Bank Ownership and Executive Perquisites:
New Evidence from an Emerging Market[*]

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ABSTRACT

This paper provides comprehensive description of the practice of corporate executive perquisites (perks) in China, a leading emerging economy. We find that expenses and cash payment related to corporate executive perquisites far exceed the monetary payment to top executives, consistent with the notion that perquisites are used more extensively in emerging markets to motivate and reward corporate executives. In addition to common factors known to influence the level of executive perks, we find a significantly positive link between bank ownership of company shares and executive perquisites. Further analyses suggest that higher level of executive perquisites hurt company operating efficiency and may result from the conflict of interests that banks face as both lenders and shareholders in the emerging markets: banks may choose to influence corporate executives and play less effective monitoring if they are concerned with the security of their loans or aim to obtain better arrangement for their loans.

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Executive compensation and perquisite has been an important and challenging topic for practitioners and academics in finance alike for a long time. A good compensation schedule is critical in aligning the interests of senior executives and those of the shareholders. Our study examines how bank ownership affects executive perquisites and executive compensation practice in Chinese listed companies.

As more companies use options for executive compensation and compete for the same pools of talents, executive compensation has been increasing over the past two decades and becoming a topic of fierce debate by the public and academic research. According to Murphy (1998), there has been a constant and considerable escalation in executive compensation among executives in the U.S. and around the world. The median cash compensation paid to S&P 500 CEOs has more than doubled since 1970 (in 1996-constant dollars), and median total *realized* compensation (including gains from exercising stock options) has nearly quadrupled. The interests on executive compensation have grown even more intense recently, in light of the large amount of compensation that corporate executives receive in many developed markets, especially in the midst of the recent sharp economic downturn and deterioration of company performance, corporate downsizing and outsourcing, and layoffs.

In addition to the large amount of cash- and stock-based compensation, corporate managers also receive a wide range of non-cash perquisites (perks). For example, Jack Welch, the famous CEO of General Electric's, will receive $80,000 dollars a month through the rest of his life for the apartment that he rents in Manhattan, New York. In another now notorious case, the ex-CEO Dennis Kozlowski, threw a 2-million dollar birthday party for his wife, at the expense of HIS COMPANY. The situation is getting so common and controversial that marketwatch.com recently publishes a summary of ten most egregious executive

perks (http://www.marketwatch.com/story/golden-coffins-10-of-the-most-egregious-ceo-perks?pagenumber=1). According to a recent article on the CBS Marketwatch[1] and forbes.com[2], there has been reportedly a recent trend of replacing direct executive compensation with non-cash perquisites. For example, The SEC filings reveal that Mr. Edward M. Liddy, the head of troubled insurance giant American International Group (AIG), received $1 salary. However, it has been later revealed that he received about half-a-million dollars worth of perks, including corporate car and aircraft usage, professional service, tax preparation, and living expenses.

Such a trend is taking place despite that the stock market generally responds negative to the announcement/revelation of executive compensation and perquisites. Recent studies by Andrews and Linn (2008) and Grinstein et al. (2008) exploit changes in SEC disclosure requirement for perks and find that the stock market responds negative to the large amount of perks that companies announced for the first time. Such findings are consistent with some earlier findings by Yermack (2006) that firms' stock prices drop by an average of 1.1 percent at the initial announcement of fancy perks such as private corporate jets. Although there are studies (Brown et al. 1991) that argue that perks should exist in the optimal executive compensation contract, The questions remain largely unanswered as to whether corporate executives deserve their compensation packages, and if so, why?

It seems apparent that performance-related option granting and compensation schemes are necessary for motivating managers and aligning executives' interests with those of the general shareholders (Aggarwal and Samwick, 1996, 1999, Jin 2002). However, the findings are still divided as to whether there is reliable linkage

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[1] http://www.marketwatch.com/story/aigs-liddy-gets-1-salary-but-much-more-in-perks?tool=1&dist=bigcharts&symb=AIG&sid=511

[2] http://www.forbes.com/feeds/ap/2009/05/01/ap6365444.html (Vinnee Tong, associated press)

between firm performance and executive compensation. Baber et al. (1996) and Gomez-Mejia et al. (1987) find a positive relationship between pay and performance but a more recent study by Bebchuk and Fried (2007) relying on more recent and comprehensive data question the relationship.

To make matters more complex, the level and component of executive compensation depend on a wide range of factors. For example, O'Reilly et al. (1988) shows that company size and profitability in business operation have some influences on executive compensations. Bliss and Rosen (2001) show that executive compensations escalate after bank mergers, despite the share price drop right after the merger acquisitions. In addition, Sanders and Carpenter (1998) find that companies with more operation complexity through internationalization usually witness a higher level of compensation, consistent with the argument that executive compensation reflects the difficulty of information processing and operation management. Finally, Aggarwal and Samwick (1999b) show that executive compensation depends not only the profile of the company, but also the competitive landscape of the industry that the company belongs to. Executives are evaluated by their company's relative performance to its key competitors and such a tendency is stronger in industries with more fierce competition.

More notably, there is increasing evidence that executive compensation is closely related to the practice of corporate governance. Many studies argue that the variations in corporate executive compensation are not only caused by the differences in the business operation of companies, but also the monitoring that executives face at different companies. As Bebchuk and Fried (2003) point out, executive compensation is heavily influenced by the agency problem at a company and the accompanying corporate governance mechanism that controls it (Ang et al. 2000). Boyd (1994) document a negative relationship between corporate board control and CEO

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compensation, supporting the notion that ineffective monitoring from corporate board is at least partly responsible for the excessive executive compensation. O'Reilly et al. (1988) studies this topic from a psychological perspective and finds that the level of compensations that board members, especially members of compensation committee receive, positively influences the level of compensation that CEOs receive, which questions whether executive pay and perks are driven by their performance.

In addition to the structure of corporate boards, several studies find that the structure of shareholder base is also important in determining corporate executive compensation (the level and mix) and perks. For example, Mehran (1995) shows that firms with a higher percentage of shares held by outside block holders use less equity-based compensation, possibly due to the strong monitoring by such block holders. In addition, David et al. (1998) find that although independent block holders can exert effective monitoring and limit executive compensation, block holders with business ties fail to affect executive compensation, resulting from potential conflict of interests.

Despite the evidence and understanding on executive compensation and perks in the developed markets reviewed in the previous paragraph and growing interests in corporate governance in emerging markets (Denis and McConnell, 2003), studies on executive compensation and perks and on what influence executive compensations in emerging markets still remain limited. The current study aims to bridge such a gap in the literature by studying executive compensation and perks in China, arguably one of the most important emerging economies. Not only is China similar to many other emerging markets in its loose corporate governance and weak legal environment, but China is also undergoing a reform in executive compensation towards the western practice. Understanding the pros and cons of different compensation schemes is therefore important to both academic literature and the practice in emerging markets.

The current study differs from the extant literature on executive compensation in emerging markets in the following ways. First, unlike most existing studies that look at cash- and option-based compensation, our study focuses more on executive perquisites (perks). Our study reveals that perks indeed make up a large fraction of total executive compensation. As we show in the paper, the total compensation for the top-three corporate executives average about half a million RMB Yuan. In stark contrast, the operating expenses related to top executive perks tops 100 millions and the cash payment (reimbursement) for executive private benefits is over 20 million RMB Yuan, much greater than the compensation packages themselves. This is also consistent with the findings in some other studies in that perks have been historically used as a major component of employee reward (Kato and Long 2006, Cai et al. 2008).

A second distinction of the current study is that we focus on one particular aspect of corporate governance, namely bank ownership, and study its impact on executive compensation. Banks play very important roles in finance by determining the availability and cost of credit. The availability and cost of credit, in turn, determine company capital structure and cost of capital. In addition to their role of facilitating capital flows, banks also monitor their debtors, thereby providing valuable governance oversight to the entire economy. Because of the scarcity of capital and the relative under-development of financial markets, banks play a especially important role in Chinese economy and on listed companies in China, similar to the case of many other emerging markets.

Despite its strong market power, extant studies find that banks in emerging markets are susceptible to the practice of soft lending motivated by political motivation and personal connections. As a result, banks in many emerging markets

witness a much higher rate of non-performing loans than their developed market counterparts.

Due to another unique aspect of many emerging markets, the weak bankruptcy law and lack of resolutions of distressed companies, banks in emerging markets face a particularly serious problem of conflict of interest, when they are shareholders of and lenders to the same company. As leading shareholders in many companies and sometimes board members, banks are expected to carry out their monitoring role as an institutional investor (David et al. 1988). Such actions will not only protect banks' own interests in the company, but also help enhance firm value for the rest of shareholders. However, because banks are also lenders who are concerned with companies' willingness and ability to repay their loans taken out from the banks, the banks have incentives to maintain a good relationship with corporate executives and at times give in to executives on 'less important' issues such as executive compensation. As a result, being a lender prevents a bank from carrying out all its due responsibilities in monitoring executive compensation. As a result, we hypothesize that companies with higher level of bank ownership are likely to have higher level of executive compensation and perks.

This is indeed what we have found. While controlling for other well-documented factors that affect executive compensation, we find that bank ownership has an economically and statistically significant impact on executive compensation in China. Companies with banks as major shareholders report about 10 percent higher level of executive perks compared to those without bank ownership. Interestingly enough, we find that the level of total compensation to executives, which is much smaller compared to the perks, are indeed significantly lower for bank-owned companies. So there seem to be some substitution effects between compensation and perks.

Finally and importantly, the current paper focuses on the impact of executive compensation and bank ownership on corporate operating efficiency, instead of market response to disclosure on executive valuation to assess the impact of observed level of executive compensation (Andrews and Linn, 2008, Grinstein et al. 2008 ,Yermack 2003). Given that higher bank ownership is associated with a higher level of executive perks and extant results that bank ownership leads to lower firm performance and valuation (Lin et al. 2009), we conjecture a negative relationship between executive compensation and firm performance in bank-owned companies.

We indeed find that a higher level of executive compensation is associated with a lower level of return on assets in firms with bank ownership, lending some support that executive compensation is 'excessive' and not tied to firm performance. Such findings seem to also support the conjecture in Lin et al. (2009) that companies with bank ownership are more likely to engage in low-return investment projects that result in hurting company performance. Because banks are concerned with receiving their loans (and bankruptcy proceedings are rare and there are limited ways of collecting their loans), banks are more likely to side with the executives and less likely to carry out their role in monitoring executive compensations. As a matter of fact, we find that bank ownership becomes insignificant in influencing ROA, once we include executive perks in the regression specification.

The rest of the paper proceeds as follow: Section 2 overviews the data and methodology adopted in the paper; Section 3 presents our empirical findings; Section 4 discusses our results and provides conjectures about why bank ownership affects executive compensation in emerging markets before we conclude in Section 5.

2. Data Description

We obtain key information on executive perquisite and bank ownership, and controlling variables for all listed companies in China from 1999 to 2006. Following the common practice, we exclude banks and financial companies given the differences in their financial statements. As we explain next in generating our industry-specific perquisite measure, we exclude industry/year if there are less than ten companies within an industry in a fiscal year. As table 1 suggests, our sample size steadily increases from a little over one thousand in 1999 to about 1400 in 2006. In addition to the general increase in our sample size, there were also some year-to-year variations due to data availability and financial reporting requirement change. Such variations are however very modest compared to our overall sample size and do not affect any of our main findings.

2.1. Data on Executive Perquisites

We obtain the perquisites that executives receive from a particular item in listed companies' financial statements. In addition, we use two alternative methods to estimate perks. The first measure (PERKS1) that we use is abnormal administrative expenses. From a firm's income statement, we obtain information on administrative expenses, which include all expenses related to operating the firm. Out of the total administrative expenses, we exclude bad debt expenses, unrealized holding gain or loss for inventory if any, and direct compensation for directors and top executives. We use the remainder as the measure of managerial, especially executive expenses at a company. It is widely believed that the administrative expenses are largely used at the executives' discretion. One recent example is the case of Mr. Chen, Tonghai, the ex-president of SinoChem. After being prosecuted and convicted for accepting bribe, Chen was found to have monthly entertainment expenditures of over 1 million RMB from SinoChem's administrative expense account.

Because administrative expenses vary systematically across companies of different sizes, we use the following model to estimate normal level of administrative expenses for each industry within a year. We then use the residual values of this model as the abnormal administrative expenses of a company, as our first proxy for perks. Our focus on the abnormal level of perks ensures that we do not confound our findings with known regularities that executive compensations vary depending on corporate characteristics.

$$\frac{M \exp ense_t}{Assets_{t-1}} = \beta_0 + \beta_1 \frac{1}{Assets_{t-1}} + \beta_2 \frac{\Delta Sales_t}{Assets_{t-1}} + \beta_3 \frac{PPE_t}{Assets_{t-1}} + \beta_4 \frac{Inventory_t}{Assets_{t-1}} + \beta_5 LnEmployee$$

A detailed explanation of variables is provided in Appendix A.

Following the existing literature (Chen et al. 2005), we create another proxy (PERKS2) for executive perks by summing five categories of cash payment. In addition to the regular items such as "cash payment for operating goods and services", "cash payment to employees", and "cash payment for taxes", China Accounting Standards require firms to disclose direct and indirect cash payment related to all major operating activities under (other cash payment related to operating activities)in the statement of cash flows. We read through the footnotes of cash flow statements and manually collect information under the following five categories as potential payment for perks:

Travel expenses: includes all of travel costs—hotels and lodging; Eat, drink and entertainment expenses: captures all entertainment and extracurricular activity expenses, including clubs, bars and dining places; Vehicle expenses: includes all expenses related to vehicles, such as gas, driver, maintenance, and tolls and fees; Benefits: Medical allowances and medical expenses, pension expenses, housing allowance, moving and relocation expenses, education expenses; Administrative

Privileges: office expenses, board meeting fees, communication expenses, conference fees, insurance expenses.

Although such items generally include cash payment to all employees of the companies, we believe they serve as a very good proxies for executive perquisites for the following reasons. First and foremost, it is apparent corporate executives are the ones who consume and therefore need reimburse the most of the above activities, which result in the observed cash payment and reimbursement. In addition, as Cai et al. (2008) show in their interesting paper that, cash payment for other "operating expenses" are often used for management entertainment and make up a large fraction of corporate expenses. The authors argue that these expenses reflect the perquisites that corporate executives command and are partly used to facilitate corporate public relationship and partly used by management themselves. Further, providing non-cash subsidies and perquisites has been one of traditional compensation treatment under Chinese corporate culture (Kato and Long, 2006). This comes from the early days when nominal salaries of most employees were very similar and the perquisites really set the top managers apart. Even till nowadays, such a tradition still persists as most top corporate managers enjoy corporate-sponsored apartment, automobile, and country-club and elite club membership. Therefore, we conclude that such cash payment for other operating activities provide a more accurate picture of perquisites enjoyed by Chinese executives. At the very least, we argue that such a measure should accurately reflect the cross-sectional difference in perks offered to various executives.

With the summation of the above five categories of expenses, we use the following model to estimate the normal level of such cash payments, and calculate the residual values of these payments as a proxy for perks.

$$\frac{Mpay_t}{Assets_{t-1}} = \beta_0 + \beta_1 \frac{1}{Assets_{t-1}} + \beta_2 \frac{\Delta Sales_t}{Assets_{t-1}} + \beta_3 \frac{PPE_t}{Assets_{t-1}} + \beta_4 \frac{Inventory_t}{Assets_{t-1}} + \beta_5 LnEmployee$$

2.2. Data on bank ownership

We hand collect data on equity ownership and board composition for all companies listed at the Shanghai Stock Exchange and Shenzhen Stock Exchange, the two stock exchanges in China, between 1998 and 2006. The SinoFin and CSMAR databases, two widely used databases on Chinese listed company financial information, publish detailed information on the 10 largest shareholders of each public company traded at the aforementioned stock exchanges. For each company, we collect the identity and percentage ownership of each of the 10 largest shareholders.[3] We then search the Chinese Securities Regulatory Committee (CSRC) filings by each company, public records, and news articles to identify whether one of the top 10 shareholders is a bank.[4] We went through the above public sources to make sure that bank holdings did not come from debt-for-equity swap in state-owned-enterprise reform. To make sure that there are at least 10 observations to estimate perks for each industry in each year, we exclude industries with less 10 observations (based on 2-digit industry codes).

In addition, we also hand collect information on the background of each director on each public company's board and determine whether the board member is an employee of or is appointed by a bank. Such information enables us to determine how many board members at each company are appointed by commercial banks. The above data on bank ownership and board composition together help depict a clear picture on bank ownership in China.

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[3] We acknowledge that the shares held by banks can be both tradable and non-tradable shares and believe that it should not have considerable implications to the situations in China during the sample years, when a large fraction of shares of publicly listed companies remained non-tradable. .

[4] It is rare that listed companies own bank shares in our sample years, so we do not need worry about cross-holding situations as in Japan or South Korea.

Panel A of Table 1 reports the number of firms with and without bank ownership within respective sample years and Panel B reports the distribution of firms with and without bank ownership across various industries. Our final sample includes 8,836 sample firm-years, for a total of 1,441 companies. We divide all observations into two broad categories. If at least one commercial bank is among a company's top 10 shareholders, we define the company as bank-owned. We define a company as not-bank-owned if none of the company's top 10 shareholders is a bank.

Table 1 reveals that there are 718 observations (172 companies) of bank-owned companies, out of the 8,836 firm-year observations. Panel A of Table 1 suggests that, as the total number of listed companies increases, the fraction of companies with banks as shareholders decreases over time. This is consistent with prior argument that banks play a greater role in the early stage of securitization reform of leading state-owned enterprises in China. Panel B of Table 1 shows that the pattern is quite similar across most industries, with banks among leading shareholders for about 15 percent of all companies. Two notable exceptions are the mining industry and construction industry.

(Insert Table 1 about here)

2.3. Other control variables.

We draw other supplemental information about financial statements, stock market returns, and corporate governance from the SinoFin and CSMAR database. Following most existing studies, we exclude financial companies from our sample. We provide a detailed explanation of variables in Appendix A.

3. Empirical Results

3.1 Summary statistics

We first present summary statistics of executive compensation and perks, details on perks composition, and other firm characteristics in Table 2. As Panel A of the table suggests, the total compensation for the top-three corporate executives at Chinese listed companies is about 492,000 RMB Yuan, this is about ten times of the average income of Chinese urban population. Although this seems very high in many Chinese' eyes, the ratio is indeed much lower than that one observes in some Western economies, where the executives take home compensation that is hundreds of times of average employee compensation at the same companies.

However, it is important to point out that the disclosed compensation is only part of the total reward the executives receive, who also receive considerable private benefits not shared by other corporate executives. According to our hand-collected data, expenses related to other business operating add up to about 111 million Yuan, and the cash payment to other business operation is about 20 million Yuan. Granted that corporate executives do not incur all the expenses, top executives clearly take the cream of the expenses, as we argued in Section 2. We will next discuss the details of executive perks when reviewing results in Panel B.

(Insert Table 2 about here)

Further, Panel A provides some details on some key corporate governance aspects, such as shareholders and board member information, of Chinese listed companies. State-ownership is still quite common in China after over a decade of reform of state-owned-enterprises, with about three-quarters of the companies report having various government agencies as major shareholders. This is consistent with our observations

that the largest shareholders on average control over 40 percent of listed companies. Such a high level of concentration of share holdings, as discussed in previous studies (Wang 2008, Claessens et el. 2000), is not uncommon in many Asian markets and poses potential corporate governance challenges. Banks hold major stakes in about 8 percent of listed companies even though on average banks hold less than 1 percent of the company across all listed companies. Finally, there are ten members on an average board with about 20 percent of them being independent directors who do not hold any executive position at the company.

Panel B breaks down the item "other cash payment to operating activities" into five major categories as discussed in Section 2. One striking finding is that the total cash payment to other activities add up to over 20 million RMB Yuan, which is far greater than the total compensation to the top three managers, which is 'only' about half a million RMB Yuan. Such findings confirm our previous argument that non-cash perquisites are a major way that Chinese companies use to reward their executives.

Among the five categories, administrative privileges make up for more than one third of the total expenses. Given that some of the components are administrative privileges are more closely related to basic business needs (i.e. board meetings), we exclude such items from our perk definition and repeat our analyses. All our major findings remain exactly the same. Travel expenses and entertainment expenses trail in the second and third places, making up another one-third strong of the total expenses with the rest going to vehicle and benefits.

Panel C provides summary statistics of company performance and other variables on firm characteristics.

3.2 Uni-variate analysis

We next compare management compensation and perquisites for companies with and without banks as their leading shareholders. Table 3 shows that both of our perk measures are significantly higher for companies with bank ownership. The results are most striking for the two proxy measures for perks. For the expense-based measure (PERKS1), the measure is 0.0061 for companies with bank ownership and -0.0026 for companies without bank ownership. Although it is not straightforward to assess the economic meaning of this measure because they are residues from regression analyses, it is apparent that the perks at bank-owned companies are on average above the average (when controlling firm characteristics) but those at non-bank-owned companies are below the average. Such differences are statistically significant at the 1-percent level. In addition to average, the median results point to the same direction. The median perks at bank-owned companies are significantly higher than those at non-bank-owned companies, also significant at the 1-percent level.

(Insert Table 3 about here)

It is worth pointing out that the results on executive compensation are indeed in the opposite direction. Companies with bank ownership witness about 20 percent lower level of compensation for executives than that for companies without bank ownership. As we argue previously, such raw measures do not reflect industry and firm characteristics and executive compensation incur far less amount than executive perks do. Therefore, such results should be very carefully interpreted.

In addition to the differences in the level of perquisites, there are also significant and interesting differences in company performance, both by operation measures (return-on-assets) and stock market measures (stock performance in the contemporaneous year). The average (median) of ROA is -0.0151 (0.0158) for

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companies with leading bank ownership and 0.0135 (0.0283) for those without

leading bank ownership. The differences in both means and medians are statistically

significant at the 1-percen level. Partly reflecting such differences in operating

efficiency, stock returns in the contemporaneous year are also lower for companies

with bank ownership (-1.50%) than those without (-1.28%) However, such

differences are not significantly different. Because a large body of research

documents that some firm characteristics play important roles in setting executive

compensation and perks, we will next take a closer look at the question with

regression specifications in which we explicitly control firm differences.

Finally, we notice an interesting pattern that companies with bank ownership

display a significantly higher level of financial expenses and interest rates. Because

financial expenses comprise mostly interest expenses to banks at Chinese firms, the

similar patterns between financial expenses and interest rates should not be

particularly surprising. It is, however, noteworthy, given that banks have influences

on both interest rate determination and, indirectly, on executive compensation through

their influences on company board. We will further investigate such a conjecture in

section 4.

Table 4 reports the correlation among the variables of interest.

(Insert Table 4 about here)

3.3 Regression analysis

We next perform regression analyses to gain more understanding of the factors

that heavily influence the variations in executive perks. In particular, we perform

panel regression with random effect of our measures of perquisites on a series of

control variables specified as follows:

$$PERKS_{i,t} = \beta_0 + \beta_1 Bank\,\Pr esence_{i,t} + \beta_2 Size_{i,t} + \beta_3 CashFlow_{i,t} + \beta_4 Growth_{i,t} + \beta_5 Leverage_{i,t}$$
$$+\beta_6 State_{i,t} + \beta_7 Age_{i,t} + \beta_8 L\arg est_{i,t} + \beta_9 Board_{i,t} + \beta_{10} Independent_{i,t} + \varepsilon_{i,t}$$

As we argue in previous sections, one variable of particular interest to us is bank ownership of company shares. To ensure robustness of our results, we implement four different measure of bank ownership, namely a dummy variable of bank ownership if at least a bank is among the top ten shareholders of a company in the contemporaneous year, a dummy variable of bank ownership if at least a bank was among the top ten shareholders of a company in the previous year, a continuous variable of the percentage of company shares held by banks among its top ten shareholders in the current year, and a continuous variable of the percentage of company shares held by banks among its top ten shareholders in the previous year. Supporting our hypothesis, the results in Table 5 indicate that the coefficients on both dummy variables are positive and significant at the 5-percent level. The coefficients on the continuous variables are also positive, albeit statistically insignificant.

(Insert Table 5 about here)

In addition to bank ownership, we also include a series of variables shown to matter to executive perks in previous studies. Even when we control our perks variable to reflect the differences in firm size (firm assets, number of employees, and sales), our proxies for perks still correlate significantly with the size of a company. Not surprisingly, larger companies provide more generous perquisites to their executives. Consistent with the corporate governance literature, more mature companies with less growth opportunities and older in age offer more perquisites to their executives. Such findings are consistent with Jensen (1986)'s argument of corporate managers take private benefits from managing companies, especially when

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there are limited growth opportunities to put cash flow to work. Further, board size relates negatively to executive perks, offering some support to the claim that larger board are sometimes associated with more difficult coordination and less effective monitoring. Such results are, however, not robust and vary in results in Table 6.

Finally, we find that perquisites are lower for companies with greater operating cash flow. It is actually natural that the operating cash flow is lower than the administrative fee in then contemporaneous is higher. On the other hand, the coefficient on cash flow is positive yet insignificant in Table 6.

Next, we examine our second proxies, which is the summation of cash payment related to executive perquisites. The results in Table 6 are consistent with those in Table 5 and indeed stronger. All four measures of bank ownership come out in the expected direction and are all highly significant. The fraction of shares held by the largest shareholder dampens executive perks, consistent with previous studies that large investors can exert some monitoring over executive compensation. In sum, our results so far provide strong support that bank ownership is associated with higher level of executive perks.

(Insert Table 6 about here)

4. Discussions

Now that we document that bank ownership encourages executive perquisites, the natural question next is whether it is because banks are less effective monitors. Although one needs much information to answer such a broad question, we take a first step and look at whether bank ownership is associated with stronger practice of pay-for-performance. As one of the principles in executive compensation, pay-for-

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performance ensures that executives are appropriately motivated and monitored at the same time. For example, executive compensation and perks have been subject to scrutiny and debate because many believe that the managers are in a 'tail, I win and head, you lose' situation. Therefore, we believe that observation of dynamic adjustment of executive compensation to performance, is a good indication of the quality of governance and monitoring on executive compensation.

We perform regression of change in executive compensation and change in firm performance from the previous year to examine the practice of pay-for-performance. Consistent with the proper way of adjusting compensation depending on recent performance, the coefficients on change in return-on-asset are positive and highly significant in all specifications. Simply put, executive compensations tend to increase after relatively better years and decrease after relatively poorer years at average companies. To investigate whether such practice is also in effect at bank-owned companies, we include an additional interaction variable between bank ownership dummy and change in return-on-asset. With this variable, we can identify the practice of pay-for-performance at bank-owned companies. Unfortunately, consistent with our above findings that banks are not very effective in reining in executive perks, the practice of pay-for-performance is also much weaker at bank-owned companies. The coefficients on the interaction variable are negative and significant in three out of the four specifications. This shows that compared to control firms, there is no significant relation between change in compensation and change in firm performance in firms with bank ownership.

(Insert Table 7 about here)

So why are banks less effective in monitoring executive perks in emerging markets? We explore a few alternative explanations. One apparent possibility is that

banks may focus on monitoring executive compensation than perquisites. We obtain

data on cash- and option-based monetary compensation published by China Center of

Economic Research at Beijing University and the Chinese Securities Market

published. Following extant studies (Firth et al. 2007; Kato and Long 2006, Conyon

and He 2008), We use cash compensation of the three highest-paid managers as an

indication of executive compensation at a company.[5]

Our results in Table 8 show that managers at bank-owned companies make

about 10 percent less than their counterparts at non-bank-owned companies.

Consistent with the literature, total executive compensation increases with firm size

but decrease with proxies for corporate governance (board size and the power of

leading shareholder). Therefore, there seems to be some support that banks seem to be

better monitors over executive compensation than perks. However, given our previous

evidence that the perk-related expenses far exceed top-three executive compensation,

banks seem to be not sophisticated enough to direct their attention to executive

compensation than perks.

(Insert Table 8 about here)

One apparent possibility is that perks are more useful than monetary payment

in motivating executives and banks are smart enough to know this and use perks to

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[5] There were some major regulatory changes in the requirement for listed companies to disclose their executive compensation. Disclosure of total compensation for the three highest-paid managers was voluntary during the period of 1999 to 2001. From 2002 to 2005, listed companies were required to disclose total compensation for the three highest-paid managers (defined as the sum of basic salary, bonus, stipends, and other benefits), but not required to report the various components of annual compensation or the compensation of each individual executive. After 2005, firms must disclose total compensation for each executive.Our robustness tests confirm that all our major findings are consistent within each respective period.

improve firm performance. However, our follow-up analyses in Table 9 between firm operating performance and executive perks (along with bank ownership) do not support such hypotheses. As a matter of fact, a higher level of executive perks is indeed associated with a lower level of return-on-assets, suggesting deteriorating operating performance. Interestingly, bank-ownership, which is shown to be negatively related to operating performance in Lin et al. (2009), turns insignificant at 5% level and only significant at 10% level in the specification with the inclusion of executive perks, implying that the poor performance at bank-owned companies can be largely traced back to banks' failure in effectively motivating/monitoring corporate executives.

(Insert Table 9 about here)

Finally, how does one make sense that banks, often assumed to be smarter and more powerful among all shareholders, cannot carry out their monitoring role? One possibility is over-confidence. Banks are over-confident with the companies that they lend to and make excessive loans that in turn hurt company performance. Another more likely explanation is potential conflict of interest. In addition to their common role as external monitors, banks may find it useful to influence corporate decisions through some indirect ways. In particular, banks can use compensation to influence corporate executive decisions. For example, to encourage lending or obtain more favorable interest rates, banks may have the incentives to 'reward' executives with more compensation. Because perks are less conspicuous than salary payment, this may result in an increase in the level of perks but not necessarily in salaries.

Such reasoning is consistent with the anecdote that banks usually face greater risks in collecting their loans, many of which were based on political motivations instead of business merits. It is not uncommon that bankruptcy laws are either outdated or weak, and lacking enforcement, leaving banks sometimes at the mercy of

their debtors. Instead of possessing collaterals or pushing debtors into bankruptcy, banks sometimes instead play favors to their debtors to ensure the timely repayment of their loans. Such 'outside' considerations by banks may jeopardize or limit their roles as shareholders and board members.

We perform two additional analyses to test such a conjecture. First, we perform regression of imputed interest rate on bank ownership and executive perks. In particular, we are interested in understanding whether companies with bank ownership pay banks higher interest rates, when we control other confounding factors. Table 10 reports findings consistent with our conjecture. The coefficient on the bank ownership dummy (and the continuous measure of the fraction owned by banks in other specifications) is positive and highly statistically significant. In addition, a separate variable on executive perks, measured as the abnormal level of administrative expenses (see Appendix A for details), is also positive and significant, confirming that both bank ownership and the level of executive perks have important influences on the setting of interest rates that a company pays.

We next perform similar regression in Table 11. Instead of interest rates, we use firm-level financial expenses as the dependent variable, instead of interest rates, to investigate banks' influence on companies. As we mentioned earlier, bank loans make up the majority of external financing at Chinese listed companies and hence we expect similar patterns between interest rates and financial expenses at firm level. This is exactly what we have found. Both bank ownership and executive perks are positive and highly significant in the regressions, confirming that firms with (more) bank ownership and higher level of executive perks also incur on average a higher level of financial expenses. Our findings so far suggest that potential conflicts of interest may be at work that can potentially explain the higher level of executive perks at companies with bank ownership. We acknowledge that our analysis is preliminary

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and exploratory in nature and the audience should interpret our findings with caution. More extensive and careful studies are called for to fully understand this complex issue.

(Insert Table 10 and Table 11 about here)

5. Conclusions

The current paper investigates the practice of executive perks in China, a leading emerging market. We find that Chinese listed companies spend more on paying executive perquisites than they do on top executive compensation packages, supporting the notion that perks are more widely used in emerging markets to reward executives.

In addition to commonly documented factors that influence executive perks, we find an interesting relationship between bank ownership and the level of executive perquisites. Chinese banks do not seem to play an effective role in reining in company executive perks, which lead to worse operating performance at such companies.

Our findings suggest that the unique situations in corporate governance, banking system, and legal environment all have important influence on shaping executive compensation and perquisites. Although the general level of compensation is much lower in emerging markets than in developed ones, the usage of perquisites seem to be as common if not more generous. Therefore, subsequent studies on executive compensation and governance should pay more attention to perks in emerging markets.

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Appendix A: Definition of Variables

Variables	Descriptions
Bank	Dummy variable that equals 1 if at least one bank is among a firm's top 10 shareholders
Bankshare	Percentage of equity ownership held by banks among a firm's top 10 shareholders
ROA	Return on assets, net income divided by total assets
Return	Abnormal buy and hold stock return for year t
Q	Tobin's Q, Market value of equity plus book value of debt divided by book value of total assets
Leverage	The ratio of total debt to total assets
PPE	Net fixed assets in year t
Inventory	Inventory in year t
Sales	Sales in year t
Growth	(Sales in year t - Sales in year t-1)/ Sales in year t-1
Size	Total assets, nature logarithm used in regressions
Age	Number of years since the firm was founded, nature logarithm used in regressions
Largest	Percentage of equity ownership held by the largest shareholder
State	Dummy variable that equals 1 if the firm is state-owned, and 0 otherwise
CashFlow	The amount of operating cash flow in year t divided by total assets in year t-1
Board	Number of directors on board, nature logarithm used in regressions
Independent	Percentage of independent directors on board
Employee	Number of employees
Compensation	the sum of total compensation for the three highest-paid managers
Mexpense	Administrative expenses excluding bad debt expenses, unrealized holding gain or loss for inventory, and total compensation for directors and top executives, deflated by total assets
Mpay	Cash payments for traveling, entertainment expenses, vehicle expenses, benefits, and privileges, deflated by total assets
Perks1	Residual value of administrative expenses from regression on firm characteristics
Perks2	Residual value of Mpay from regression on firm characteristics

Table 1. Sample Description

Industry classification is based on China Securities Regulatory Commission (CSRC) industry classification codes (first digit). We exclude firms without financial information. Since we need to estimate abnormal level of perks for each year and each industry, we also exclude 2-digit industry codes with less than 10 observations for each year.

Panel A: Summary by Year				Panel B: Summary by Industry			
Year	Total	With Banks	Without Banks	Industry	Total	With Banks	Without Banks
				Farming and forestry	219	9	210
1999	906	130	776	Mining	107	4	103
2000	1050	115	935	Manufacturing	5041	281	4760
2001	1048	101	947	Public utility	360	42	318
2002	1040	95	945	Construction	152	0	152
2003	1035	88	947	Transportation	345	33	312
2004	1026	77	949	Information Technology	497	49	448
2005	1337	61	1,276	Trading business	718	103	615
2006	1394	51	1,343	Real estate	351	36	315
				Service	303	39	264
				Communications	92	18	74
				Others	651	104	547
Total	8836	718	8118	Total	8836	718	8118

Table 2 Descriptive Statistics

Panel A. Perks and Corporate Governance Mechanisms

All variables are explained in Appendix A. All continuous variables are winsorized at 1% and 99%.

Panel A: Perks and Governance Characteristics								
Variable	N	Mean	Std. Dev.	Min	Max	Median	25%	75%
Mexpense (in millions)	8836	111	473	0	29700	52. 3	26. 7	109
Perks1	8836	-0.002	0.060	-0.2146	0.2937	-0.0050	-0.0231	0.0139
Mpay (in millions)	3620	20. 1	69. 3	0. 0026	3050	8. 7355	4. 0076	18. 40
Perks2	3620	-0.001	0.015	-0.0539	0.0793	-0.0012	-0.0052	0.0026
Compensation(in thousands)	7474	492.583	573.124	3.778	18900	340	172.1	636
ΔLnCompensation	6184	0.179	0.500	-2.830	4.170	0.113	-0.016	0.377
State	8836	0.747	0.435	0	1			
Bank	8836	0.081	0.273	0	1			
Bankshare	8836	0.003	0.014	0	0.2805	0	0	0
Board	8836	9.536	2.303	3	19	9	8	11
Independent	8836	0.224	0.158	0	0.75	0.308	0	0.333
Largest	8836	0.418	0.172	0.004	0.886	0.400	0.281	0.555

Panel B. Details on Cash Payment to Management Perks

China Accounting Standards require firms disclose direct and indirect "other cash payment related to operating activities" in the footnotes of company financial statements. We read through the financial statements and manually collect the cash payment identified in the following five categories:

Travel expenses: includes all of travel costs—hotels and lodging
Eat, drink and entertainment expenses: captures all entertainment and extracurricular activity expenses, including clubs, bars and dining places.
Vehicle expenses: includes all expenses related to vehicles, such as gas, maintenance, tolls and so on.
Benefits: Medical allowances and medical expenses, pension expenses, housing allowance, moving and relocation expenses, education expenses
Administrative Privileges: office expenses, board meeting fees, communication expenses, conference fees, insurance expenses

Panel B: Details on Cash Payment to Management Perks (in Thousands)					
Variable	N	Mean	Std. Dev.	Min	Max
Traveling Expenses	3618	5590.947	19300	0	815000
Entertainment Expenses	3619	3473.205	12100	0	396000
Vehicle Expenses	3620	1511.102	22400	0	916000
Benefits	3620	1233.364	7892.186	0	287000
Administrative privileges	3619	8329.780	54700	0	2990000
Mpay	3620	20100	69300	0.256	3050000

Panel C. Other Firm Characteristics

All variables are explained in Appendix A. All continuous variables are winsorized at 1% and 99%.

Panel C: Other Firm Characteristics								
Variable	N	Mean	Std. Dev.	Min	Max	Median	25%	75%
ROA	8836	0.011	0.099	-0.615	0.150	0.027	0.007	0.050
ΔROA	8530	0.000	0.096	-0.432	0.457	0.001	-0.013	0.013
Q	8836	1.208	0.621	0.482	4.286	1.024	0.843	1.357
Return	8833	-0.013	0.386	-0.836	1.600	-0.060	-0.205	0.116
Age	8836	9.439	3.859	1	25	9	7	12
Size (Millions)	8836	2650	9990	0.223	595000	1330	775	2540
Leverage	8836	0.511	0.282	0.081	2.163	0.487	0.350	0.622
Growth	8836	0.212	0.584	-0.866	3.787	0.131	-0.032	0.329
CashFlow	8836	0.044	0.281	-24.974	1.069	0.046	0.005	0.091
PPE	8836	0.306	0.179	0	0.956	0.280	0.171	0.424
Inventory	8836	0.149	0.132	0	1.083	0.117	0.060	0.195
Sales (millions)	8836	1916.145	14681.540	0	1044579	633.819	276.521	1481.675
Employee	8836	3065.508	7015.758	10	364528	1677	737	3356

Table 3 Uni-variate Analysis

	Firm with Bank Ownership			Firm without Bank Ownership			(2)-(1)	t-statistic	Wilcoxon Test
	N	Mean (1)	Median	N	Mean (2)	Median			
Mexpense	718	78. 9	45. 50	8118	114	52. 80	34. 80	1. 8901*	6. 6034**
		(3. 9811)			(5. 4657)				
Perks1	718	0.0061	-0.0025	8118	-0.0026	-0.0052	-0.0087	-3.7054***	5.4574**
		(0.0024)			(0.0007)				
Mpay	289	19. 7	6. 4476	3331	20. 2	8. 9003	0. 5049	0. 1188	7. 6148***
		(5. 6017)			(1. 1543)				
Perks2	289	0.0009	-0.0008	3331	-0.0013	-0.0012	-0.0023	-2.5016**	2.3503**
		(0.0009)			(0.0003)				
Compensation	553	390060.8	285300	6921	500775	345900	110714.3	4.3768***	8.2131***
		(13954)			(7063)				
ROA	718	-0.0151	0.0158	8118	0.0135	0.0283	0.0286	7.423***	28.8696***
		(0.0047)			(0.0011)				
Return	718	-0.0150	-0.0584	8115	-0.0128	-0.0602	0.0022	0.1483	0.0253
		(0.0121)			(0.0043)				
Q	718	1.3513	1.1322	8118	1.5101	1.0187	0.1588	0.1816	32.4578***
		(0.0528)			(0.2600)				
Financial Expenses	718	0.0181	0.0145	8118	0.0123	0.0103	-0.0058	-10.9431***	39.7843***
		(0.0007)			(0.0004)				
Interest Rate	718	0.0324	0.0335	8118	0.0273	0.0274	-0.0051	-8.2089***	42.8277***
		(0.0006)			(0.0002)				
Leverage	718	0.5955	0.5530	8118	0.5035	0.4829	-0.0920	-8.4091***	23.3091***
		(0.0140)			(0.0030)				

Table 4 Correlations among variables

	Size	CashFlow	Growth	Leverage	State	Age	Largest	Board	Independent	ROA
Size	1									
CashFlow	0.1691***	1								
Growth	0.0616***	0.0956***	1							
Leverage	-0.1035***	-0.1552***	-0.048	1						
State	0.2042***	0.0741***	-0.0348***	-0.1381***	1					
Age	-0.0077	-0.0054	-0.0157	0.2806***	-0.1767***	1				
Largest	0.2167***	0.1072***	-0.0013	-0.1833***	0.3165***	-0.4426***	1			
Board	0.2169***	0.0557***	0.0053	-0.0445***	0.1228***	-0.0088	-0.0147	1		
Independent	0.1679***	0.0649***	0.0055	0.1541***	-0.1537***	0.4378***	-0.1239***	-0.0064	1	
ROA	0.2586***	0.2821***	0.2338***	-0.5882***	0.1220***	-0.1920***	0.1686***	0.0786***	-0.0947***	1

***Significant at 1%

Table 5 Regressions on Perks1 and Bank Presence
Random effect models of panel data are presented. Dependent variable is Perks1, which is residual values of Mexpense in the following regression:

$$\frac{M\exp ense_t}{Assets_{t-1}} = \beta_0 + \beta_1 \frac{1}{Assets_{t-1}} + \beta_2 \frac{\Delta Sales_t}{Assets_{t-1}} + \beta_3 \frac{PPE_t}{Assets_{t-1}} + \beta_4 \frac{Inventory_t}{Assets_{t-1}} + \beta_5 LnEmployee$$

We use four variables to proxy bank presence: Bank, Bankshare, Bank$_{t-1}$, and Bankshare$_{t-1}$. All other variables are defined in Appendix 1. Z-statistics are reported in parentheses. Models include unreported industry and year dummies where indicated. *, **, and *** denote significance at the 10%, 5%, and 1% level, respectively.

VARIABLES	(1)	(2)	(3)	(4)
Bank	0.006**			
	(2.22)			
Bankshare		0.074		
		(1.48)		
Bank$_{t-1}$			0.006**	
			(2.46)	
Bankshare$_{t-1}$				0.010
				(0.23)
Size	0.004***	0.004***	0.005***	0.005***
	(4.86)	(4.89)	(6.26)	(6.27)
CashFlow	-0.045***	-0.045***	-0.050***	-0.050***
	(-5.37)	(-5.39)	(-5.72)	(-5.74)
Growth	-0.007***	-0.007***	-0.008***	-0.008***
	(-6.47)	(-6.46)	(-6.81)	(-6.85)
Leverage	0.000	0.000	0.000	0.000
	(1.42)	(1.42)	(1.43)	(1.42)
State	0.000	0.000	0.001	0.000
	(0.12)	(0.09)	(0.33)	(0.29)
Age	0.006***	0.007***	0.005**	0.006***
	(3.29)	(3.51)	(2.43)	(2.79)
Largest	-0.005	-0.005	-0.008*	-0.009*
	(-0.99)	(-1.03)	(-1.65)	(-1.80)
Board	-0.007**	-0.007**	-0.007**	-0.006**
	(-2.38)	(-2.33)	(-2.27)	(-2.16)
Independent	0.002	0.002	0.004	0.004
	(0.19)	(0.23)	(0.36)	(0.39)
Constant	-0.080***	-0.081***	-0.095***	-0.097***
	(-4.37)	(-4.47)	(-5.45)	(-5.58)
Industry	Controlled	Controlled	Controlled	Controlled
Year	Controlled	Controlled	Controlled	Controlled
N	8836	8836	8207	8207
Number of companies	1441	1441	1378	1378
R^2	3.45%	3.39%	3.48%	3.41%

Table 6 Regressions on Perks2 and Bank Presence

Random effect models of panel data are presented. Dependent variable is Perks1.
which is residual values of Mpay in the following regression:

$$\frac{Mpay_t}{Assets_{t-1}} = \beta_0 + \beta_1 \frac{1}{Assets_{t-1}} + \beta_2 \frac{\Delta Sales_t}{Assets_{t-1}} + \beta_3 \frac{PPE_t}{Assets_{t-1}} + \beta_4 \frac{Inventory_t}{Assets_{t-1}} + \beta_5 LnEmployee$$

We use four variables to proxy bank presence: Bank, Bankshare, $Bank_{t-1}$, and $Bankshare_{t-1}$. All other variables are defined in Appendix 1. Z-statistics are reported in parentheses. Models include unreported industry and year dummies where indicated. *, **, and *** denote significance at the 10%, 5%, and 1% level, respectively.

VARIABLES	(1)	(2)	(3)	(4)
Bank	0.010***			
	(3.72)			
Bankshare		0.194***		
		(3.53)		
$Bank_{t-1}$			0.010***	
			(3.45)	
$Bankshare_{t-1}$				0.152***
				(2.99)
Size	-0.001	-0.000	-0.001	-0.000
	(-0.69)	(-0.52)	(-0.71)	(-0.51)
CashFlow	0.011	0.011	0.011	0.011
	(1.12)	(1.12)	(0.98)	(0.98)
Growth	0.001	0.001	0.000	0.000
	(0.36)	(0.33)	(0.28)	(0.18)
Leverage	0.002	0.003	0.002	0.003
	(0.70)	(0.83)	(0.72)	(0.87)
State	0.001	0.001	0.002	0.001
	(0.63)	(0.60)	(0.77)	(0.71)
Age	-0.002	-0.002	-0.002	-0.001
	(-1.21)	(-0.96)	(-0.86)	(-0.58)
Largest	-0.011**	-0.011**	-0.011*	-0.011*
	(-2.10)	(-2.05)	(-1.96)	(-1.93)
Board	-0.005	-0.005	-0.005	-0.005
	(-1.51)	(-1.50)	(-1.63)	(-1.58)
Independent	-0.001	0.000	-0.001	0.000
	(-0.12)	(0.00)	(-0.05)	(0.03)
Constant	0.032*	0.027	0.033	0.027
	(1.66)	(1.39)	(1.57)	(1.28)
Industry	Controlled	Controlled	Controlled	Controlled
Year	Controlled	Controlled	Controlled	Controlled
N	3620	3620	3345	3345
Number of companies	1009	1009	943	943
R^2	2.84%	2.80%	2.99%	2.90%

Table 7 Regressions on Pay-for-Performance Sensitivity and Bank Presence

Random effect models of panel data are presented. Dependent variable is ΔLnCompensation, which is LnCompensation$_t$-LnCompensation$_{t-1}$. We use different proxies for Bank Presence in each column. In column 1 and 2, Bank, a dummy varibale is used as the proxy for bank presence; in column 3, bankshare is used; in column 4, Bank$_{t-1}$ is ued; in column 5, Bankshare$_{t-1}$ is use as proxy for bank presence. All other variables are defined in Appendix 1. Z-statistics are reported in parentheses. Models include unreported industry and year dummies where indicated. *, **, and *** denote significance at the 10%, 5%, and 1% level, respectively.

VARIABLES	(1) Bank	(2) Bank	(3) Bankshare	(4) Bank$_{t-1}$	(5) Bankshare$_{t-1}$
Bank Presence	-0.004	0.001	-0.218	0.012	0.069
	(-0.17)	(0.05)	(-0.42)	(0.50)	(0.15)
Size	0.007	0.007	0.006	0.005	0.005
	(0.96)	(0.96)	(0.91)	(0.67)	(0.65)
ΔROA	0.245***	0.292***	0.279***	0.275***	0.248***
	(3.77)	(4.21)	(4.16)	(3.90)	(3.64)
Return	0.056***	0.051***	0.056***	0.046***	0.050***
	(3.32)	(3.01)	(3.29)	(2.61)	(2.90)
BankPresence x ΔROA		-0.395**	-11.953**	-0.370*	-6.401
		(-1.98)	(-1.98)	(-1.87)	(-1.16)
BankPresence x Return		0.103	0.306	0.085	0.230
		(1.29)	(0.18)	(1.17)	(0.15)
Growth	0.067***	0.066***	0.066***	0.067***	0.068***
	(5.93)	(5.82)	(5.83)	(5.90)	(5.96)
Leverage	-0.075***	-0.069***	-0.072***	-0.071***	-0.074***
	(-3.25)	(-3.01)	(-3.16)	(-3.03)	(-3.18)
State	0.006	0.006	0.006	0.007	0.007
	(0.39)	(0.39)	(0.40)	(0.45)	(0.44)
Age	0.042**	0.041**	0.042**	0.048**	0.049**
	(2.10)	(2.04)	(2.11)	(2.23)	(2.32)
Largest	-0.005	-0.006	-0.008	0.005	0.005
	(-0.12)	(-0.14)	(-0.17)	(0.12)	(0.10)
Board	0.041	0.041	0.042	0.029	0.030
	(1.38)	(1.39)	(1.41)	(0.96)	(0.99)
Independent	-0.013	-0.017	-0.019	-0.003	-0.002
	(-0.13)	(-0.16)	(-0.18)	(-0.03)	(-0.02)
Constant	-0.201	-0.201	-0.195	-0.165	-0.164
	(-1.19)	(-1.19)	(-1.16)	(-0.94)	(-0.93)
Industry	Controlled	Controlled	Controlled	Controlled	Controlled
Year	Controlled	Controlled	Controlled	Controlled	Controlled
N	6182	6182	6182	5871	5871
Number of companies	1367	1367	1367	1364	1364
R^2	5.82%	5.90%	5.89%	5.85%	5.80%
χ^2 for ΔROA + Bank x ΔROA = 0		0.3		0.27	

Table 8 Levels of Executive Compensation and Bank Presence

Random effect models of panel data are presented. Dependent variable is Ln(Compensation), the natural logarithm of executive compensation. All other variables are defined in Appendix 1. Z-statistics are reported in parentheses. Models include unreported industry and year dummies where indicated. *, **, and *** denote significance at the 10%, 5%, and 1% level, respectively.

VARIABLES	(1)	(2)	(3)	(4)
Bank	-0.105**			
	(-2.52)			
Bank $_{t-1}$		-0.125***		
		(-2.98)		
Bankshare			-0.065	
			(-0.10)	
Bankshare$_{t-1}$				-0.255
				(-0.39)
Size	0.295***	0.305***	0.295***	0.305***
	(23.20)	(23.47)	(23.24)	(23.50)
CashFlow	0.305***	0.317***	0.308***	0.321***
	(3.77)	(3.78)	(3.81)	(3.83)
Growth	0.044***	0.043***	0.044***	0.043***
	(4.45)	(4.21)	(4.46)	(4.24)
Leverage	0.002***	0.002***	0.002***	0.002***
	(3.89)	(4.01)	(3.89)	(4.00)
State	-0.029	-0.023	-0.029	-0.022
	(-1.28)	(-0.98)	(-1.27)	(-0.97)
Age	-0.187***	-0.187***	-0.197***	-0.199***
	(-5.44)	(-4.91)	(-5.74)	(-5.25)
Largest	-0.514***	-0.507***	-0.505***	-0.495***
	(-6.77)	(-6.49)	(-6.65)	(-6.34)
Board	0.096***	0.083**	0.094***	0.079**
	(2.66)	(2.25)	(2.60)	(2.14)
Independent	0.159	0.176*	0.161	0.180*
	(1.61)	(1.75)	(1.64)	(1.79)
Constant	7.450***	7.256***	7.456***	7.267***
	(25.82)	(24.16)	(25.84)	(24.19)
Industry	Controlled	Controlled	Controlled	Controlled
Year	Controlled	Controlled	Controlled	Controlled
N	7474	7029	7474	7029
Number of companies	1436	1372	1436	1372
R-squared	43.44%	43.32%	43.44%	43.33%

Table 9. Regressions on ROA and Bank Presence

Random effect models of panel data are presented. Dependent variable is ROA. All other variables are defined in Appendix 1. Z-statistics are reported in parentheses. Models include unreported industry and year dummies where indicated. *, **, and *** denote significance at the 10%, 5%, and 1% level, respectively.

VARIABLES	(1)	(2)	(3)	(4)
Perks1	-0.215***	-0.215***		
	(-30.13)	(-29.24)		
Perks2			-0.200**	-0.229***
			(-2.40)	(-2.58)
Bank$_{t-1}$		-0.005*		-0.010*
		(-1.81)		(-1.68)
Size	0.018***	0.019***	0.013***	0.014***
	(19.97)	(20.64)	(6.99)	(7.22)
CashFlow	0.183***	0.194***	0.226***	0.238***
	(18.57)	(18.68)	(13.48)	(13.47)
Growth	0.027***	0.028***	0.030***	0.030***
	(21.65)	(20.80)	(12.70)	(12.14)
Leverage	-0.170***	-0.164***	-0.039***	-0.038***
	(-55.39)	(-53.83)	(-20.34)	(-19.53)
State	-0.000	0.001	0.003	0.004
	(-0.13)	(0.70)	(0.83)	(1.11)
Age	-0.006**	-0.002	-0.023***	-0.015***
	(-2.50)	(-0.90)	(-5.20)	(-3.02)
Largest	0.008	0.010*	0.027**	0.031***
	(1.42)	(1.78)	(2.38)	(2.63)
Board	0.005	0.004	0.014**	0.014**
	(1.57)	(1.21)	(2.34)	(2.18)
Independent	-0.002	-0.002	0.022	0.020
	(-0.20)	(-0.13)	(1.14)	(1.01)
Constant	-0.334***	-0.322***	-0.273***	-0.314***
	(-16.23)	(-15.75)	(-6.49)	(-7.07)
Industry	Controlled	Controlled	Controlled	Controlled
Year	Controlled	Controlled	Controlled	Controlled
N	8836	8207	3620	3345
Number of companies	1441	1378	1009	943
R^2	51.20%	51.31%	33.24%	33.57%

Table 10. Regressions on Interest Rate and Bank Presence

Random effect models of panel data are presented. Dependent variable is the interest rate, defined as interest expenses divided by total liabilities. Perks is measured as the abnormal level of administrative expenses. All other variables are defined in Appendix 1. Z-statistics are reported in parentheses. Models include unreported industry and year dummies where indicated. *, **, and *** denote significance at the 10%, 5%, and 1% level, respectively.

VARIABLES	(1)	(2)	(3)	(4)	(5)	(6)
Bank	0.003***		0.003***		0.003***	
	(3.71)		(3.66)		(3.31)	
Bankshare		0.028**		0.026*		0.024*
		(2.03)		(1.94)		(1.76)
Perks1			0.009***	0.009***	0.005**	0.005**
			(3.76)	(3.77)	(2.19)	(2.17)
Leverage					0.004***	0.005***
					(6.66)	(6.83)
Size	-0.001***	-0.001***	-0.001***	-0.001***	-0.001***	-0.001***
	(-4.86)	(-4.85)	(-4.83)	(-4.83)	(-4.03)	(-4.00)
Cashflow	-0.001**	-0.001**	-0.001**	-0.001**	-0.001**	-0.001**
	(-2.31)	(-2.33)	(-2.25)	(-2.27)	(-2.29)	(-2.31)
Sales growth	-0.002***	-0.002***	-0.002***	-0.002***	-0.002***	-0.002***
	(-9.37)	(-9.32)	(-9.13)	(-9.09)	(-8.95)	(-8.91)
State	-0.002***	-0.002***	-0.002***	-0.002***	-0.002***	-0.002***
	(-4.97)	(-5.03)	(-4.95)	(-5.01)	(-4.87)	(-4.92)
Firm Age	0.004***	0.005***	0.004***	0.004***	0.004***	0.004***
	(7.49)	(7.88)	(7.38)	(7.78)	(6.79)	(7.13)
Capital intensity	0.020***	0.020***	0.020***	0.020***	0.019***	0.019***
	(15.95)	(15.92)	(15.88)	(15.85)	(15.23)	(15.19)
Inventory	-0.009***	-0.009***	-0.009***	-0.009***	-0.010***	-0.010***
	(-5.25)	(-5.27)	(-5.22)	(-5.24)	(-5.84)	(-5.87)
Constant	0.040***	0.039***	0.040***	0.039***	0.034***	0.034***
	(7.45)	(7.38)	(7.45)	(7.38)	(6.49)	(6.40)
Observations	8835	8835	8835	8835	8835	8835
R-squared	11.86%	11.64%	12.07%	11.86%	14.05%	13.92%
Number of code	1,441	1,441	1,441	1,441	1,441	1,441

Table 11. Regressions on Financial Expenses and Bank Presence

Random effect models of panel data are presented. Dependent variable is the financial expenses, defined as total financial expenses divided by total assets. Perks is measured as abnormal level of administrative expenses. All other variables are defined in Appendix 1. Z-statistics are reported in parentheses. Models include unreported industry and year dummies where indicated. *, **, and *** denote significance at the 10%, 5%, and 1% level, respectively.

VARIABLES	(1)	(2)	(3)	(4)	(5)	(6)
Bank	0.004***		0.004***		0.002***	
	(6.34)		(6.21)		(3.81)	
Bankshare		0.037***		0.032***		0.014*
		(3.32)		(2.93)		(1.80)
Perks1			0.035***	0.035***	0.009***	0.009***
			(19.23)	(19.21)	(6.18)	(6.16)
Leverage					0.034***	0.034***
					(86.54)	(86.80)
Size	-0.004***	-0.004***	-0.004***	-0.004***	-0.002***	-0.002***
	(-17.46)	(-17.45)	(-17.58)	(-17.57)	(-11.75)	(-11.70)
Cashflow	-0.002***	-0.002***	-0.002***	-0.002***	-0.002***	-0.002***
	(-5.48)	(-5.50)	(-5.28)	(-5.30)	(-7.18)	(-7.20)
Sales growth	-0.002***	-0.002***	-0.002***	-0.002***	-0.001***	-0.001***
	(-9.65)	(-9.56)	(-8.69)	(-8.62)	(-9.12)	(-9.09)
State	-0.002***	-0.002***	-0.002***	-0.002***	-0.001***	-0.001***
	(-4.20)	(-4.30)	(-4.17)	(-4.26)	(-4.25)	(-4.31)
Firm Age	0.005***	0.006***	0.005***	0.006***	0.002***	0.002***
	(11.30)	(11.93)	(11.04)	(11.69)	(6.47)	(6.90)
Capital intensity	0.019***	0.018***	0.018***	0.018***	0.012***	0.012***
	(17.96)	(17.91)	(17.87)	(17.81)	(17.03)	(16.97)
Inventory	0.000	0.000	0.000	0.000	-0.007***	-0.007***
	(0.18)	(0.16)	(0.34)	(0.31)	(-6.72)	(-6.77)
Constant	0.074***	0.073***	0.073***	0.073***	0.024***	0.024***
	(16.56)	(16.44)	(16.80)	(16.68)	(8.16)	(8.03)
Observations	8836	8836	8836	8836	8836	8836
R-squared	13.72%	13.09%	17.22%	16.64%	62.77%	62.65%
Number of code	1441	1441	1441	1441	1441	1441