

特權消費有關係嗎？大陸銀行的 實證研究

Do Perks Matter? Evidence from Chinese Banks

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摘要

此文探討大陸銀行為何特權消費高，特權消費與銀行績效間有何關聯，以及甚麼機制可有效監督特權消費。研究結果顯示 CEO 權力大，CEO 有政治關聯，大銀行，老銀行的特權消費比較高。雖然我們沒發現特權消費與職位鞏固之間有明顯的關聯，但特權消費高的銀行績效較差，且特權消費與績效間的關係在特別強調地位的銀行(如大銀行，CEO 權力大的銀行)中更明顯。特權消費高的銀行風險承擔程度也比較高，這樣的銀行比較會從事績效波動高的相關活動。在高特權消費的銀行，董事會多元性較低，但董事會專業性卻比較高。在高特權消費的銀行中，無相關業務經驗的董事較少，較少女性董事，董事平均年齡較老。在高特權消費銀行，普遍存在的大規模董事會，與高學歷、具學術背景的董事，這些都無法有效監督特權消費，唯有性別多元化的董事會才能有效監督特權消費。

關鍵詞：特權消費、CEO 權力、績效、風險承擔、性別多元化董事會

Abstract

This paper investigates why perks are high, how perks are related to bank performance, and which monitoring function works in the Chinese banking sector. Results show that stronger CEO power, CEOs with political ties, larger banks, and older banks are all associated with higher perks. Although we are unable to find a significant relationship between perks and entrenchment, banks with high perks underperform versus those with low perks. The relationship between perks and performance is more pronounced for banks that are prone to emphasize status, such as large banks and banks with high CEO power. Banks with high perks are also associated with high risk-taking and are more likely to be engaged in events that have a high variability of performance. Boards of directors in high-perk banks are

less diversified, but surprisingly, more professional. Evidence also presents that fewer directors with unaffiliated business experience, fewer female directors, and older directors serve on the boards of high-perk banks. Large boards and directors with a higher education or academic background, which are common in high-perk banks, fail to efficiently monitor perks. Gender-diverse boards provide better monitoring.

Keywords: Perquisites, CEO Power, Performance, Risk-taking, Gender-diverse Boards

1. Introduction

This paper studies the characteristics of banks' perks in China. A perk (short for perquisite) is defined as any form of non-monetary compensation offered to employees at all levels. Prior research has focused mainly on the U.S. market and documented the effects of perks for top executives on firm values (Rajan & Wulf, 2006; Yermack, 2006; Edgerton, 2012). Providing non-cash subsidies and perks has been a traditional compensation treatment under Chinese corporate culture (Luo et al., 2011). Until now, perks, such as resident subsidies, company cars, and club memberships, are provided to compensate outstanding executives. Recent finance literature (Gul et al., 2011; Luo et al., 2011; Xu et al., 2014), which studies the role of perks in the Chinese economy, focuses on perks in non-finance firms, but banks play a key element in the payment system and have a major role in the functioning of economic systems. China's banking sector is the most important component of its financial system. Due to enormous resources, many CEOs of banks make use of their power to extract public funds in the name of welfare funds, education and training expenses, or medical expenses. We find that perks in banks are about six times higher than those in non-finance firms (US\$8,014,667 vs. US\$1,359,640), yet little is known about bank perks in the literature. Thus, given

the importance of the banking sector in the allocation of scarce capital resources, we believe it is timely and useful to understand why perks are high, how perks may affect bank performance, and which monitoring functions work in the Chinese banking sector.

There are mainly two strands of theory related to perk consumptions. One argues that perks are a way for executives to misappropriate the surplus funds of the firm, because such actions are hard for outsiders to observe (Jensen & Meckling, 1976; Grossman & Hart, 1980; Jensen, 1986; Yermack, 2006). The other argues that perks are offered to incentivize executives to enhance managerial productivity and hence lead to optimal incentive contracts (Fama, 1980; Rajan & Wulf, 2006; Marino & Zábajník, 2008). Studies on perk consumptions in China (Cai et al., 2011; Gul et al., 2011; Luo et al., 2011)² generally echo the aforementioned literature. However, Chen et al. (2010) and Adithipyangkul et al. (2011) provide evidence suggesting that perks are provided as incentives to the executives and result in improved firm performance and high firm value.

This paper focuses on three issues. First, we investigate why some banks offer more perks than others. Perks could be regarded as one sign that the firm has a free cash flow problem with more cash than it knows how to spend (Jensen, 1986). Thus, excessive perks are typically only the tip of an iceberg of wasteful corporate practices such as overinvestment and lax management. Firms with higher executive discretion such as strong CEO power may provide high perks. Moreover, CEOs with strong power tend to be more confident, naturally believing that executives deserve high perks. Therefore, we examine whether CEOs with strong power extract bank value through perks more easily. In China, the monetary compensation of top managers is directly or indirectly affected by regulations, and perks can be a substitute for their relatively low monetary compensation (Chen et al., 2010). Luo et al. (2011) also suggest that providing substantial perks to executives has long been a tradition under the Chinese corporate culture due to

² Cai et al. (2011) find that entertainment and travel costs, overall, have a significantly negative effect on firm productivity. Gul et al. (2011) note higher perks are more likely to be associated with a lower quality of financial reporting. Luo et al. (2011) suggest that higher levels of executive perks hurt firm operating efficiency.

their low salary level in the early days. If perks are offered to compensate for a low salary, then we would expect a negative relationship between executive compensations and perks. Moreover, the traditional compensation treatment under a corporate culture may be deep-rooted due to bank characteristics. We also consider whether bank traits could explain excessive perks. Specifically, we examine whether larger or older banks are associated with higher perks.

Fama (1980) suggests that perks can be an optimal incentive contract to motivate employees to work harder and help offset any adjustments in salary or other forms of pay. Due to economies of scale, tax shield, and status, perk consumptions may enhance productivity and increase firm value (Rajan & Wulf, 2006; Marino & Zábojník, 2008). However, perks in the Chinese market, where corporate governance and monitoring mechanisms are relatively weak, may be better explained by the argument of Jensen & Meckling (1976). From their perspective, the theory of perks is that they are a way for managers to misappropriate some of the surplus the firm generates. Managers can do so, because perks are hard to observe by distant outsiders, and the value of perks is typically underreported to shareholders, if disclosed at all. From recent evidence, while perks can potentially motivate managers to work for the interests of the shareholders (Adithiyankul et al., 2011), they are also associated with a high degree of the agency cost problem (Chen et al., 2010). For example, Yermack (2006) demonstrates a negative relationship between owning corporate jets and stock market performance. The loss in market value is well in excess of the actual cost of the perk. His finding suggests that the market is concerned about managers acting against the interest of shareholders by consuming perk.

The second issue thus comes in the form of a research question: Do perks matter? We test whether banks with a high level of perks perform differently from those with a low level of perks. We test several aspects: performance, entrenchment, risk-taking, variability of performance, and board structure. Perks may be a form of status or positional good (Hirsch, 1976) that reinforces an executive's standing in the organization. If perks are meant to enhance status, then we examine whether the relationship between perks and performance is more pronounced for banks that are prone to emphasize status.

Third and finally, we investigate how governance and board composition are related to perks. Perks may exist, because a firm's governance or incentives are too weak to limit the use of company assets by managers (Jensen & Meckling, 1976). We look at whether the board structure in high perk banks is different from that in low perk banks or whether directors in high perk banks are less qualified and fail to monitor perk consumptions. If perks are primarily a form of a private benefit, then better-governed firms will offer managers less perks. The fiscal waste of "three public expenditures" or *san gong jingfei*³ is common, because Chinese leaders misuse their power. Executives' perk consumptions may be a vital problem under the situation of serious corruption. We investigate the monitoring role of directors and consider board size, directors' age, education level, professional background, political background, and gender.

The results overall show that executives enjoy more perks in banks with higher CEO power. Larger and older banks are also associated with higher perks. The result confirms the traditional compensation structure in China: higher perks are received when compensations are relatively low. Moreover, banks with politically-connected CEOs have higher perks than those without politically-connected CEOs. Although we do not find a significant relationship between perks and entrenchment due to the limited sample size, our evidence still supports the view that higher perks imply higher agency costs and hurt bank performance. Banks with high perks underperform those with low perks, in terms of ROA, pre-tax ROA, pre-provision profit over assets, ROE, and abnormal returns. The relationship between perks and performance is more pronounced for banks that are prone to emphasize status, such as banks with high CEO power and large banks. Banks with high perks have a higher level of non-performing loans, are more likely to be insolvent, and engage in more events related to a high variability of performance, such as mergers and acquisitions, reorganizations, spin-offs, and takeovers.

³ It refers to public money spent on official receptions, vehicles, and overseas travel. Taxpayers have long viewed this type of spending as sources of corruption and waste, allowing officials to misuse public funds for international travel, lavish banquets, and government cars driven for private purposes.

Boards in high-perk banks lack diversification: there are fewer directors with unaffiliated business experience, fewer female directors, and older directors on the boards. Surprisingly, the board structure in high perk banks exhibits some quality: directors are better educated; there are fewer directors with political connection; there are more directors with an academic background. From the perspective of the monitoring role of directors, gender-diverse boards provide better monitoring on perk consumptions. Larger boards, which are common in high-perk banks, reflect higher communication/coordination costs and hence provide less monitoring on perks. Directors with a higher education or academic background also fail to efficiently monitor perk consumptions.

This study provides new insights and contributes to several different research streams. First, our results provide thorough evidence on the role of perks in Chinese banks by investigating on its reasons, impacts, and monitoring. Second, we contribute to the literature on CEO power. We address on the link between CEO power and managerial behavior, and also study the role of CEO power in the outcomes of managerial behavior. Third, we complement existing studies on gender-diverse board and find that diversity provides better monitoring on perks.

The remainder of the paper proceeds as follows. Section 2 discusses the perk theory and our hypotheses. Section 3 describes the sample and data. Section 4 explains why some banks offer more perks than others. Section 5 presents the relationships between perks and performance, entrenchment, and risk-taking. Section 6 presents the relationship between perks and board structure and the investigation of the monitoring role of the directors. Section 7 concludes.

2. Perk theory and hypotheses

There are mainly two strands of theory related to perk consumptions. One strand argues that perks are a way for executives to misappropriate the surplus of the firm, because it is hard for outsiders to observe (Jensen & Meckling, 1976;

Grossman & Hart, 1980; Jensen, 1986; Yermack, 2006). Jensen & Meckling (1976) employ perquisite consumption by managers as the basis for their model of the agency costs of outside equity in a public corporation. They observe that when an owner-manager sells stock to the public and reduces his ownership below 100%, incentives increase for the manager to consume corporate resources for personal benefit. This diversion of resources from the company to the manager is viewed as a pure reduction of firm value. A clear prediction of Jensen and Meckling's model is that perk consumption by a CEO should vary inversely with his fractional ownership. They also suggest that a manager's personal tastes and the difficulty of monitoring the manager's actions should affect perk consumptions.

Jensen (1986) argues that perk consumption serves as a signal of firms having a free cash flow problem. Perks reflect only the tip of an iceberg of wasteful corporate practices such as lax management and overinvestment. Accordingly, perks are perceived to be the result of poor corporate governance, unethical behavior of management, and a waste of firm resources. Thus, firm value should decrease as perk consumption increases. Yermack (2006) studies perks, by focusing on CEOs' disposable use of company planes. For firms that have disclosed this managerial benefit, he finds that the average returns underperform market benchmarks by more than 3.61% annually. His finding supports the argument that firm performance suffers in the presence of perks.

The other strand argues that perks are offered to incentivize executives to enhance managerial productivity and hence lead to optimal incentive contracts (Fama, 1980; Rajan & Wulf, 2006; Marino & Zábajník, 2008). Fama (1980) suggests a theoretical framework for the wage revision process, which considers how perks are being consumed under the agency problem of separation of ownership and control. His theoretical framework lays the foundation for the argument that, when used properly in an employment contract, perks can be an incentive to motivate employees. Thus, perk consumptions may actually increase firm value. In fact, Marino & Zábajník (2008) even propose that senior executives should receive more perks, arguing that work-related perks improve the tradeoff between incentives and insurance that determines the optimal incentive contract. Firms in more uncertain production environments and those with better corporate

governance award more perks.

Rajan & Wulf (2006) offer that treating perks purely as a managerial excess is not appropriate. They present evidence that, in certain situations, perks can enhance managerial productivity.⁴ More productive employees are more likely to receive perks. Time-saving perks are more common in settings in which the time saved by the perk is higher and more frequently offered to the most productive employees as the potential for time-saving increases. They also argue that firms may use perks to enhance the status or authority of the recipient and perks may be a tax-advantaged form of compensation, especially routine ones.

An alternate way perks might represent efficient compensation arises from the ability of companies to provide certain assets to employees more cheaply than the workers could acquire them on their own, including bulk purchasing power and tax shields. For example, an aircraft that is owned by a firm, but made available to the manager, could create depreciation tax shields that would be unavailable to the manager if he bought the plane personally. A net savings might arise between the manager and company even if the manager has to pay personal income tax on the value of the aircraft use. Similarly, a fleet of automobiles might be acquired by a firm at a volume discount and then made available to executives at a lower cost per vehicle than if each manager purchased a car individually.

Theorists in the fields of management and psychology view perks in a variety of ways. Perks may be used as rewards that provide psychic value to the recipient that exceeds their direct cost to the company. For instance, perks can indicate high status, thereby clarifying and reinforcing the chain of command in an organization. Rajan & Wulf (2006) indicate that if perks are meant to enhance status, then they are likely to be used in organizations that emphasize status by carefully delineating positions. They find that steeper firms, or firms with narrower spans⁵ of control,

⁴ For example, CEOs that work in headquarters located in close proximity to larger airports are less likely to have access to a company plane. More geographically dispersed firms are more likely to offer a company plane. Larger firms and firms headquartered in more populated counties are more likely to offer chauffer services to their CEOs. The implication of the productivity hypothesis is that more time-saving perks should be offered to managers who are more productive.

⁵ Span represents the breadth of hierarchy or the span of control, and it is defined as the

are more likely to signal status and give CEOs access to a company plane. Thus, when CEOs hold more power, the hierarchies in bank organizations are more distinct. In that case, we expect that banks with strong power CEOs may provide more perks.

Marino & Zábajník (2008) show that the more uncertain the production process is and the harder it is to monitor and evaluate an agent's performance, the more valuable are the perk's incentive effects and, consequently, the more likely it is that the perk will be provided. Therefore, larger firms offer more technological perks. From the perspective of bank size, large firms are more likely to have well-defined hierarchies, and so they are likely to have more perks. The interactions between executives and staffs are also more frequent in small banks, and this is noticeable when the executives extract firm value for private benefits. Thus, we expect perk consumptions to be higher in large banks. Older banks are more likely to have an ineradicable corporate culture and follow traditional compensation treatments that provide more non-cash subsidies and perks. If this is the case, then we may find older banks provide more perks than others. Moreover, under the traditional compensation treatment, perks are more likely to be used to compensate executives with relatively low compensation (Chen et al., 2010). Therefore, executive compensation is expected to be negatively related with perks.

Three recent papers (Gul et al., 2011; Luo et al., 2011; Xu et al., 2014) study perk consumptions in China. Gul et al. (2011) investigate the relationship between perks and the informativeness of stock prices. They propose that firms with higher perks are associated with a lower quality of financial reporting and in turn have lower informativeness of stock prices. Moreover, the negative relationship between perks and informativeness of stock prices is weaker for firms with higher financial reporting quality through audit and earnings quality measures. Luo et al. (2011) examine how bank ownership affects firm performance through perks, finding a positive relationship between bank ownership of company and perks. Moreover, higher perks hurt firm operating efficiency. Specifically, perks are positively associated with the interest rate paid by the firms. They conclude that the dual role

number of job positions that report directly to the CEO.

played by banks as both creditors and leading shareholders hinder them from effectively monitoring perks, which in turn harms the benefits of other shareholders. Xu et al. (2014) note a positive correlation between excess perks and crash risk in state-owned enterprises. They explain that executives in state-owned enterprises have an incentive to withhold bad news in order to enjoy excess perks, which lead to a higher future stock price crash risk. Better external monitoring mitigates the impact of excess perks on firm crash risk. The impact of excess perks on this crash risk is more pronounced in firms whose executives are approaching retirement.

The arguments of these three papers generally echo the theory of Jensen & Meckling (1976). Thus, we expect banks with a high level of perks may underperform those with a low level of perks. Perks may be a form of status or positional good (Hirsch, 1976) that reinforces an executive's standing in the organization. Large firms are more likely to have well-defined hierarchies (Rajan & Wulf, 2006), and CEOs tend to reinforce their status by possessing more power. If perks are meant to enhance status, then the relationship between perks and performance should be more pronounced for banks that are prone to emphasize status. Thus, we expect the association between perks and performance is more pronounced in large banks and banks with high CEO power.

Brealey et al. (2011)⁶ point out the agency problems in capital budgeting, including reduced effort, perks, empire building, and entrenching investment. Although it is hard to assert the cause and effect of the agency problems, we could catch a glimpse of the relationships among them. We expect that CEOs in high-perk banks are more likely to be entrenched. To expand the business empire, executives in high-perk banks are expected to implement more mergers and acquisitions.

To consolidate their positions, managers are not fond of being monitored or having others intervening in their business. Cronyism and directors with social ties are commonly observed on company boards. Fan et al. (2007) find that firms led by politically-connected CEOs are more likely to appoint other bureaucrats to the board of directors rather than directors with relevant professional backgrounds.

⁶ One may refer to page 319 of Brealey et al. (2011).

Accordingly, if high perks indicate a lax internal monitor and audit mechanism, then board structures in banks with high perks are expected to be less professional and less diversified. Previous studies find that board size (Luo et al., 2011), director ownership, board meeting, and audit quality (Gul et al., 2011) could monitor perks more effectively. We investigate how well a board of directors monitors perk consumptions. However, managers' perks are difficult to monitor (Jensen & Meckling, 1976; Fama, 1980). For example, Yermack (2006) finds no relation between perks and measures of external monitoring such as board size, fraction of outside directors, and the degree of analyst coverage. Diversified board members are more likely to possess different personal characteristics, which lead to dissimilar leadership, thinking, emotional styles, and even risk preferences and behaviors. Traditionally, factors like age, race, gender, educational background, and professional qualifications of the directors make the board less homogenous (Leung, 2015). We consider several board structure measures: board size, directors' age, gender, education, and professional and political backgrounds. We expect that a board of directors with more diversified traits can monitor perk consumptions more effectively.

3. Data

We use the list of financial institutions from China Banking Regulatory Commission⁷ as the base of our sample banks. In the U.S., typical examples of executive perks (Rajan & Wulf, 2006; Yermack, 2006) include chauffeur-driven cars, luxurious club memberships,⁸ different sorts of non-wage allowances (travel and entertainment), and even yachts or jets. However, perk disclosure is not

⁷ The list of financial institutions from China Banking Regulatory Commission could be obtained through the following website: <http://www.cbrc.gov.cn/chinese/jrjg/index.html>.

⁸ Examples include country club membership, lunch club membership, and health club membership.

mandatory in China. To define a perk as any form of non-monetary compensation offered to employees at all levels, the previous literature (Gul et al., 2011; Luo et al., 2011; Xu et al., 2014) collects data from annual reports and identifies the most significant component of perks from Chinese firms. We manually collect perks data from two specific financial statements in annual reports:⁹ cash flow statement and income statement. First, we follow Gul et al. (2011) and Xu et al. (2014), who collect data from a particular and separate section of account notes called “cash payment for the expenses related to operating activity” in the cash flow statement. They identify six possible items related to perks consumed by all employees under this section: traveling expenses, business entertainment expenses, overseas training expenses, board meeting expenses, company car expenses, and meeting expenses.¹⁰ Following their method, we aggregate the six items and define them as the perks consumed in that year (*Perk1*). However, Chinese banks do not disclose information adequately, and some of them do not even declare annual reports every accounting year. Due to insufficient disclosure, we only obtain 27 observations of perk data from cash flow statements over the 2004-2011 period. This limits our analysis and inference. Therefore, we refer to the study of Luo et al. (2011), who collect the data of “administrative expenses” from income statements and summarize the same six items from the notes of accounts. We collect 147 observations of perk data from income statements (*Perk2*) over the 1999-2011 period and then use two common methods to calculate the perks: the natural logarithm of perks and the perks over net sales.

Table 1 presents the descriptive statistics of the main variables. To keep more observations, we use unbalanced panel data. The mean value of perks from cash

⁹ To avoid the problem of duplicating the data (Micco et al., 2007), this paper collects the data from the consolidated statement only when the unconsolidated statement is not available.

¹⁰ Gul et al. (2011) originally use eight items. Aside from the above six items, they also consider work-related and communication expenses. They interview several senior executives of large listed companies as well as auditors of large CPA firms in China to verify which items are likely to be perks. They realize that regular business expenditures instead of perks may be included in these accounts, and some of these items are unreasonably large. After a discussion, they remove those two items.

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statements (*Perk1*) and from income statements (*Perk2*) are RMB 55.07 million and RMB 222 million, respectively. The mean value of perks (from income statements) over net sales (*Perk2%Sales*) is 0.0165.

Table 1 Descriptive statistics

	Mean	Median	Maximum	Minimum	Std. Dev.	N
<i>Perk1</i> (RMB thousand)	55,070	20,689	273,000	2,696	70,611	27
<i>Perk2</i> (RMB thousand)	222,000	56,037	2,230,000	701	358,000	147
<i>LnPerk1</i>	16.9200	16.8451	19.4242	14.8074	1.4752	27
<i>LnPerk2</i>	17.9296	17.8415	21.5258	13.4597	1.8270	147
<i>Perk2%Sales</i>	0.0165	0.0133	0.1372	0.0009	0.0182	146
<i>Exp_LnPerk2</i>	14.9506	16.4758	24.6409	-702.1245	29.2407	610
<i>Exp_Perk2%Sales</i>	-0.0036	0.0121	0.0725	-8.6799	0.3523	610
<i>CEO being the only insider</i>	0.2778	0.0000	1.0000	0.0000		558
<i>CEO duality</i>	0.1281	0.0000	1.0000	0.0000		570
<i>CEO ownership</i>	0.0518	0.0000	0.5981	0.0000	0.0967	298
<i>CEO tenure</i> (month)	37.2774	32.0000	156.0000	0.0000	26.9381	483
<i>CEO directorship</i>	0.0919	0.0000	3.0000	0.0000	0.3926	370
<i>CEO-master</i>	0.4679	0.0000	1.0000	0.0000		374
<i>CEO-PhD</i>	0.1979	0.0000	1.0000	0.0000		374
<i>%CEO compensation</i>	0.3254	0.3351	0.7472	0.0000	0.1299	119
<i>Politically-connected CEO</i>	0.4227	0.0000	1.0000	0.0000		731
<i>Power index</i>	1.3290	1.0000	3.0000	0.0000	0.8087	155
<i>Bank age</i> (year)	14.0579	11.0000	103.0000	0.0000	13.6582	1226
<i>Bank size</i> (RMB million)	409,038	24,507	14,953,975	124	1,452,191	1218
<i>ROA</i>	0.0279	0.0096	0.5034	-0.0364	0.0554	1050
<i>Pre-tax ROA</i>	0.0364	0.0138	0.5233	-0.0254	0.0683	1050
<i>Pre-provision profit over assets</i>	0.0380	0.0143	0.5223	-0.1156	0.0698	898
<i>ROE</i>	0.1440	0.1393	0.8346	-0.6682	0.1100	1050
<i>CAPM_alpha</i>	0.0785	0.0318	3.9743	-0.2032	0.3666	143
<i>TM_alpha</i>	0.6169	0.0212	17.3663	-13.6725	3.4247	143
<i>NPL</i>	3.5853	1.5250	79.5100	0.0000	6.8324	602

<i>I/Z</i>	0.4689	0.3744	1.7178	0.0378	0.3472	82
<i>Entrenched CEO - CAPM_alpha</i>	0.0444	0.0000	1.0000	0.0000		90
<i>Entrenched CEO - TM_alpha</i>	0.1667	0.0000	1.0000	0.0000		90
<i>Average age of directors</i>	49.6461	49.6700	63.2000	36.6000	3.7245	512
<i>Average education level of directors</i>	1.9058	2.0000	3.0000	0.7300	0.7242	344
<i>Percentage of politically- connected directors</i>	0.0578	0.0417	0.5000	0.0000	0.0793	514
<i>Percentage of professional directors</i>	0.4868	0.5000	1.0000	0.0000	0.1568	514
<i>Percentage of professionals with accounting, law, or finance background</i>	0.3842	0.3798	1.0000	0.0000	0.1591	514
<i>Percentage of professionals with unaffiliated business experience</i>	0.0456	0.0000	0.4167	0.0000	0.0702	514
<i>Percentage of professionals with academic background</i>	0.0571	0.0513	0.2500	0.0000	0.0568	514
<i>Percentage of female directors</i>	0.0732	0.0556	0.4000	0.0000	0.0769	514
<i>Board size</i>	17.5371	18.0000	32.0000	4.0000	5.8035	715
<i>State ownership</i>	31.4175	20.1600	100.0000	0.0000	33.2525	633
<i>Foreign ownership</i>	4.3910	0.0000	45.6204	0.0000	9.3088	642
<i>Managerial ownership</i>	0.2585	0.0000	6.5279	0.0000	0.7891	208
<i>Liquid assets over total assets</i>	0.2959	0.2393	0.9806	0.0107	0.1989	1049
<i>Loan growth</i>	90.0901	21.1823	51,059.41	-100.0000	1,726.965	880
<i>Deposits over assets</i>	0.6057	0.7794	1.0336	0.0000	0.3532	1013
<i>Net sales growth (RMB thousand)</i>	2,596	0.0330	1,950,000	-0.0920	71,239	753
<i>Maximum spread between loan and deposit rates</i>	385.1165	0.0360	225,313.300	0.0000	8,918.624	1063

Data source: this research

Table 2 presents the distribution of perks during the sample period, showing that *Perk1* increased from 2004 to 2010. The value of *Perk2* rose from 1999 to 2004, fell slightly afterward, and then increased sharply in 2010. However, from the tests for equality of means and medians of *Perk1* and *Perk2* by year, the mean

and median values are indifferent among the years. Only the variance of *Perk2* is significantly different among the years at the 1% level. The value of *Perk2%Sales* rose to a peak in 2004 and then fell to a valley in 2008. After 2009, *Perk2%Sales* decreased gradually. The mean and variance are not the same among the years.

Table 2 Perks by year

Year	<i>Perk1</i>	<i>Perk2</i>	<i>Perk2%Sales</i>
1999		67,561,866	0.0175
2000		78,894,313	0.0190
2001		105,000,000	0.0149
2002		194,000,000	0.0206
2003		251,000,000	0.0201
2004	10,087,144	273,000,000	0.0264
2005	20,394,058	187,000,000	0.0239
2006	21,267,925	39,559,000	0.0149
2007	24,915,684	35,826,000	0.0119
2008	52,982,880	24,820,917	0.0117
2009	64,909,316	23,120,271	0.0183
2010	77,830,900	28,417,810	0.0154
2011	68,281,413	37,928,004	0.0126
Test for equality of means: <i>F</i>	0.2998	1.7406	1.8659 *
Test for equality of medians: Adj. χ^2	1.4130	16.8896	15.4102
Test for equality of variances: <i>Bartlett</i>	7.0042	51.2513 ***	71.8395 ***

Data source: this research

Table 3 shows the perks in different bank types. Panel A presents the mean, standard deviation, and observations of perks classified by types. Panel B presents the results of our ordinary least squares (OLS) regressions using *LnPerk1*, *LnPerk2*, and *Perk2%Sales* as dependent variables. To simply compare the perks in different types, only constant and types are included as independent variables. No observation of *LnPerk1* is available for state-owned development banks (so-called policy banks, PBs). Therefore, only city commercial banks (CCBs), joint-stock

commercial banks (JSCBs), and rural commercial banks (RCBs) are included as dummy variables in the model. We use trust and investment corporations (TICs) as the benchmark. Results show that *LnPerk1* in CCBs and JSCBs are higher and *LnPerk1* in RCBs is lower than *LnPerk1* in TICs. From the results of the Wald test, *LnPerk1* is the highest in JSCBs, followed by CCBs and TICs, and the lowest in RCBs. From the regression of *LnPerk2*, perks in JSCBs, PBs, RCBs, and CCBs are higher than those in TICs. The result of the Wald test shows that the value of *LnPerk2* is the highest in JSCBs, followed by PBs, RCBs, and CCBs, and the lowest in TICs. Although the value of *LnPerk2* is higher in PBs than in TICs, the regression of *Perk2%Sales* shows the opposite result. It implies that net sales are higher in PBs than in TICs.

Table 3 Perks by bank types

Panel A: Summary statistics of perks by bank types									
	<i>LnPerk1</i>			<i>LnPerk2</i>			<i>Perk2%Sales</i>		
	n	Mean	Std. Dev.	n	Mean	Std. Dev.	n	Mean	Std. Dev.
CCB	16	17.3603	1.2538	64	16.6045	0.948	64	0.0139	0.0215
JSCB	3	18.6882	0.2791	58	19.6191	0.9564	57	0.0214	0.0124
PB		-	-	11	18.7918	0.7506	11	0.0012	0.0002
RCB	5	15.1316	0.3022	9	17.4784	1.2214	9	0.0172	0.0033
TIC	3	15.7843	0.2602	5	14.2067	0.9717	5	0.0258	0.0365
Panel B: Regressions of perks on bank type dummies									
	<i>LnPerk1</i>		<i>LnPerk2</i>		<i>Perk2%Sales</i>				
Constant	15.784	(118.759) ^{***}	14.207	(35.925) ^{***}	0.026	(1.736) [*]			
CCB	1.576	(4.444) ^{**}	2.398	(5.804) ^{**}	-0.012	(-0.789)			
JSCB	2.904	(14.899) ^{***}	5.412	(13.034) ^{***}	-0.004	(-0.295)			
RCB	-0.653	(-3.498) ^{***}	3.272	(5.886) ^{**}	-0.009	(-0.572)			
PB			4.585	(10.137) ^{***}	-0.025	(-1.653) [*]			
Adjusted <i>R</i> ²	0.5158		0.7255		0.0746				
<i>F</i> -statistic	10.231	^{***}	97.474	^{***}	3.923	^{***}			
Observations	27		147		146				
Wald test: χ^2									

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H_0 : CCB=JSCB	13.73 ^{***}	299.38 ^{***}
H_0 : CCB=RCB	39.65 ^{***}	4.58 ^{**}
H_0 : CCB=PB		76.54 ^{***}
H_0 : JSCB=RCB	337.56 ^{***}	27.18 ^{***}
H_0 : JSCB=PB		10.65 ^{***}
H_0 : PB=RCB		8.59 ^{***}

Panel A shows the mean and standard deviation values of perks in five bank types: city commercial banks (CCBs), joint-stock commercial banks (JSCBs), policy banks (PBs), rural commercial banks (RCBs), and trust and investment corporations (TICs). Panel B shows the estimated regression model using $LnPerk1$, $LnPerk2$, and $Perk2\%Sales$ as dependent variables. To simply compare the perks in different types, only constant and bank type dummies are included as independent variables. The Wald test is adopted to test the equality for the coefficients of different bank types. Values of t -statistics based on White heteroskedasticity robust standard errors are reported in parentheses. Superscripts ^{***}, ^{**}, and ^{*} indicate statistical significance at the 1%, 5%, and 10% levels, respectively.

Data source: this research

To understand why some banks offer more perks than others, this paper considers two dimensions: CEO power and bank characteristics. First, to measure the extent of CEOs' decision-making power, this paper follows Finkelstein's (1992) classification of CEO power: structural, ownership, expert, and prestige powers. Referring to the definition of previous studies (Ocasio, 1994; Daily & Johnson, 1997; Adams et al., 2005), this paper adopts five measures. Two dummy variables - CEOs being the only insider on the board and CEOs' concentration of titles (both the titles of chairman and president) - measure structural power. CEO ownership captures ownership power. CEO tenure is the proxy for expert power. The number of director positions the CEO holds in other firms captures prestige power. The second dimension is bank characteristics. This paper adopts bank size, bank age, and the percentage of CEO to senior executive compensation. We manually collect CEO power data from annual reports and obtain bank characteristic data from the Taiwan Economic Journal (TEJ). Around 28% of the CEOs are the only insider on the board; 13% of them have a concentration of titles. The average CEO ownership is 5.18%, and the average tenure is around 3 years. The average bank age is 14 years, and the average size is RMB 409 trillion.

To examine the impact of perks, we use performance and risk-taking measures. We adopt five performance measures: ROA, pre-tax ROA, pre-provision profit over assets, ROE, and abnormal returns. Pre-provision profit over assets is defined as operating income minus operating expenses over assets (Garcia-Herrero et al., 2009). The alphas from CAPM and the two-index market model are used to calculate the abnormal returns, indicating *CAPM_alpha* and *TM_alpha*, respectively. The two indices in the model are market returns and interest rate. We utilize the returns of Shanghai Stock Exchange Composite Index or Shenzhen Composite Index, depending on the exchange market the bank is listed on, to measure the market return in CAPM and the two-index market model. We employ non-performing loans (*NPL*) and insolvency risk to measure bank risk-taking. We refer to Pathan's (2009) method and use Z-score to measure insolvency risk. We compute Z-score for each fiscal period as [average (returns) + average (equity/total assets)]/STD (returns) (Boyd et al., 1993). STD (returns) is calculated as the standard deviation of its daily stock returns for each fiscal year (Anderson & Fraser, 2000). Since a high Z-score means less insolvency risk, following Pathan (2009), we adopt the inverse form of Z-score ($1/Z$). Thus, a high $1/Z$ indicates higher bank risk-taking. Other bank characteristics and macroeconomic variables are also collected from TEJ.

4. Why do some banks offer more perks than others?

This paper investigates whether CEO power and bank characteristics influence bank perks. Table 4 presents the regression results. Each model includes one factor at a time to isolate the effect. Following previous studies (Yermack, 2006; Gul et al., 2011), we include some factors that may influence perks as our control variables in the regressions of *LnPerk2* and *Perk2%Sales*. Due to the limited number of observations, the control variables are not included in the regression of *LnPerk1*. Those are bank level variables, including ROA, loan growth,

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state ownership, managerial ownership, foreign ownership, net sales growth, deposits over assets, and liquid assets to total assets, and macroeconomic level variables, including CPI growth and maximum spread between loan and deposit rates. The estimated results are presented in the first three columns. The previous section shows that all three perk measures are not equal in different bank types, and furthermore that *Perk2%Sales* is not equal among sample years. Therefore, we estimate additional equations including the type dummies in the regressions of *LnPerk1* and *LnPerk2* and the type and year dummies in the regression of *Perk2%Sales*. The last three columns include type and/or year dummies. To save space, the table does not show the coefficients of constant terms, control variables, type and year dummies.

Table 4 Determinants of perks

	<i>LnPerk1</i>	<i>LnPerk2</i>	<i>Perk2%Sale</i>	Type dummies			Type & year
				<i>LnPerk1</i>	<i>LnPerk2</i>	<i>Perk2%Sale</i>	dummies
CEO being the only insider	NA	-0.32 (-0.76)	0.007 (1.41)	0.45** (2.55)	-0.08 (-0.20)	0.02** (2.21)	
Adjusted <i>R</i> ²		0.5031	0.2425	0.5101	0.7169	0.4313	
<i>F</i> -statistic		6.15***	2.63**	8.29***	11.13***	2.85***	
CEO duality	-1.96 (5.19)	-0.83*** (-2.00)	0.002 (0.23)	-2.65*** (-7.75)	-0.76** (-2.27)	NA	
Adjusted <i>R</i> ²		0.2382	0.1839	0.7996	0.7430		
<i>F</i> -statistic		7.56**	2.15**	21.95***	12.56***		
CEO ownership	NA	8.93*** (2.66)	-0.001 (-0.02)	7.52** (2.26)	5.73 (1.57)	-0.05 (-0.59)	
Adjusted <i>R</i> ²		0.3736	0.2588	0.4912	0.7068	0.2295	
<i>F</i> -statistic		4.09***	2.81***	5.51**	11.57***	1.77*	
CEO tenure	0.04 (2.00)	0.0052 (0.62)	-0.0001 (-0.94)	0.03*** (3.51)	0.003 (0.57)	NA	
Adjusted <i>R</i> ²		0.1498	0.1884	0.8506	0.7721		
<i>F</i> -statistic		3.82*	2.1183**	46.54***	13.82***		
CEO's directorships in other firms	NA	-0.19 (-0.71)	0.02* (1.72)	NA	0.04 (0.24)	0.02* (1.88)	
Adjusted <i>R</i> ²		0.5405	0.4954	0.8627	0.8627	0.5321	
<i>F</i> -statistic		5.60***	4.84***	20.30***	20.30***	3.33***	

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% CEO compensation	-7.12 ^{**} (-3.08)	-1.65 (-1.52)	NA	-5.94 [*] (-2.04)	-1.35 (-0.89)	NA
Adjusted R^2	0.3402	0.7435		0.7543	0.6926	
F -statistic	5.64 ^{**}	6.53 ^{***}		10.21 ^{***}	4.64 ^{**}	
Ln Bank size	0.51 ^{***} (4.88)	1.56 ^{***} (6.54)	0.0004 (0.23)	1.02 ^{***} (2.83)	0.88 ^{***} (5.01)	-0.002 (-0.40)
Adjusted R^2	0.3844	0.8158	0.1741	0.6930	0.8506	0.2261
F -statistic	16.61 ^{***}	24.35 ^{***}	2.11 ^{**}	15.11 ^{***}	24.58 ^{***}	1.74 [*]
Bank age	0.13 ^{***} (2.94)	0.19 ^{***} (3.42)	0.0006 (1.04)	0.18 [*] (2.00)	0.08 (1.45)	0.0008 (0.48)
Adjusted R^2	0.1779	0.5777	0.2016	0.5974	0.7562	0.2345
F -statistic	6.63 ^{**}	8.21 ^{***}	2.33 ^{**}	10.65 ^{***}	13.85 ^{***}	1.77 [*]
Type dummies	No	No	No	Yes	Yes	Yes
Year dummies	No	No	No	No	No	Yes
Control variables		Yes	Yes		Yes	Yes

This table shows the regressions of perks on CEO power and bank characteristics. The dependent variables are $LnPerk1$, $LnPerk2$, and $Perk2\%Sales$. CEO power is measured by the CEO being the only insider, CEO duality, CEO ownership, CEO tenure, and CEO having directorships in other firms. Bank characteristic variables include the percentage of CEO compensation to the compensation of the top three executives in the bank, bank size, and bank age. Constant terms are included in all regression equations. Control variables included in the regressions of $LnPerk2$ and $Perk2\%Sales$ are ROA, loan growth, state ownership, managerial ownership, net sales growth, CPI growth, deposits over assets, foreign ownership, liquid assets over total assets, and maximum spread between loan and deposit rates. To save space, this table only presents the coefficients of CEO power and bank characteristic variables. Adjusted R^2 and F -statistics for each regression are also presented. Values of t -statistics based on White heteroskedasticity robust standard errors are reported in parentheses. NA indicates the data is insufficient to estimate the regression or the F -statistic is insignificant. Superscripts ^{***}, ^{**}, and ^{*} indicate statistical significance at the 1%, 5%, and 10% levels, respectively.

Data source: this research

From the perspective of CEO power, perks are higher when CEOs have longer tenure, higher ownership, or more directorships in other firms. Only one of the structural measures, CEO duality, exhibits a negative relationship with perks. The other structural power measure, CEO being the only insider on the board, and the other three sources of power, ownership, expert, and prestige power, are positively related with perks. Overall, the result echoes the hierarchy view of Rajan & Wulf (2006) and indicates that executives enjoy more perks in banks with higher CEO power.

Based on the model of Jensen & Meckling (1976), CEO ownership is predicted to be negatively associated with perks. However, our result and the empirical finding of Marino & Zábajník (2008) are somewhat in contradiction to the prediction in the model of Jensen & Meckling (1976). Yermack (2006) uses company jets to study perks and does not find a significant relationship between CEO ownership and perks. However, using a subsample with CEO ownership higher than 15%, Yermack (2006) finds only one CEO, among 42 observations, enjoys a company jet. In other words, his result supports the argument of Jensen & Meckling (1976) that, when CEO ownership is higher than 15%, CEO ownership is negatively associated with perks. We further include the square term of *CEO ownership* in the regression. The coefficient on *CEO ownership* remains positive, but the coefficient on the square term is insignificantly negative. We take the regression of *LnPerk2* on *CEO ownership*, including control variables and type dummies, as an example. The coefficient on *CEO ownership* is 7.47 ($t = 1.93$) and the coefficient on the square term is -19.70 ($t = -1.45$). Based on that, the turning point of the relationship between CEO ownership and perks is when *CEO ownership* equals 18.96%, which is close to Yermack's (2006) result.

A CEO with higher education is regarded as possessing higher prestige power. We set two dummies that indicate a CEO's highest education level, *CEO-master* and *CEO-PhD*, to test the robust effect of prestige power. From the unreported regression analysis, the coefficients of the two dummies are significantly positive on the regressions of *LnPerk2* and *Perk2%Sales*. CEOs with a master and/or above degree are positively correlated with perks. We still find the positive relationships between prestige power and perks.

Perks may be a form of status or positional good (Hirsch, 1976). We find that larger banks offer more perks to their managers to reinforce their standing in the bank. Our finding is consistent with the theory and the results of Yermack (2006) and Rajan & Wulf (2006) in that large perks indicate status in large organizations. This may also reflect the general tendency of all types of executive compensation to increase with firm size. The significantly positive coefficients of bank age indicate that older banks also offer more perks. The result for old banks is consistent with the ineradicable corporate culture following the treatment of traditional Chinese compensation. We also find a higher percentage of CEO compensation to senior executive compensation is associated with less perks. Consistent with Chen et al. (2010), the result confirms the traditional compensation structure in China. Higher non-monetary subsidies and perks are received when compensations are relatively low.

Although the coefficients of control variables are not tabulated, the results, especially on foreign ownership and managerial ownership, still provide some insight for understanding bank perks. Foreign banks are generally more profitable than domestic banks in emerging countries (Demirguc-Kunt & Huizinga, 1999). Berger et al. (2009) show that foreign ownership is associated with higher efficiency in China. In spite of the benefits provided by foreign ownership, we find a significantly positive relationship between foreign ownership and perks. Since foreign ownership and the time trend are uncorrelated, and perk consumptions slightly decreased over the sample period,¹¹ the positive relationship between foreign ownership and perks is unlikely caused by the time trend. A more possible interpretation is that the positive relationship echoes the view of Jensen & Meckling (1976) in that managers' perks are difficult for outsiders to observe and monitor. Consistent with the alignment effect, executives owning a larger fraction of the firm have interests that are more aligned with shareholders and therefore may consume less perks. Banks with higher managerial ownership have lower

¹¹ The correlation coefficient of the time trend (year minus 1998) and foreign ownership is 0.0209, and it is statistically insignificant. The correlation coefficients of the time trend with *LnPerk2* and *Perk2%Sales* are -0.1700 and -0.1785, respectively, and they are both significant at the 10% level.

perks. Executives use less perks when their wealth is highly associated with the banks.

We estimate the median regression to check whether the result is sensitive to outliers, if there are any. In unreported results, the relationships between the above-mentioned factors and perks still hold, while only some coefficients are less significant.

Fan et al. (2007) study Chinese IPO firms and find that firms with politically-connected CEOs underperform those without politically-connected CEOs in many ways, including stock returns, earnings growth, sales growth, and change in returns on sales. They also show that politically-connected CEOs are more likely to appoint other bureaucrats to the board of directors. This paper examines whether a CEO's political ties is associated with perks. We obtain a profile of each bank's CEO from the "Profile of Directors and Senior Managers" section of the bank's annual report. Following the definition of Fan et al. (2007), we identify that the CEO is politically connected if he or she was currently or formerly an officer of either the central government, a local government, or the military. In this way, we identify 309 politically-connected CEOs among 731 bank-year observations from 140 banks. Politically-connected CEOs are found in 70 banks, and CEOs without political connections are found in 97 banks. We estimate the same regression equations as in Table 4, but replace the CEO power variable with a politically-connected CEO dummy. We do find a positive relationship between politically-connected CEO and perks in the regressions of *LnPerk1* and *LnPerk2*. Banks with politically-connected CEOs have higher perks than those without politically-connected CEOs.

5. Do perks matter?

To address this question, we examine several aspects: bank performance, risk-taking, variability of bank performance, and board structure (in Section 6). We

separate the sample into two groups based on the median value of the perk measure in our sample. Banks with the perk value equal to or higher than the median value of perks are categorized as banks with high perks; otherwise, they are banks with low perks. For example, we separate the sample into high and low *LnPerk1* based on the median value of *LnPerk1* in our sample (16.84513). We use the same method to categorize the sample by the median values of *LnPerk2* and *Perk2%Sales*.

5.1 Perks and bank performance

Table 5 presents the means, medians, and the equality tests of performances between high- and low-perk banks. Panel A shows the results using *LnPerk1* to categorize the low- and high-perk banks. The median value of ROA in high-*LnPerk1* banks (0.0109) is significantly lower than that in low-*LnPerk1* banks (0.0183) at the 1% level. The negative relationship between perks and performance is robust when we use pre-tax ROA, pre-provision profit over assets, and ROE as performance measures. Panels B and C present the results using *LnPerk2* and *Perk2%Sales* to separate the sample into low- and high-perk banks, respectively. The mean and median values of performances in high-perk banks are significantly lower than those in low-perk banks. For example, the mean value of ROA in low-*LnPerk2* banks (0.0148) is significantly higher than that in high-*LnPerk2* banks (0.0064) at the 5% level. Generally, banks with high perks underperform those with low perks.

Table 5 Perks and performance

	Low-perk banks			High-perk banks			Wilcoxon/ Mann-Whitney	
	Obs.	Mean	Median	Obs.	Mean	Median	t-statistic	
Panel A: Banks categorized by <i>LnPerk1</i>								
<i>ROA</i>	11	0.0388	0.0183	13	0.0114	0.0109	1.6093	3.0127***
<i>Pre-tax ROA</i>	11	0.0485	0.0228	13	0.0144	0.0138	1.5559	3.3024***
<i>Pre-provision profit over assets</i>	9	0.0543	0.0256	13	0.0143	0.0138	1.5380	3.2053***
<i>ROE</i>	11	0.2645	0.2720	13	0.1924	0.1696	2.6230**	2.1437**
Panel B: Banks categorized by <i>LnPerk2</i>								
<i>ROA</i>	57	0.0148	0.0113	65	0.0064	0.0058	2.3463**	4.9864***
<i>Pre-tax ROA</i>	57	0.0199	0.0144	65	0.011	0.0103	1.9498*	3.4638***
<i>Pre-provision profit over assets</i>	55	0.0195	0.0139	57	0.0103	0.0105	1.9639**	3.1836***
<i>ROE</i>	57	0.1906	0.1922	65	0.1381	0.1649	2.5526**	1.9425*
Panel C: Banks categorized by <i>Perk2%Sales</i>								
<i>ROA</i>	57	0.0146	0.0113	64	0.0066	0.0058	2.2295**	4.7004***
<i>Pre-tax ROA</i>	57	0.0200	0.0151	64	0.0109	0.0103	1.9991**	3.8036***
<i>Pre-provision profit over assets</i>	50	0.0199	0.0140	61	0.0108	0.0105	1.7869*	2.8775***
<i>ROE</i>	57	0.1790	0.1715	64	0.1503	0.1654	1.3834	0.9529

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Panel D: Tests for the equality of mean and median of ROA

	Low-Exp_Lnperk2 banks			High-Exp_Lnperk2 banks			Wilcoxon/ Mann-Whitney	
	Obs.	Mean	Median	Obs.	Mean	Median	t-statistic	
Full sample	251	0.0792	0.0368	220	0.0118	0.0103	11.5616 ^{***}	10.2847 ^{***}
High CEO power	20	0.0128	0.0126	91	0.0099	0.0103	3.2797 ^{***}	2.7098 ^{***}
Low CEO power	1	0.0092	0.0092	18	0.0094	0.0085	-0.0398	0.0913
Large banks	33	0.0121	0.0127	206	0.0098	0.0100	2.0198 ^{**}	2.4005 ^{**}
Small banks	218	0.0894	0.0639	14	0.0413	0.0140	2.9406 ^{***}	1.6411
	Low-Exp_Perk2%Sales banks			High-Exp_Perk2%Sales banks			Wilcoxon/ Mann-Whitney	
	Obs.	Mean	Median	Obs.	Mean	Median	t-statistic	
Full sample	252	0.0672	0.0160	219	0.0253	0.0107	6.5218 ^{***}	6.8319 ^{***}
High CEO power	30	0.0125	0.0123	81	0.0096	0.0096	3.8019 ^{***}	3.4114 ^{***}
Low CEO power	4	0.0164	0.0122	15	0.0076	0.0080	1.7434	2.5511 ^{***}
Large banks	67	0.0117	0.0114	172	0.0095	0.0096	2.9497 ^{***}	3.0416 ^{***}
Small banks	185	0.0873	0.0533	47	0.0833	0.0709	0.2666	0.3164

This table shows the result of the tests for the equality of mean and median of performances between low- and high-perk banks. Performance measures are ROA, pre-tax ROA, pre-provision profit over assets, and ROE. Low- and high-perks are categorized by the median values of *LnPerk1*, *LnPerk2*, and *Perk2%Sales* in Panels A, B, and C, respectively. Banks with the perk value equal to or higher than the median value of perks is categorized as having high perks; otherwise, they have low perks. Panel D presents the tests for the equality of mean and median of ROA between low- and high-perk banks. In this panel *Exp_LnPerk2* and *Exp_Perk2%Sales* are used to categorize the sample. We aggregate five CEO power variables as follows. Power index = 0.5(CEOs being the only insider on the board + CEO duality) + High ownership dummy + High expert dummy + High prestige dummy. Dummies for high ownership, expert, and prestige power are based on the median values of each power variable. The median value of the power index separates the sample into high and low CEO power. We use *t* and *Wilcoxon/Mann-Whitney* statistics to test the equality of mean and median of performances, respectively. Higher mean or median values are in bold letters. Superscripts ^{***}, ^{**}, and ^{*} indicate statistical significance at the 1%, 5%, and 10% levels, respectively.

Data source: this research

We further test for equality of means and medians of abnormal returns. The alphas from CAPM and the two-index market model are used to calculate the abnormal returns, indicating *CAPM_alpha* and *TM_alpha*, respectively. The results are unreported. None of the tests for equality of means and medians of *CAPM_alpha* are significant. The mean values of *TM_alpha* in low- and high-*Perk2%Sales* banks are 1.96 and -0.46, respectively. *TM_alpha* is significantly lower for banks with high perks at the 10% level ($t = 1.7933$).

This paper limits the sample to banks whose perk data are available. The disclosure of perk consumption is voluntary in China, and thus the limitation of this study is the issue of undisclosed perk consumption. To overcome this missing data problem, we develop an “expected” perk measure for banks. We regress *LnPerk2* on *Ln(bank size)*, bank age, board size, and net sales growth for each sample year and then utilize the estimated coefficients to calculate the expected perks, denoted as *Exp_LnPerk2*. We use the same method to calculate *Exp_perk2%Sales*. Furthermore, we use *Exp_LnPerk2* and *Exp_Perk2%Sales* to categorize low and high perks and examine the relationship between perks and abnormal returns. The mean values of *TM_alpha* in low- and high-*Exp_Lnperk2* banks are 2.59 and 0.11, respectively. We still find that *TM_alpha* is significantly lower for banks with high perks ($t = 1.7560$). Similar to Yermack (2006), our finding supports the argument that firm performance suffers in the presence of perks, because their consumption is symptomatic of waste.

If perks are meant to enhance status, then the relationship between perks and performance should be more pronounced for banks that are prone to emphasize status. We further examine whether the association is more pronounced in banks with high CEO power and in larger banks. To construct the CEO power index, we set dummies for high CEO ownership, expert, and prestige power based on the median values of each power variable. If the value of the CEO power variable is equal to or higher than the median value, then the dummy equals one; otherwise, zero. We aggregate five power dummies as follows to make sure that four dimensions of CEO power are equally weighted. Power index = 0.5(CEOs are the only insider on the board + CEO duality) + High ownership dummy + High expert dummy + High prestige dummy. In our sample, the power index ranges from 0 to 3,

and the median value is 1. We use the median value of the power index to categorize the banks into high- and low-CEO power banks. We test for the equality of mean and median of ROA between low- and high-expected perks¹² using the full sample and the high- and low-CEO power subsamples.

Panel D of Table 5 presents the results of the test. Banks with high expected perks still experience low ROA in the full sample. Furthermore, the negative relationship between perks and ROA is only or more significant when CEOs possess higher power. We also use the median value of bank size to separate the sample into large and small banks. The negative relationship between perks and performance is more significant in large banks. Using other performance measures yields the similar result. The relationship between perks and performance is more pronounced for banks that are prone to emphasize status. The findings support our conjecture that perks are meant to enhance status. However, different from Rajan & Wulf (2006), we find that perks in Chinese banks enhance status in a negative way.

5.2 Perks and entrenchment

Perks are viewed as a route through which managers misappropriate a firm's surplus. If higher perks imply higher agency costs and hurt bank performance, then higher perks might be associated with a higher possibility of entrenchment. We refer to previous studies to define entrenchment. Berger et al. (1997), Yermack (2006), Bebchuk et al. (2009) and others use executive age, tenure, and anti-takeover provisions to proxy for entrenchment. However, Norburn & Birley (1988) argue that age and tenure can also proxy for valuable experience. This paper employs CEO tenure to measure the expert power and the anti-takeover provisions data are not available for Chinese banks. We turn to the study of Salas (2010) who uses an ideal setting to identify entrenched executives - that is, the stock price reaction to unexpected senior executive (CEO, chairman, and/or president) deaths. If death removes an entrenched manager when the board would or could not, then the stock price reaction should be positive. This setting is correlated with true

¹² Using expected perks obtains more observations and hence leads to a more convincing analysis result.

entrenchment for three reasons: (1) it provides a clear sign that strong positive stock returns show that shareholders are glad to see the executive removed, implying that the board should have removed the executive earlier; (2) the sample of sudden deaths is free of endogeneity; (3) the news of sudden deaths is very unlikely to leak out before the deaths. Among those firms with (1) a negative three-year market model alpha and (2) executive tenure greater than 10 years, the average stock market reaction is 6.8%. Therefore, Salas (2010) proposes a combination of tenure and poor performance as a proxy for entrenchment. Outside the sample of sudden deaths, Salas's result shows that the negative interaction of tenure and past performance identifies firms with more executive power and worse corporate governance better than other entrenchment proxies such as age, tenure, and E-index.

Due to the characteristics of our sample banks, we relax Salas' (2010) definition to better fit our data. We set an entrenchment dummy equal to one for banks with CEO tenure equal to or longer than the median value (32 months) of the sample banks and successive two-year negative alphas, while equal to zero otherwise. Panels A and B of Table 6 present the results using *CAPM_alpha* and *TM_alpha* to measure the alphas, respectively.

Table 6 Perks and entrenchment

Panel A: CEOs with 32 months or more in the banks and successive two-year negative *CAPM_alpha*

		Low <i>Perk2%Sales</i>	High <i>Perk2%Sales</i>	Total
Banks with non-entrenched	#	9	29	38
CEOs	(%)	(100.00)	(93.55)	(95.00)
Banks with entrenched	#	0	2	2
CEOs	(%)	(0.00)	(6.45)	(5.00)
Total	#	9	31	40
<i>Pearson</i> χ^2		0.6112		

Panel B: CEOs with 32 months or more in the banks and successive two-year negative *TM_alpha*

		Low <i>Perk2%Sales</i>	High <i>Perk2%Sales</i>	Total
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Banks with non-entrenched CEOs	#	6	28	34
	(%)	(66.67)	(90.32)	(85.00)
Banks with entrenched CEOs	#	3	3	6
	(%)	(33.33)	(9.68)	(15.00)
Total	#	9	31	40
<i>Pearson χ^2</i>		3.0614*		

This table shows the *Chi-square* test for the independence of perks and entrenchment. Banks with an entrenched CEO are those with long CEO tenure and successive two-year negative abnormal returns. Long CEO tenure is defined as when CEO tenure is equal to or more than the median value of CEO tenure in our sample - that is, 32 months or more. Panels A and B use alphas from CAPM (*CAPM_alpha*) and the two-index market model (*TM_alpha*) to measure abnormal returns, respectively. Superscript * indicates statistical significance at the 10% level.

Data source: this research

We conduct the *Chi-square* test to examine the independence of entrenched CEO and perks. Similar to the previous section, we separate the sample into low- and high-perk banks. Table 6 shows the result using *Perk2%Sales* to classify low and high perks, because more observations are collected, compared to use *LnPerk1* and *LnPerk2*. Although the *Chi-square* test shows that perks and entrenchment are significantly correlated in Panel B, the expected value is less than 5 in 50% of the cells. Thus, the significant relationship between perks and entrenchment may not be reliable. To confirm this finding, we increase the number of observations by using *Exp_LnPerk2* and *Exp_Perk2%Sales* to categorize low and high perks and then examine the relationship between perks and entrenchment again. In this way, the number of observations increases 72.5% (from 40 to 69), and the expected value of less than 5 is now in only 25% of the cells. I unreported result, we do not find a significant relationship between perks and entrenchment. The result does not change when we use *CAPM_alpha* instead of *TM_alpha* to define entrenched CEOs.

5.3 Perks and risk-taking

We turn to examine whether banks with high perks have different levels of

risk-taking from those with low perks. We conduct the tests for equality of means and medians of risk-taking between high- and low-perk banks. We use *NPL* and *I/Z* to capture bank risk-taking, with the results presented in Table 7. Similar to Table 5, Panels A to C show the results using three different measures to separate the sample into low- and high-perk banks. We find a positive relationship between perks and risk-taking. For example, the mean and median values of *NPL* in high-*Perk2%Sales* banks are twice as high as those in low-*Perk2%Sales* ones. The mean and median values of *I/Z* are significantly higher in high-perk banks than in low-perk banks. Generally, banks with high perks have a higher level of non-performing loan and are also more likely to be insolvent.

Table 7 Perks and risk-taking

	Low-perk banks			High-perk banks			<i>t</i> -statistic	<i>Wilcoxon/Mann-Whitney</i>
	n	Mean	Median	n	Mean	Median		
Panel A: Banks categorized by <i>LnPerk1</i>								
<i>NPL</i>	9	1.1178	0.7300	13	0.9446	0.7900	0.4927	0.167
<i>I/Z</i>	3	0.1068	0.0672	5	0.3754	0.3799	-4.8482 ^{***}	2.087 ^{**}
Panel B: Banks categorized by <i>LnPerk2</i>								
<i>NPL</i>	45	2.6480	1.5200	58	3.5440	2.2700	-1.276	1.7421 [*]
<i>I/Z</i>	3	0.1068	0.0672	21	0.8743	0.7830	-8.0303 ^{***}	2.7059 ^{***}
Panel C: Banks categorized by <i>Perk2%Sales</i>								
<i>NPL</i>	47	2.0653	1.2200	56	4.0650	2.4800	-3.0874 ^{***}	3.8635 ^{***}
<i>I/Z</i>	10	0.5815	0.5229	14	0.9190	0.7683	-1.9550 [*]	1.7859 [*]

This table shows the result of the tests for equality of mean and median of bank risk-taking between low- and high-perk banks. Risk-taking measures are non-performing loans (*NPL*) and insolvency risk (*I/Z*). Low- and high-perks are categorized by the median values of *LnPerk1*, *LnPerk2*, *Perk2%Sales* in Panels A, B, and C, respectively. Banks with the perk value equal to or higher than the median value of perks is categorized as having high perks; otherwise, they have low perks. We use *t* and *Wilcoxon/Mann-Whitney* statistics to test the equality of mean and median values of bank risk-taking between low- and high-perk banks, respectively. Higher mean or median values are in bold letters. Superscripts ^{***}, ^{**}, and ^{*} indicate statistical significance at the 1%, 5%, and 10% levels, respectively.

Data source: this research

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We next examine some factors that are likely to be associated with the variability of bank performance. We set up two dummy variables indicating whether the measured events occurred in banks. One dummy variable is *takeover*. The other one is *activity*, including mergers and acquisitions, reorganizations, and spin-offs, as Cheng (2008) employs. The data are collected from TEJ. Although *activity* includes three events, 82.35% of them are mergers and acquisitions. Because only a few events are observed during our sample period, we use *Exp_LnPerk2* and *Exp_Perk2%Sales* to categorize low and high perks. Table 8 presents the result of the *Chi-square* test of independence. It shows that *Exp_LnPerk2* and *activity* are correlated. More activities occurred in high-*Exp_LnPerk2* banks. It also shows that more takeovers occurred in high-*Exp_LnPerk2* and high-*Exp_Perk2%Sales* banks. The result suggests that banks with high perks are associated with a high variability of performance - that is, more takeovers, mergers and acquisitions, reorganizations, or spin-offs are likely to occur in high-perk banks. Malmendier & Tate (2008) indicate that if the CEO is overconfident, then the odds of making an acquisition are 65% higher. Since banks with powerful CEOs are more likely to offer high perks, the result may also reflect the situation that powerful CEOs are more confident and engage in more mergers and acquisitions or takeovers.

Table 8 Perks versus activities and takeovers

	Panel A			Panel B		
	Total	Low Exp_LnPerk2	High Exp_LnPerk2	Low Exp_Perk2%Sales	High Exp_Perk2%Sales	
Activity = 0	# 599 (%) (98.36)	304 (99.67)	295 (96.72)	300 (98.36)	299 (98.03)	
Activity = 1	# 11 (%) (1.64)	1 (0.00)	10 (3.28)	5 (1.64)	6 (1.97)	
Total	# 610	305	305	305	305	
Pearson χ^2		7.4989***		0.0926		
Takeover = 0	# 421 (%) (95.68)	229 (98.28)	192 (92.75)	228 (98.28)	193 (92.79)	
Takeover = 1	# 19 (%) (4.32)	4 (1.72)	15 (7.25)	4 (1.72)	15 (7.21)	
Total	# 440	233	207	232	208	
Pearson χ^2		8.1122***		7.9928***		

This table shows the result of the *Chi-square* test of independence. Activity and takeover are two dummy variables indicating whether the events occurred in the banks. Activity includes mergers and acquisitions, reorganizations, and spin-offs. Banks are categorized by *Exp_LnPerk2* and *Exp_Perk2%Sales*, presented in Panels A and B, respectively. Superscript *** indicates statistical significance at the 1% level.
Data source: this research

6. Perks and board structure

In this section we examine the board structures of banks in China, which have not been the subject of analysis in the literature, and how the executive's rent extraction incentive might affect the degree of professionalism and the monitoring function of the boards. We hand collected director characteristics from annual reports. The variables of the board of directors employed in this study are: (1) average age of directors, (2) average education level, (3) percentage of directors (excluding the CEO) who are politically connected, (4) percentage of directors who are professionals, broken down by unaffiliated business experience, accounting, law, or finance background, and academic background, (5) percentage of female directors, and (6) board size. Following the definition of Fan et al. (2007), we calculate the average score of the education level of the directors on the board. The value of the score ranges between 0 and 4: if a director's education level is below junior college, the value is 0; if junior college, the value is 1; if graduated with a bachelor degree, the value is 2; if graduated with a master's degree, the value is 3; and if graduated with a doctorate degree, the value is 4. Directors with experience in an unaffiliated business are those who used to work or are currently working for firms unaffiliated with the business group to which the firm belongs. The largest shareholder, parent firm of the largest shareholder, other large shareholders, and subsidiaries of the firm are considered as affiliated firms. Directors with an accounting, law, or finance background are those who used to work or are currently working for financial institutions or intermediaries, or who are accountants, lawyers, or auditors. Directors with an academic background are those who used to work or are currently working for universities or research institutions.

We test for the equality of means and medians of board structure between high- and low-perk banks. The observations of *LnPerk2* are more sufficient than those of *LnPerk1*, and the results using *LnPerk2* to separate the sample are similar to those using *Perk2%Sales*. Thus, to save space, we only present the results of *LnPerk2* in Table 9. The board structure in high-perk banks does show some quality. Directors are better educated, there are fewer directors who have political connections, and there are more directors who have an academic background in

high-perk banks. Directors in high-perk banks have graduated with bachelor degrees or above, while those in low-perk banks have graduated with bachelor degrees or below. Boards in high-perk banks lack diversification. There are fewer directors having unaffiliated business experience, fewer female directors, and older directors on the boards of high-perk banks. Only 4.6% of female directors are on the boards of high-perk banks, while around 10% of those are on the boards of low-perk banks. Larger board size, which has more communication/coordination problems and agency problems (Cheng, 2008), is also found in high-perk banks.

Table 9 Perks and board structure

	Low- <i>LnPerk2</i> banks			High- <i>LnPerk2</i> banks			<i>Wilcoxon/Mann-Whitney</i>	
	n	Mean	Median	n	Mean	Median	<i>t</i> -statistic	<i>Mann-Whitney</i>
Average age of directors	39	50.1462	50	49	51.8196	51.71	-3.0447 ^{***}	2.6880 ^{***}
Average education level of directors	21	1.7014	2	28	2.2254	2.50	-2.6979 ^{***}	2.2111 ^{**}
Percentage of politically-connected directors	40	0.0495	0.0455	45	0.0182	0.0000	3.6344 ^{***}	4.1572 ^{***}
Percentage of professional directors	40	0.5088	0.5	45	0.5108	0.5217	-0.0899	0.1675
Percentage of professionals with accounting, law, or finance background	40	0.3913	0.4	45	0.3957	0.3929	-0.1753	0.3923
Percentage of professionals with unaffiliated business experience	40	0.0659	0.0455	45	0.0329	0	2.3577 ^{**}	2.1272 ^{**}
Percentage of professionals with academic background	40	0.0516	0.0477	45	0.0821	0.0741	-2.8760 ^{***}	2.3718 ^{**}
Percentage of female directors	40	0.1024	0.1026	45	0.0459	0.0370	4.2093 ^{***}	3.8349 ^{***}
Board size	58	19.5517	19	54	24.6852	26	-6.3732 ^{***}	5.7522 ^{***}

This table shows the result of the tests for the equality of mean and median values of board structure between low- and high-perk banks. Board structure measures are: (1) average age of directors, (2) average education level, (3) percentage of directors (excluding the CEO) who are politically connected, (4) percentage of directors who are professionals, broken down by accounting, law, or finance background, unaffiliated business experience, and academic background, (5) percentage of female directors, and (6) board size. Low- and high-perks are categorized by the median value of the perk measure, *LnPerk2*. We use *t* and *Wilcoxon/Mann-Whitney* statistics to test the equality of mean and median values of board structure between low- and high-*LnPerk2* banks, respectively. Higher mean or median values are in bold letters. Superscripts ^{***} and ^{**} indicate statistical significance at the 1% and 5% levels, respectively.

Data source: this research

We finally examine the monitoring function of a board in reducing perk consumptions. If perks reflect some sort of agency problem, we should see that better external governance leads to lower perks. We estimate the regressions of perks on the same variables of the board of directors. In unreported result, larger board size, indicating higher costs of communication/coordination, is positively correlated with perk consumptions. Directors with a higher education or academic background, who are regarded as a sign of a board's high quality, turn out to be positively related to perks as well. The negative coefficient on female directors indicates that female directors provide efficient monitoring. A diversified board is negatively associated with perks. Our finding supports the literature of diversified board (Carter et al., 2003; Adams & Ferreira, 2009) – that is, gender-diverse boards allocate more effort to monitoring.¹³ We also find that some traits of boards in high-perk banks, such as older directors, fewer politically-connected directors, and fewer directors with unaffiliated business experience, do not matter in regard to perks. The result supports the view of Jensen & Meckling (1976) in that it is difficult to monitor managers' perk consumptions.

7. Conclusion

This paper investigates perks in Chinese banks. Compared to non-finance firms, higher perk consumptions found in banks implies that perks are a major issue in the Chinese banking sector, especially in joint-stock commercial banks. Generally, stronger CEO power (except CEO duality), CEOs with a political

¹³ Adams & Ferreira (2009) find that female directors have better attendance records than male directors, male directors have fewer attendance problems the more gender-diverse the board is, and women are more likely to join monitoring committees. However, the average effect of gender diversity on firm performance is negative. On the contrary, Carter et al. (2003) find positive relationships between the fraction of women or minorities on the board and firm value.

background, larger banks, and older banks are associated with higher perks. The results support the argument that when CEOs hold more power or have political ties, the hierarchies in bank organizations are more distinct and hence lead to higher perk consumptions. Large banks are more likely to have well-defined hierarchies and fewer interactions between executive and staffs; therefore, they offer higher perks. Old banks have an ineradicable corporate culture and adhere to traditional compensation rules, thus exhibiting more perks.

The finding of perk consumptions in Chinese banks is consistent with the argument of Jensen & Meckling (1976) rather than that of Fama (1980). Jensen & Meckling (1976) believe that weak corporate governance or insufficient incentives induce perk consumptions, which turn leads to managerial abuses of firm assets. Our findings also echo the view of Yermack (2006) and Luo et al. (2011), who find that perks are negatively correlated with firm returns or operating efficiency. Although we are unable to find a significant relationship between perks and entrenchment due to the limited observations, banks with high perks do underperform those with low perks in terms of ROA, pre-tax ROA, pre-provision profit over assets, ROE, and abnormal returns. The relationship between perks and performance is more pronounced for banks that are prone to emphasize status, such as large banks and banks with high CEO power. Banks with high perks are associated with high risk-taking, such as high non-performing loans and high insolvency risk. High-perk banks are also more likely to be engaged in events related to a high variability of performance, like takeovers, mergers and acquisitions, reorganizations, and spin-offs.

Since high perks indicate a lax internal monitor and audit mechanism, board structures in banks with high perks are less diversified, but surprisingly, more professional. Our findings echo the point of Newton (2015), who finds that perks are negatively related to governance quality. Boards of directors in high-perk banks lack diversification. There are fewer directors with unaffiliated business experience, fewer female directors, and older directors serving on the boards of high-perk banks. However, boards of high-perk banks still exhibit some quality. Directors in high-perk banks are better educated. There are more directors who have an academic background, and there are fewer directors who have political ties in high-

perk banks. Jensen & Meckling (1976) argue that it is difficult to monitor managers' perk consumptions. Consistent with their point, larger boards (which are common in high-perk banks) reflect higher communication/coordination costs and hence provide less monitoring on perks. Even directors with a higher education or academic background also fail to efficiently monitor perk consumptions. Leung (2015) stresses the value of diversified board members. We do find that diversified board members, such as female directors, provide better monitoring on perk consumptions.

Perks reflect wasteful corporate practices such as lax management and overinvestment. Banks with high perks underperform those with low perks in many ways, such as performance, risk-taking, and variability of performance. Perks hidden in accounting notes, not to mention banks whose annual reports are unavailable, are hard to observe by outsiders. Information disclosure on perk consumptions could be the first step to reduce inefficient perks. We suggest more regulations to enforce the disclosure of perk consumptions. Before this occurs, investors can take notice of large or old banks and banks with strong CEO power or with politically-connected CEOs, which are more likely to have high perk consumptions. Although perks are hard for outsiders to observe and monitor, investors can try and rely on diversified board members to provide effective monitoring. When director members are being recruited, as Leung (2015) suggests, a board should consider factors like age, race, gender, educational background and professional qualifications, which would make the board less homogenous.

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