Corporate Performance, Agency Costs and Non-financial Information Disclosure

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Abstract. Taking Shanghai and Shenzhen A-share listed companies as samples, this paper studies the relationship between corporate performance, agency cost and non-financial information disclosure. It is found that non-financial information disclosure is positively correlated with corporate performance and negatively correlated with agency cost. Further analysis shows that the higher the level of non-financial information disclosure, the stronger the ability to control risks. Based on the stakeholder-agency theory, this paper studies the non-financial information disclosure of listed companies in China in reducing the agency cost among stakeholders. The conclusion shows that the managers should promote good non-financial information disclosure, which can not only improve the performance of the company, but also reduce the risk and agency cost.

1. Introduction

In the first half of 2018, China's A-shares were officially included in MSCI emerging Markets Index and received ESG research rating, and China's capital market gradually entered into internationalization. ESG analyzes the sustainable operation and development of the company from the perspectives of environment, society and corporate governance, and emphasizes that investors should grasp the risks and opportunities of the company in addition to the traditional analysis of financial indicators. Disclose non-financial information of the company, which can improve the transparency of the company (Yang Min et al., 2012). Investors have increased demand for information about the future development of enterprises (Vanstraelen and Zarzeski, 2003). Non-financial information can reflect the intrinsic value of an enterprise and help guide its investment behavior (Lian Lishuai, Zhu Song, Chen Guanting, 2019)[1]. Compared with financial information, non-financial information can better satisfy stakeholders' pursuit of information diversification.

Stakeholders know about listed companies through information disclosure, which becomes a means for listed companies to influence stakeholders. Jones (1995) found that enterprises strive to fulfill their social responsibilities in order to obtain the resources of stakeholders, so as to obtain the support and trust of stakeholders and ensure or improve the financial performance of enterprises. Cornell and Shapiro (1987) pointed out that there are both explicit and implicit contracts between enterprises and stakeholders, and the performance of enterprises depends on their ability to fulfill these contracts.
When a company fails to coordinate the interests of its management and its stakeholders, its performance will be adversely affected (Hill and Jones, 1992). In order to obtain returns higher than investors' requirements, enterprises may make venture investments (Harjoto et al., 2018). However, too many risks taken by enterprises will have extremely adverse effects on business development (Conyon et al., 2011). Everyone cannot always be consistent in their interests. Healy and Palepu (2001) believed that information disclosure could avoid conflicts of interest to a certain extent. The problems of corporate performance, risk and agency affect the long-term sustainable development of companies. Therefore, it is of certain significance to study the relationship between non-financial information disclosure and the three.

The main contributions of this paper are as follows: First, based on the stakeholder - agency theory (Hill and Jones 1992), non-financial information disclosure is conceptually defined as a tool to reduce information asymmetry and the extent of agency problems between managers and a wide range of stakeholders. Secondly, this paper adopts the rating of authoritative institutions to measure non-financial information disclosure, so as to avoid the subjectivity of evaluation method and improve the reliability of information. Finally, the research results of this paper have some implications for regulators, investors, listed companies and other stakeholders, and help listed companies in China to accelerate the improvement of ESG governance and disclosure level and achieve sustainable development.

2. Theoretical analysis and research hypothesis

2.1. Non-financial information disclosure and company performance

Chen et al. (2018) studied the impact of mandatory non-financial information disclosure on corporate performance in China in 2008 and found that there was a trade-off between corporate performance (ROA and ROE) and pollution level. Madorran and Garcia (2016) measured corporate performance by ROA and ROE, and found that corporate performance had no significant relationship with social responsibility. Riverte (2016) studied the value correlation of non-financial information disclosure and found that non-financial disclosure directly or indirectly affects stock prices, especially in environmentally sensitive industries. Song Xianzhong (2006) believed that voluntary non-financial information disclosure enhanced the value of the company and reduced investors' worries about the future prospects of the company. Wu Shengzhu (2007) believed that the bigger the company was, the higher the quality of commodities and the stronger the profitability, the more incentive it had to disclose information, so as to send a positive signal to investors and promote the rise of the company's stock price. Tang Guiliang and Luan Zhigan (2015) used big data technology to quantify non-financial information and found that the higher the index score of management and control ability based on non-financial information calculation, the better the enterprise performance. Therefore, the first hypothesis of this paper is:

Hypothesis 1 (H1): There is a positive correlation between non-financial disclosure and corporate performance.

2.2. Non-financial information disclosure and corporate risk

Non-financial information disclosure can not only reduce capital cost, but also reduce enterprise risk (Harjoto and Laksmana, 2018). Oikonomou et al. (2012) found a negative correlation between ESG and systemic risk. McGuire et al. (1988) studied the relationship between ESG and financial performance and risk, and found that ESG rating depended on the measurement of a company's financial risk resistance. Godfrey et al. (2009) pointed out that corporate philanthropy and ESG ratings created moral capital and prevented adverse actions by non-investment stakeholders. Salama et al. (2011) found a negative correlation between non-financial information disclosure rating and risk of British enterprises. Benlemih et al. (2018) pointed out that non-financial information disclosure can reduce the diversification risk of enterprises. Arrfelt et al. (2018) indicates that risks taken by companies will cause greater risks, and the pursuit of high returns from a specific stakeholder will
increase the overall risks of the company, which may bring significant and irreversible losses to the company. Therefore, the second hypothesis proposed in this paper is expressed as follows:

Hypothesis 2 (H2) : There is a negative correlation between non-financial information disclosure and corporate risk.

2.3. Non-financial information disclosure and agency costs of the company

Jensen and Meckling (1976) pointed out that agency problems arise because the interests of managers and shareholders are inconsistent. Under certain conditions, managers are likely to pursue their own interests at the expense of other owners (Gupta et al., 2018). The separation of the two powers is the root of the agency problem (Fama and Jensen, 1983)[4]. Hill and Jones (1992) pointed out that managers would have agency problems not only with shareholders, but also with other stakeholders. This deadweight loss will reduce the long-term value of the company. Based on the signal transmission theory (Leland and Pyle, 1977), information asymmetry between stakeholders will aggravate agency costs. The dual agency problem formed between insiders, investors, and the government of listed companies is essentially the encroachment of investors’ interests. Due to information asymmetry, enterprises still have deficiencies in the treatment of R&D expenses (Zhang Weidong et al., 2017)[5]. Companies with low information transparency may take various measures to cover up negative information (Cao Haimin and Meng Yuan, 2019)[6]. Therefore, it is important to solve the agency problem. Therefore, this paper puts forward the third hypothesis as follows:

Hypothesis 3 (H3) : There is a negative correlation between non-financial information disclosure and agency cost.

3. Research design

3.1. Sample selection and data sources

This paper studies the A-share listed companies in Shanghai and Shenzhen from 2018 to 2019. In order to better meet the research requirements of this paper, the samples were screened and processed as follows: (1) samples of financial and insurance companies were excluded; (2) Remove abnormal company samples such as ST; (3) Remove the samples with missing data, and finally get 326 annual observed values of the company. This paper USES data of listed companies from iFinD database, non-financial information disclosure rating data from ESG Ratings - the MSCI (https://www.msci.com/zh/esg-ratings).

3.2. Model construction and variable definition

In order to test the relationship between non-financial information disclosure and corporate performance, risk and agency cost, the following model is constructed:

\[ Y = \beta_0 + \beta_1 \text{INFD} + \beta_2 \text{SHARE} + \beta_3 \text{LEV} + \beta_4 \text{ROA} + \beta_5 \text{SIZE} + \beta_6 \text{GROW} + \varepsilon \quad (1) \]

Y in formula (1) is the dependent variable, which is replaced by current company performance (TOBINQ), risk (BETA) and agency cost (TAT). INFD is the independent variable and is replaced by non-financial information disclosure level. SHARE, LEV, ROA, SIZE and GROW respectively represent control variables such as equity concentration, financial leverage, profitability, company size and company growth ability. See Table 1 for the definitions of variables and specific measurement methods.

| Variable types       | The variable name | Variable declaration                           |
|----------------------|-------------------|-----------------------------------------------|
| Explained variable   | Corporate         | The sum of the market value of the equity and the book value of the liabilities divided by the total assets at the end of the period |
| explained variable   | Corporate Risk    | Systemic risk                                 |
| variable             | (TOBINQ)          |                                               |
| variable             | (BETA)            |                                               |
Agency cost (TAT) | Sales divided by total assets
---|---
Explanatory variables | Non-financial Information Disclosure (INFD) | Measured by MSCI ESG rating, AAA=7, AA=6, A=5, BBB=4, BB=3, B=2, CCC=1, if there is no rating, it is zero.
Control variables | Equity Concentration (SHARE) | Shareholding ratio of the largest shareholder
 | Financial Leverage (LEV) | Asset-liability ratio
 | Return on asset (ROA) | Net income after tax divided by total assets
 | Company SIZE | Log of total assets
 | Ability to GROW | Growth rate of net profit

4. Empirical results and analysis

As can be seen from the results of multiple regression analysis in Table 2, the F values of the model are all significant at the 1% level, indicating that the regression results of the model are good. The measurement index of non-financial information disclosure is significantly positively correlated with corporate performance TOBINQ at the level of 5%, indicating that the higher the rating of non-financial information disclosure, the more the company can get the support of stakeholders, perform better, improve corporate performance, and support the proposed hypothesis H1. The measurement index of non-financial information disclosure is significantly negatively correlated with corporate risk BETA at the 1% level, indicating that the higher the rating of non-financial information disclosure, the more standardized the corporate management level and operation mode are and the lower the risk they face, which supports the hypothesis H2 proposed. The non-financial information disclosure measure is significantly negatively correlated with agency cost TAT at 1% level, indicating that the higher the non-financial information disclosure rating is, the lower the agency cost will be, which supports the proposed hypothesis H3.

| model | Dependent variable: TOBINQ | Dependent variable: BETA | Dependent variable: TAT |
|-------|----------------|----------------|----------------|
| (constant) | Nonstandardized coefficient | t | Sig. | Nonstandardized coefficient | t | Sig. | Nonstandardized coefficient | t | Sig. |
| | B | | | B | | | B | |
| INFD | 0.163 | 2.293 | 0.023 | 0.126 | 7.307 | 0 | 0.161 | 8.361 | 0 |
| SHARE | 0.034 | 0.07 | 0.944 | 0.282 | 2.378 | 0.018 | 0.226 | 1.7 | 0.09 |
| LEV | 0.809 | 1.349 | 0.178 | 0.434 | 3.002 | 0.003 | 0.014 | 0.088 | 0.93 |
| ROA | 13.069 | 7.376 | 0 | 0.063 | 0.147 | 0.883 | 0.795 | 1.661 | 0.098 |
| The SIZE | 0.192 | 2.214 | 0.028 | 0.01 | 0.485 | 6.28 | 0.05 | 2.142 | 0.033 |
| Turns up | 0.121 | 0.94 | 0.348 | 0.054 | 1.753 | 0.081 | 0.016 | 0.47 | 0.639 |
| The F value | 38.063 (0.000) | 15.319 (0.000) | 16.242 (0.000) |

5. Conclusion

Corporate non-financial information disclosure usually reflects corporate environmental, social and corporate governance performance, which has attracted the attention of investors, regulators and academia. Based on the stakeholder-agency theory (Hill and Jones, 1992), this paper takes A-share listed companies as the research object to investigate the relationship between non-financial information disclosure and corporate performance, risk and agency cost. Using the data of 2018-2019 for regression analysis, we found evidence to support these three hypotheses: (1) there is a positive correlation between corporate non-financial disclosure and corporate performance; (2) There is a
negative correlation between non-financial disclosure and corporate risk; (3) There is a negative correlation between non-financial information disclosure and agency cost. This will promote the disclosure of non-financial information, improve corporate governance, solve agency problems and prevent risks.

The conclusions of this paper have some policy and practical significance. First of all, this study provides a theoretical reference for understanding non-financial information disclosure, improving corporate performance, reducing agency costs and corporate risks. Secondly, it studies the relationship between non-financial information disclosure of listed companies and corporate performance, risk and agency cost, providing enlightening evidence for companies and regulators. The company should constantly improve the level of corporate governance and improve the information disclosure system. Regulators should strengthen the regulation of non-financial information disclosure to protect the interests of investors.

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