

Religious Culture and Corporate Agency Costs¹

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Abstract. Solving the agency problem caused by the separation of the two powers is an important part of the protection of investors' interests, and it is also the only way to promote the healthy development of capital markets and enterprises in emerging market countries. This paper takes the Shanghai and Shenzhen A-share listed companies from 2000 to 2018 as a sample to examine the relationship between religious culture, corporate governance and agency costs. The research results show that religious culture and effective corporate governance mechanism can reduce the agency cost and improve agency efficiency, and different corporate governance mechanisms play different roles in different religious and cultural environments. The conclusion of this study means that under the circumstances that there are many problems in corporate governance in China's capital market, religious culture can effectively make up for the shortcomings of corporate governance, effectively solve agency problems and reduce agency costs.

1. Introduction

An important feature of the modern corporate system is the separation of ownership and control. "The people who control these wealth and have the responsibility to ensure operational efficiency and profitability are no longer those who are owners and have the right to profit" (Berle and Means, 1932). When both of them are economic agents with maximum utility, it can be reasonably expected that the agent will not always act in accordance with the interests of the principal. Studies from many countries around the world have shown that the transaction costs caused by such conflicts of interest are enormous (Shleifer and Vishny, 1997). When both of them are economic agents with maximum utility, the agent may not always act in accordance with the client's interests. The agent may plagiarize and abuse the client's wealth, and may invest in inefficient projects to build a "corporate empire." May be negatively degraded or lazy, and may also blind investors by manipulating information.

According to modern corporate finance theory, information asymmetry and insufficient incentives are the root causes of agency conflicts. In order to implement the necessary supervision and incentives for agents and effectively coordinate the interests of both parties, an important way is to use the internal governance mechanism of the company. For example, through major shareholder governance (Jensen and Meckling, 1976; Shleifer and Vishny, 1986), board governance (Jensen, 1993; Rosenstein and Wyatt, 1993; Cadbury, 1992) or management incentives (Murphy, 1986; Jensen and Murphy, 1990) and other means. In addition to these internal governance mechanisms, there is also an important external governance mechanism - religion. Under the influence of

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religious morality and social behavior normative effects, it helps to reduce the manager's defeat behavior and improve management efficiency. On the other hand, under the influence of religion, managers are more abiding to the "honest and trustworthy" professional ethics, and actively Shareholders pass information about the company's business performance and reduce the information asymmetry between the principal and agent. Therefore, religious culture can force management to maximize shareholder value as a principle of doing business, thereby reducing agency costs.

Therefore, the purpose of this paper is to answer the following questions: Does the religious tradition of the company's region have an impact on the agency cost of the company?

In this paper, the Shanghai-Shenzhen A-share listed company in 2010-2018 was used as a sample to study the above problems. The study found that the religious culture tradition of the company's region has a significant negative correlation with the agency cost of the company. The more religious traditions in the company's region, the lower the agency cost of the company, indicating that religious and cultural traditions can help alleviate the agency-agent conflicts.

The research contribution of this paper mainly includes two aspects. Firstly, this paper establishes an empirical research framework of religious culture and agency cost, and on this basis, further studies the relationship between religious culture and corporate governance mechanism, and studies the religious path of the principal-agent conflict in detail. Secondly, this paper closely combines the ethics and professional ethics of Chinese corporate executives with the practice of corporate governance, and studies the influence of religious culture on agency costs. The research conclusions are not only of great theoretical significance for the academic community to re-recognize religious culture, but also It is of great significance for listed companies to choose appropriate governance mechanisms in Chinese cultural contexts and government departments to improve relevant regulatory systems.

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

2. Theoretical Analysis and Hypothesis

A key reason for the company's principal-agent problem is the information asymmetry between the two parties. Ex-post supervision of management can effectively reduce the moral hazard induced (Jensen & Meckling, 1976). In order to effectively protect the contractual relationship between the company and management, shareholders also supervise and control management's business decisions through an important mechanism such as the board of directors (WILLIAMSON, 1988). However, the behavior of company executives is not only constrained by the company's internal governance mechanism, but also by religious culture. Beyond corporate governance mechanisms, moral constraints and social norms from religious cultures may also play a positive role in constraining and motivating management.

Religious moral constraints and values shaping theory believe that religion will shape the morals and values of its followers. Religious economics believes that religion has two basic attributes (Stark & Finke, 2002), one is cultural attributes (supernatural beliefs and afterlife beliefs), and the other is institutional attributes. Cultural attributes distinguish religion from other secular organizations, and institutional attributes distinguish religion 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 through its cultural attributes shape the morals and values of believers, directly affecting the economic and financial decision-making behavior of

believers. Religion forms the values and beliefs of believers, which in turn further influences economic behavior and decision-making (Iannaccone, 1998).

Religious beliefs can not only constrain managers' non-ethical behavior (Longenecker et al., 2004; Conroy and Emerson, 2004), but also constrain the manager's opportunistic behavior (Li, 2007), constraining the risk behavior of managers and auditors (IAN CARLIN and GERVAIS, 2009; Hilary and Hui, 2009; Omer et al., 2010), inhibiting and constraining corporate executives from pursuing excessive pay and earnings management (Grullon et al., 2010). Constraining aggressive financial reporting and financial irregularities (McGuire et al., 2012; Dyreng et al., 2012) can also constrain the speculative risk behavior of mutual fund managers (Shu et al., 2010). Religion can also influence the portfolio of institutional investors (Kumar et al., 2011). Religion also helps to reduce the company's cost of equity capital (Ghoul et al., 2012). Religion not only affects individual values, but also influences business ethics (Weaver and Agle, 2002; Li, 2007). Religion also inhibits corporate accounting manipulation (Conroy and Emerson, 2004; Chen Donghua et al., 2013). Religion can also influence a company's investment behavior (Hilary and Hui, 2009). Religion can also influence investors' risk aversion preferences (Shu et al., 2010; Kumaret al., 2011). Religion has a positive impact on people's work ethics and professional ethics (Becker and Woessmann, 2009; Rietveld and van Burg, 2014). Religious beliefs are positively correlated with attitudes to economic growth (Guiso et al., 2003).

The social norm theory of religion believes that religion has the role of social norms. Many scholars have made outstanding contributions to the formation of this theory. Specifically, Akerlof's (1980) theoretical study points out that managers who do not comply with social norms must bear the corresponding costs. When the degree of compliance of the group to which the manager belongs is increased, the manager will gradually accept religious norms. Kohlberg (1984) argues that according to the social norm theory, people like to be consistent with the same kind, so social norms will 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 being supported by their own groups. In particular, avoiding costs or penalties for refusing to comply with widely accepted norms, ideas or beliefs. Sunstein (1996) further pointed out that "social norms determine the social significance of behavior and determine the social role of the actors. In this sense, social roles are only the product of social norms. However, social norms are also influenced by social significance. The result is that social norms can also be artifacts of social significance."

Therefore, through the above analysis, this paper proposes the following assumptions:

Hypothesis 1: Religious culture is negatively correlated with corporate agency costs.

3. Research Design

3.1 Sample selection and data source

In this paper, the Shanghai and Shenzhen A-share listed companies in 2005-2018 are used research samples, and the data are processed according to the following principles: (1) Excluding financial insurance listed companies; (2) Excluding ST companies; (3) Excluding samples that financial data missing; (4) Excluding samples that cannot determine the latitude and longitude, that is, other variables are missing; (5) To better investigate the religious influence, the sample scope is limited to 26 provinces and municipalities in the Han area of the mainland (ie not including Xinjiang, Inner Mongolia, Guangxi), Ningxia and Tibet 5 autonomous regions). At the same time, because the three provinces of Gansu, Qinghai and Hainan do not contain national-level key temples, this paper excludes them and finally obtains samples of listed companies in 23 provinces

(municipalities); (6) in order to avoid the influence of singular values, this paper is also continuous Winsorize processing is performed 1% above and below the variable. 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 Agency cost

Based on the existing literature (Ang et al., 2000), this paper uses the two indicators of management expense rate and asset turnover rate to measure agency costs:(1) Expense rate.The management fee is the various expenses incurred by the enterprise administrative department for organizing and managing the production and operation activities,including office expenses,travel expenses, business entertainment expenses, bad debts preparation, and inventory depreciation preparation.It is the most ambiguous and broadest project of all operating income and expenditure projects.Therefore, the utilization of management expenses as a percentage of the main business income can provide a good measure of the agency's on-the-job consumption,improper expenses and other agency costs;(2) asset turnover rate (Turnover).The asset turnover rate (main business income/total assets) is a direct measure of the overall agency efficiency of the enterprise. It reflects whether management has inefficient decisions, improper investments, or laziness in the management of shareholder wealth. Therefore, this indicator provides a good measure of management's inefficient operation or lazy agency costs from an output perspective.

3.2.2 Religion

Drawing on the practice of existing literature, the distance between the registered place of the listed company and the venue of religious activities is used to measure the influence of religious tradition on listed companies. Use Google Earth, Baidu Maps and other Internet tools to manually collect the registered address of the listed company and the latitude and longitude coordinates of the 148 provincial key temples. Using the above coordinates, calculate the distance between each listed company and 148 key temples. If there are influential temples near the place where the listed company is registered, listed companies are more susceptible to religious traditions. Religion_200 and Religion_300 represent the number of major temples within 200/300 km of the registered company registration location, respectively.

3.2.3 Control variable

Referring to the existing literature, this paper also controls the following variables: the size of the company's assets (size), equal to the natural logarithm of the total assets; company growth (Growth), equal to the annual growth rate of operating income; the asset-liability ratio (Lev) equals the total liabilities Ratio to total assets; whether it is concurrently chairman and general manager, if yes, then 1, otherwise 0; independent director ratio (Indep), equal to the total number of independent directors / board of directors; a); the ultimate controlling person's ownership nature (SOE), if it is a state-owned enterprise, it is 1, otherwise it is 0; free cash flow (FCF).

3.3 Model design

In order to test the hypothesis proposed in this paper, this paper establishes a regression model (1) to test the impact of religious culture on the agency cost of enterprises, as follows:

$$AgencyCost_{i,t+1} = \beta_0 + \beta_1 Religion_{i,t} + \beta_2 ControlVariables + \varepsilon$$

Among them, β_0 is the intercept term, ε is the residual term, $\beta_1-\beta_2$ is the regression coefficient.

4. Empirical Analysis

4.1 Descriptive statistical analysis

Table 1.Descriptive statistical analysis

variable	Sample size	Mean	Standard deviation	Minimum value	median	Maximum
Expense	22816	0.091	0.0100	0.023	-0.210	0.447
Turnover	22816	0.660		0.029		
Religion 200	22816	8.1100	7.1200	0	6	29
Religion 300	22816	14.1500	12.4200	0	11	44

Table 1 lists the descriptive statistics of the main variables. It can be seen from the table that the sample company's average management expense ratio is 0.091, the maximum is 0.447, the asset turnover rate is 0.660, and the minimum is only 0.029. This shows that Chinese listed companies generally have higher agency costs and lower agency efficiency; there are an average of 10 temples within 200 km of the enterprise registration, with a maximum of 31, and a minimum of only 0. When the range is extended 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 2. Hypothetical test results

VARIABLES	(1)	(2)	(3)	(4)
	Expense	Turnover	Expense	Turnover
Religion200	-0.0231** (0.0379)	-0.0328* (0.0576)		
Religion300			-0.0230** (0.0203)	-0.0287* (0.0611)
Size	0.0001** (0.0480)	0.0032* (0.0582)	0.0021** (0.0230)	0.0056* (0.0682)
Lev	0.0008** (0.0472)	0.0267** (0.0193)	0.0013** (0.0374)	0.0301* (0.0524)
Dual	0.1082*** (0.0000)	3.0116*** (0.0001)	0.1228*** (0.0000)	0.1566*** (0.0011)
First	-0.0170*** (0.0012)	-0.4380*** (0.0097)	-0.0211*** (0.0012)	-0.4840** (0.0223)
Growth	0.0010* (0.0971)	0.0008* (0.0619)	0.0198*** (0.0012)	0.7248*** (0.0002)
Indep	-0.0856*** (0.0000)	-0.0860*** (0.0000)	-0.0865*** (0.0000)	-0.0583*** (0.0000)
SOE	0.0029* (0.0576)	0.0027* (0.0855)	0.0008* (0.0612)	0.0006* (0.0721)
Constant	0.0189 (0.3171)	0.0236 (0.2133)	0.0226 (0.2317)	-0.1155*** (0.0000)
Year	control	control	control	control
Industry	control	control	control	control
Observations	23562	23562	23562	23562
Adjusted R-squared	0.263	0.263	0.263	0.304

^aNote: ***, **, and * indicate the significance levels of 1%, 5%, and 10%, respectively, and the numbers in parentheses are the p-values of the two-tailed test.

Table 2 shows the test results of the influence of religious culture on agency costs. It can be seen that the coefficient of Religion200 is significantly negative in regression (1), indicating that the increase of religious culture can significantly inhibit the increase of company agency cost; in regression (2), the coefficient of Religion200 is also significantly negative; the assumption of this paper 1 was verified. In the regressions (3) and (4), the coefficients of Religion300 are significantly negative, indicating that the company's agency costs have decreased significantly as the religious culture of the company's region has increased. Therefore, the hypothesis 1 of this paper is further verified. In the regressions (1)-(4), the coefficients of Size and Lev are significantly positive, indicating that the larger the company size, the higher the asset-liability ratio, the higher the agency cost; the coefficient of SOE is also significantly positive, indicating that it is relative to non- For state-owned enterprises, the agency costs of state-owned enterprises are higher; the coefficient of Dual is also significantly positive at the 1% level, indicating that the situation of concurrent chairman and general manager has significantly aggravated the principal-agent conflict, resulting in an increase in agency costs; Both First and Indep's coefficients are significantly negative, indicating

that the company's agency costs are effectively curbed as the first shareholder share and the proportion of independent directors continue to rise.

5. Robustness Test

5.1 Metrics for changing religious culture

Referring to Du (2013; 2014), this paper re-intervals according to the 20-kilometer standard, and counts the number of religious sites within 120, 140, 160, 180, 220,240, 260 and 280 km of the company's registered place, and re-examines the hypothesis. The results showed that the regression results are basically unchanged.

5.2 Endogenous problem

The above regression results show that religious culture has a significant impact on the agency costs of enterprises. However, there may be some missing variables that affect the religious culture and the agency cost of the enterprise, which leads to deviations in the empirical results. In order to solve this potential endogeneity problem, this paper draws on the existing literature (Chen Donghua et al., 2013) to introduce the number of award-winning religious sites owned by the province where the enterprise is registered, divided by the population of the province as a tool variable for the religious culture. Use this variable for 2SLS regression. The test results show that the original hypothesis is still established after controlling for potential endogeneity problems.

6. Analysis Conclusion

This paper takes the Shanghai-Shenzhen A-share listed company in 2010-2018 as a sample to study the influence of the informal institutional factor of religious culture on the agency cost of the enterprise. The research finds that the religious culture atmosphere of the enterprise location will affect the principal-agent conflict. When other conditions remain unchanged, the more religious culture atmosphere of the enterprise is located, the company's principal-agent conflict is more moderate, and the corresponding agency cost is lower. Conversely, the less religious culture atmosphere of the enterprise is, the more fierce the principal-agent conflict is. The higher the agency cost.

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