expenses through these projects, then passing it on to the company’s expenses, thus, on-the-job consumption is an important part of the cost of agency (Jensen and Meckling, 1976; Luo Hong, Huang Wenhua, 2008).

For the widespread consumption of executives on the job, scholars focus on cash dividend (Luo Hong, Huang Wenhua, 2008), media supervision (Yang Deming, Zhao Can, 2014), political promotion (Wang Zeng et al., 2014) and other relevant perspectives to research on on-the-job consumption governance, however, researches have ignored such a fact, beyond these internal governance mechanisms, there is also an important external governance mechanism —— religion, under the influence of religious morality and social behavioral normative effects, which will contribute to reducing managers' moral behavior, improving management efficiency and reducing agency costs.

Therefore, the purpose of this paper is to answer the following questions: Will Chinese listed company executives use their power to get more on-the-job consumption? Does the religious tradition in the company's region have an inhibitory effect on executives' use of power to obtain on-the-job consumption?

This paper uses the 2010-2008 Shanghai-Shenzhen A-share listed company as a sample to study the above problems, the study found that CEO power has a significant positive correlation with executive spending, the greater the CEO power is, the higher the level of on-the-job consumption will be; the more religious traditions in the company's region is, the influence of executive power of listed companies on on-the-job consumption is effectively suppressed.
The contribution of this paper to the existing literature is mainly reflected in, literature research findings on on-the-job consumption governance, cash dividend (Luo Hong, Huang Wenhua, 2008), media supervision (Yang Deming, Zhao Can, 2014), political promotion (Wang Zeng et al., 2014) and other Influencing factors help curb and reduce executive spending on the job, this study finds that strong religious traditions help to curb and reduce executive spending on the job and enriches the relevant literature on executive consumption governance.

The rest of the paper is arranged as follows: the second part is the theoretical basis and research hypothesis; the third part of the research design; the fourth part is the analysis of empirical results; the fifth part is the conclusion of the study.

2. Theoretical analysis and hypothesis

From the perspective of principal-agent theory, company executives will not always manage companies in accordance with the principle of maximizing the interests of shareholders, so, shareholders maintain the interests of managers and shareholders by establishing appropriate incentives and monitoring mechanisms, but it is still impossible to completely eliminate the opportunistic behavior of managers. If there is no monitoring mechanism, managers will maximize their utility by continuously increasing their non-monetary benefits, if the manager holds less company shares, they will bear less non-monetary welfare costs and tend to enjoy more non-monetary benefits(such as on-the-job consumption) (Jensen and Meckling, 1976). Yet, manager compensation is not only a potential tool for solving agency problems, and it’s part of the agency problem itself, managerial power and rent-seeking behavior have an important impact on executive compensation design (Blanchard et al., 1994; Yermack, 1997; Bertrand and Mullainathan, 2001; Bebchuk and Fried, 2004). When executive control lacks supervision and checks and balances, company incentive and restraint mechanism will be invalid, leading to expand manager rent-seeking space (Wang Kemin, Wang Zhichao, 2007), Company executives can use their power to draw more rewards for themselves (Fang Xiongjun, 2011), as management power increases, the effectiveness of the compensation contract has been suppressed and weakened, powerful CEOs can design their own incentive portfolio, while achieving high monetary compensation, they can also get other power gains (such as on-the-job consumption) (Lu Chagnjiang, Zhao Yuheng, 2008; Lu Rui et al., 2008; Fu Xin et al., 2014). Therefore, in the absence of supervision, company executives may use their power to gain more control over their private income, such as more on-the-job consumption.

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

Hypothesis 1: CEO power is positively related to on-the-job consumption.

Based on the religious moral constraints and values shaping theory, religion shapes the morals and values of its followers. Religious economics believes that religion has two most basic attributes (Stark & Finke, 2002), cultural attributes (Supernatural beliefs and beliefs in the afterlife) and institutional attributes, cultural attributes make religion different from other secular organizations, institutional attributes make religion different from non-institutional supernatural beliefs such as witchcraft, these two attributes of religion have an important impact on economic and financial development, among them, religion shapes the morals and values of believers through its cultural attributes, which will further affect economic behavior and decision making (Iannaccone, 1998).

Religious belief can not only restrict managers' non-ethical behavior (Longenecker et al., 2004; Conroy and Emerson, 2004), but also can constrain the opportunistic behavior of managers (Li, 2007), constrain the risky behavior of managers and auditors (IAN CARLIN and GERVERAS, 2009; Hilary and Hui, 2009; Omer et al., 2010), Suppress and constrain company executives to pursue excessive compensation and earnings management (Grullon et al., 2010), also can constrain aggressive financial reporting and financial irregularities (McGuire et al., 2012; Dyreng et al., 2012) and constrain the speculative risk behavior of mutual fund fund managers (Shu et al., 2010), religion can also influence the portfolio of institutional investors (Kumar et al., 2011), religion also helps reduce the company’s equity capital costs (Ghoul et al., 2012), religion not only affects individual
values, but also affect the business ethics of the company (Weaver and Agle, 2002; Li, 2007), it also can suppress the company's accounting manipulation (Conroy and Emerson, 2004; Cheng Donghua et al., 2013), affect the investment behavior of enterprises (Hilary and Hui, 2009), even affect investors' risk aversion preferences (Shu et al., 2010; Kumar et al., 2011), religion will have a positive impact on people's work ethics and professional ethics (Becker and Woessmann, 2009; Rietveld and van Burg, 2014), religious belief and positive attitude towards economic growth (Guiso et al., 2003).

According to the religious social norm theory, religion also has the role of social norms. Many scholars have made outstanding contributions to the formation of this theory, in particular, based upon the theoretical research of Akerlof (1980), once managers do not comply with social norms, they will bear the corresponding price. When the degree of compliance of the group to which the manager belongs is increased, managers will gradually accept religious norms. Kohlberg (1984) thought, according to the theory of social norms, people like to be consistent with their peers, thus, social norms can affect the behavior of specific individuals. Sunstein (1996) pointed out that individual actors usually take corresponding actions according to social norms and try to avoid the cost of not supporting the group, especially Avoidance of refusal to comply with generally accepted cost or punishment from guidelines, ideas or beliefs. Sunstein (1996) further pointed out, “Social norms determine the social significance of behavior, at the same time determine the social role of the agent. In this sense, social role is nothing but a product of social norms. But, social norms are also influenced by social significance, the result is that social norms can also be artifacts of social significance.”

In summary, under the influence of religious moral constraints and social normative effects, company executives will abide by professional ethics, be self-denial, moral hazard will be effectively curbed.

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

Hypothesis 2: Religious culture is negatively related to the on-the-job consumption of executives.

Hypothesis 3: Strong religious traditions help to curb the impact of CEO power on on-the-job consumption.

3. Research design

3.1 Sample selection and Data source

This article takes the 2005-2018 Shanghai and Shenzhen A-share listed companies as a research sample, and processed the data according to the following principles: (1) Excluding financial and insurance listed companies; (2) Excluding ST companies; (3) Excluding samples with missing financial data; (4) Excluding samples that cannot determine latitude and longitude, which means other variables are missing; (5) To better examine the religious influence, limiting the sample range to 26 provinces, municipality (That is, it does not include Xinjiang, Inner Mongolia, Guangxi, Ningxia and Tibet) in the Han area of the mainland. Meanwhile, because the three provinces of Gansu, Qinghai and Hainan do not include national key temples, this article removes samples from this three province, finally, a sample of 23 listed companies in the provinces (municipalities) was obtained; (6) To avoid the effects of singular values, this paper also performs Winsorize processing on 1% of continuous variables. Finally, 5907 observation samples were obtained. The financial data in this paper is from the CSMAR and WIND databases.

3.2 Variable definitions and metrics

3.2.1 On-the-job consumption (Abperks/perks)

This paper draws on the methods adopted by Quan Xiaofeng et al. (2010) and Luo et al. (2011), making use of the difference between the management’s on-the-job consumption and the expected normal on-the-job consumption of the executives determined by economic factors, that is, the abnormal consumption of the executives (Abperks) to represent. It is expected that the normal on-the-job consumption level of executives will be estimated using the model (1):
\[
\frac{\text{perks}_{it}}{\text{Assets}_{it-1}} = \beta_0 + \beta_1 \frac{1}{\text{Assets}_{it-1}} + \beta_2 \frac{\Delta \text{Sale}_{it}}{\text{Assets}_{it-1}} + \beta_3 \frac{\text{PPE}_{it}}{\text{Assets}_{it-1}} + \frac{\text{Inventory}_{it}}{\text{Assets}_{it-1}} + \beta \text{LnEmployee}_{it} + \epsilon
\] (1)

In the formula, \(\text{perks}_{it}\) means on-the-job consumption, data taken from management fees deducted from amount apparently not after the project for on-the-job consumption, such as directors, executive and supervisory board members' compensation, provision for bad debts, inventory impairment and amortization of intangible assets for the year; \(\text{Assets}_{it-1}\) is total assets at the end of the previous period; \(\Delta \text{Sale}_{it}\) is the amount of change in the main business income of the current period; \(\text{PPE}_{it}\) is net value of fixed assets such as plant, property and equipment in the current period; \(\text{Inventory}_{it}\) is total inventory during the period; \(\text{LnEmployee}_{it}\) is the natural logarithm of the total number of employees employed by the company. By using the model (1) to first return the sample enterprise to the industry by year, the predicted value of the dependent variable obtained by model regression represents normal on-the-job consumption, the difference between actual on-the-job consumption and normal on-the-job consumption is abnormal on-the-job consumption \(\gamma \text{perks}_{it}\).

In order to ensure the robustness of the research conclusions, this paper also draws on the methods of existing literature (Chen Donghua et al., 2005; Chen Donghua et al., 2010), taking on-the-job consumption of enterprises as the proxy variable of on-the-job consumption of senior executives(Perks). The data is collected by consulting the “Payment of other cash flows related to operating activities” in the notes to the listed company’s annual report, this project will be divided into eight categories of expenses related to the on-the-job consumption of corporate executives: Office fees, travel expenses, business hospitality, communication fees, training abroad, board fees, car fares and conference fees. These projects are easy to become shortcuts for executives to get benefits, executives can easily reimburse private expenses through these projects, then passing it on to the company’s expenses.

3.2.2 Religious culture (Religion)

Learning from existing literature, measuring the influence of the religious traditions of listed companies on the basis of the distance between the place of registration of the listed company and the venue of religious activities. Utilizing Google-Earth, Baidu maps and other Internet tools, manually collecting the registered address of the sample listed company and the latitude and longitude coordinates corresponding to the 148 provincial key temples. By Using the above coordinates, calculating the distance between each listed company and 148 key temples. If there is a more influential temple near the registered place of the listed company, the listed company is more susceptible to religious traditions. Religion_200 and Religion_300 represent the number of key temples within 200/300 km of the registered company's registered location, respectively.

3.2.3 Control variables

Drawing on existing literature, this article also controls the following variables: The nature of ownership of the company (SOE) (Chen Donghua et al., 2005; Wang Zeng et al., 2014); if it is a state-owned enterprise, it is 1, otherwise it is 0; age of the company (Age) (Gul et al., 2011); the shareholding ratio of the largest shareholder (First) (Guan Xiaofeng et al., 2010); company size (Size) (Gen Xiaofeng et al., 2010), expressed by the natural logarithm of the company's total assets; business performance (ROA) (Lu Rui et al., 2008; Luo Hong, Huang Wenhua, 2008), equal to net profit / total assets; financial leverage (Leverage) (Quan Xiaofeng et al., 2010; et al., 2011), equal to total negative value / total assets; growth of the company(Growth) (Quan Xiaofeng et al., 2010), expressed by the growth rate of the main business income; Executive Salary (Salary) (Bebchuk and Fried, 2004; Chen Donghua et al., 2005; Quan Xiaofeng et al., 2010), represented by the natural logarithm of the top three executive compensation; the natural logarithm of the number of employees in the company(Workers) (Chen Donghua et al., 2005); management shareholding ratio(Mhare) (Wang Zeng et al., 2014); board size(Boardsize) (Wang Zeng et al., 2014), expressed by the natural logarithm of the number of board members; proportion of independent directors(Independence) (Wang Zeng et al., 2014), expressed by the proportion of independent
directors on the board of directors.

### 3.3 Model design

In order to test the hypothesis proposed in this paper, this paper establishes a regression model (2) to test the impact of religious culture on agency costs, details as follows:

\[ \text{Abperks/Perks}_{t+1} = \beta_0 + \beta_1 \text{Religion}_{t} + \beta_2 \text{ControlVariables} + \varepsilon \]  

In the formula, \( \beta_0 \) is intercept term, \( \varepsilon \) is residual item, \( \beta_1 - \beta_2 \) is regression coefficient.

### 4. Empirical results and analysis

#### 4.1 Descriptive statistical analysis

<table>
<thead>
<tr>
<th>Variables</th>
<th>Sample Size</th>
<th>Mean</th>
<th>Standard Deviation</th>
<th>Minimum Value</th>
<th>Median</th>
<th>Maximum Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Abperks</td>
<td>26276</td>
<td>0.01</td>
<td>0.06</td>
<td>-0.46</td>
<td>0.01</td>
<td>0.190</td>
</tr>
<tr>
<td>Religion_200</td>
<td>26276</td>
<td>8.1100</td>
<td>7.1200</td>
<td>0</td>
<td>6</td>
<td>29</td>
</tr>
<tr>
<td>Religion_300</td>
<td>26276</td>
<td>14.1500</td>
<td>12.4200</td>
<td>0</td>
<td>11</td>
<td>44</td>
</tr>
</tbody>
</table>

Table 1 lists descriptive statistics for the main variables, it can be seen from the table that the mean and median of abnormal on-the-job consumption (Abperks) is 0.01, the standard deviation is 0.06, the maximum and minimum values are 0.190 and 0.010, respectively; there are an average of 10 temples within 200 km of the enterprise registration area, up to 31, the lowest is only 0. Expanding the range to 300 km, the average number of temples is about 18, up to 44, and the minimum is still 0.

#### 4.2 Regression analysis

<table>
<thead>
<tr>
<th>Variables</th>
<th>(1)</th>
<th>(2)</th>
<th>(3)</th>
<th>(4)</th>
<th>(5)</th>
<th>(6)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Abperks</td>
<td>Abperks</td>
<td>Abperks</td>
<td>Perks</td>
<td>Perks</td>
<td>Perks</td>
</tr>
<tr>
<td>Power</td>
<td>0.0239** (0.0455)</td>
<td>0.0008 (0.6717)</td>
<td>0.0030** (0.0285)</td>
<td>0.0026 (0.5059)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>-0.0229** (0.0427)</td>
<td>0.0082** (0.0498)</td>
<td>0.0136* (0.0754)</td>
<td>0.0188* (0.0505)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Power _ Religion</td>
<td>0.0202* (0.0831)</td>
<td></td>
<td></td>
<td>0.0379* (0.0654)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Control Variables</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Observations</td>
<td>21,223</td>
<td>21,223</td>
<td>21,223</td>
<td>21,223</td>
<td>21,223</td>
<td>21,223</td>
</tr>
<tr>
<td>Adjusted R-squared</td>
<td>0.250</td>
<td>0.250</td>
<td>0.250</td>
<td>0.291</td>
<td>0.291</td>
<td>0.291</td>
</tr>
</tbody>
</table>

Table 2 reports the regression results of the impact of religious traditions on on-the-job consumption. In the regression model (1)-(3), this paper uses the difference between the management's on-the-job consumption and the normal expected executives' active consumption as determined by economic factors, that is, abnormal management of on-the-job consumption as a proxy variable for on-the-job consumption(Abperks). It can be seen from the regression model (1), regression coefficient of Power is 0.0239, and significant at the 5% level, explaining that CEO power is positively related to on-the-job consumption, the greater the power of executives is, the more on-the-job consumption can be, hypothesis 1 is verified; in the regression model (2),
regression coefficient of Religion is 0.0229, and significant at the 5% level, explaining that with the increase of the religious tradition, the abnormal consumption of executives is decreasing, which means the degree of religious tradition is negatively correlated with the abnormal consumption of executives, hypothesis 2 is verified; in the regression model (3), regression coefficient of Power_Religion is 0.0202, and significant at the 10% level, explaining that the CEO has greater power, with the increase of the religious tradition, the abnormal consumption of executives is decreasing, religious tradition has a significant inhibitory effect on executive power, hypothesis 3 is verified.

In the regression model (4)-(6), this paper uses the natural logarithm of CEO's on-the-job consumption as a proxy variable for on-the-job consumption (Perks). In the regression model (4), regression coefficient of Power is 0.0030, and significant at the 5% level, explaining that CEO power is positively related to on-the-job consumption, the greater the power of executives is, the more on-the-job consumption can be, hypothesis 1 is verified; in the regression model (5), regression coefficient of Religion is 0.0136, and significant at the 5% level, explaining that with the increase of the religious tradition, the executives’ on-the-job consumption is decreasing, which means the severity of religious tradition is related to the negative consumption of executives, hypothesis 2 is further verified; in the regression model (6), regression coefficient of Power_Religion is 0.0379, and significant at the 10% level, explaining that the CEO has greater power, with the increase of the religious tradition, the on-the-job consumption of executives is decreasing, religious tradition has a significant inhibitory effect on executive power, hypothesis 3 is further verified.

5. Robustness test

5.1 Metrics for changing religious culture

Reference Du (2013; 2014), this article is re-intervaled by 20 km, Counting the number of religious sites within 120, 140, 160, 180, 220, 240, 260 and 280 km of the company's registered place, and retesting the hypothesis, the regression results remain basically unchanged.

5.2 Endogenous problem

The above regression results indicate that religious culture has a significant impact on the on-the-job consumption of executives. However, there may be some missing variables, jointly affecting religious culture and on-the-job consumption of executives, resulting in deviations in the empirical results. In order to solve this potential endogenous problem, this article draws on the existing literature (Chen Donghua et al., 2013), the number of award-winning religious sites owned by the province where the company is registered is divided by the population of the province as a tool variable of religious culture. 2SLS regression. Test results show that after controlling for potential endogeneity problems, the original hypothesis is still true.

6. Conclusion

This article takes Shanghai-Shenzhen A-share listed company as a sample in 2010-2018, the influence of the informal institutional factors of religious culture on the on-the-job consumption of executives was studied, the study found, the religious tradition of the location of the enterprise does affect the on-the-job consumption of executives, under other conditions are unchanged, the more religious traditions in the country where the company is located, the less the executives spend on-the-job, on the contrary, the less religious traditions of the place where the enterprise is located, the more the executives spend on-the-job.

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