

Institutional Investor Attention, Compensation Incentive and Corporate Performance

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Abstract: This paper uses the investor relationship data of “interactive easy” platform of Shenzhen Stock Exchange and the data of listed companies of Shenzhen Stock Exchange from 2014 to 2019 to construct the index of institutional investor attention, and empirically examines the influence mechanism of institutional investor attention on enterprise performance. It also examines the mediating channels of institutional investor attention on corporate performance. The results show that: institutional investor attention can significantly improve corporate performance; institutional investor attention can improve corporate performance by enhancing the intensity of executive compensation incentive.

1. Introduction

In recent years, China’s institutional investors have achieved rapid development in number and type, and gradually become an important part of China’s capital market. With the expansion of stock holding scale and the maturity of investment concept, in order to maintain their long-term and stable investment returns, institutional investors have turned more to long-term stock holding in the course of investment, increasing their attention to the long-term performance of enterprises, while institutional investors provide a large amount of financial support to enterprises, they also have a significant impact on the long-term performance of enterprises by participating in corporate governance.

Investor attention has become a hot topic. Existing literature has found that the research and attention of external investors to listed companies can reduce the inefficient investment level of enterprises¹, improve the return of stocks, promote the implementation of equity incentive plans².The existing literature has enriched the research on the impact of investor's attention, but there are few literatures on the impact of enterprise performance. Does institutional investor attention have an impact on enterprise performance? As a factor affecting performance, what is the role of executive compensation incentive in the relationship between institutional investor attention and enterprise performance?

This paper takes the listed companies of Shenzhen Stock Exchange of China from 2014 to 2019 as samples, uses the “investor relations” data of Shenzhen Stock Exchange’s “interactive easy” platform to construct the “institutional investor attention” index, and empirically studies the impact of institutional investor attention on the performance of listed companies.

2. Literature Review and Theoretical Assumptions

On the impact of institutional investors on enterprise performance, scholars of positive supervision hypothesis believe that institutional investors are more capable and motivated to supervise enterprises than small and medium-sized investors, and will take relevant countermeasures. For example, institutional investors will make use of their advantages in scale, information and talent to help enterprises improve their performance³. With the increase of shareholding ratio, institutional investors can have a better inhibition effect on the “hitchhike” behavior of enterprise management. They can participate in the decision making and implementation of enterprise operation decision by using their own professional knowledge and ability, which significantly improves the financial performance level⁴.

The field research and attention of institutional investors to listed companies can reduce the information asymmetry between institutional investors and listed companies. Institutional investors can improve the decision-making efficiency of enterprises by participating in the general meeting of shareholders, and use their own resources to help listed companies and improve the performance of listed companies. Based on this, this paper puts forward the research hypothesis H1

H1: the institutional investment focus is positively related to the performance of the enterprise.

Institutional investors will have an impact on the design of executive compensation⁵. Some scholars examine the relationship between compensation incentive and enterprise performance from both theoretical and empirical aspects, and conclude that the improvement of executive compensation can effectively improve enterprise performance. The mechanism of the two lies in that executives can make the goal of principal-agent relationship between management and shareholders consistent, and realize the possibility of risk sharing. While institutional investors increase the proportion of executive compensation income linked to performance, they also increase fixed compensation⁶. In China, institutional ownership has a significant positive correlation with executive fixed compensation and equity incentive. Equity incentive plays a more and more important role in the compensation incentive mechanism, and the greater the proportion of equity compensation, the better the performance of enterprises⁷.

In order to obtain a higher return on investment, institutional investors will link the long-term performance of enterprises with the executive compensation through the compensation incentive plan. In order to obtain a high return on compensation, the executive will keep in line with the interests of shareholders and improve the long-term performance of enterprises. Based on this, this paper puts forward hypothesis H2

H2: executive compensation incentive plays a mediating role in the process of institutional investor attention affecting corporate performance.

3. Research Design

3.1 Research Samples and Data Sources

This paper selects A-share listed companies in Shenzhen Stock Exchange from 2014 to 2019 as the research object. The reason why we choose A-share listed companies in Shenzhen stock exchange is that this paper uses investor attention as a measure. At present, only Shenzhen Stock Exchange “interactive easy” has investor relations column. According to the needs of the research, we have eliminated: (1) financial companies; (2) ST and * ST companies; (3) sample companies with missing data.

Finally, 6646 samples are obtained. In addition to the data from “interactive easy” platform, other financial data are from Guotai Junan database (CSMAR).

3.2 Variable Selection

1) Explained variables

Enterprise performance represents the final business performance of an enterprise. This paper uses profit on total assets (ROA) as the standard to measure enterprise performance.

2) Explanatory variables

This paper uses the data of the investor relationship activity record form on the “interactive easy” platform of Shenzhen Stock Exchange to construct the number of on-the-spot investigation interviews or telephone interviews of institutional investors as the index of institutional investor attention. In this paper, instifre is used to represent the number of on-the-spot surveys and telephone conferences of institutional investors in this year.

3) Mediating variables

Executive compensation incentive is measured by the total executive compensation

4) Control variables

In order to analyze the R & D investment and innovation performance of enterprises, this paper controls the following characteristic variables: free cash flow (FCF) divided by total assets; asset liability ratio (Lev), the ratio of total liabilities to total assets; the shareholding ratio of top ten shareholders (H10), the proportion of independent directors in directors, It uses the sum of the top ten shareholders' shareholding ratio, the separation of two positions (DUL), the chairman of the board of directors and the general manager are assumed by different personnel, take 1, otherwise take 0, Tobin Q, the ratio of the company's market value and book value, and enterprise size, the natural logarithm of the company's total assets. In addition, the year and industry dummy variables are used to control the impact of the year and industry.

3.3 Empirical Model

Based on the relevant financial data of sample enterprises from 2014 to 2019, this paper empirically studies whether equity incentive has a mediating effect in the process of institutional investor attention affecting enterprise innovation investment by using the method of stepwise test of mediating effect.

$$R\&D_{it} = \alpha_0 + \alpha_1 INSTIFRE_{it} + \sum control_{it} + \sum Ind + \sum Year + \varepsilon_{it}$$

$$MSH_{it} = \beta_0 + \beta_1 INSTIFRE_{it} + \sum control_{it} + \sum Ind + \sum Year + \varepsilon_{it}$$

$$R\&D_{it} = \gamma_0 + \gamma_1 INSTIFRE_{it} + \gamma_2 MSH_{it} + \sum control_{it} + \sum Ind + \sum Year + \varepsilon_{it}$$

Among them, model (1) tests the impact of institutional investor attention on corporate performance. Model (2) is used to test the impact of salary incentive on enterprise performance. Model (3) tests the mediating effect of salary incentive.

4. Empirical Results and Analysis

Table 1 is the descriptive statistical results of the main variables. It can be seen from table 1 that the average attention degree of institutional investors is 1.155. Converted into the number of surveys, it shows that on average, each listed company will be surveyed twice, and the highest is 110, which indicates that the attention degree of institutional investors of different enterprises is quite different. The average value of executive compensation incentive is 15.016, and the difference between the maximum value and the minimum value is 17.518, which indicates that the degree of equity incentive varies greatly among different enterprises. The average value of ROA is 0.042, the maximum value is 0.547, and the minimum value is -1.859

Table 1 Descriptive Statistical Results of the Main Variables

Variable	Sample Size	Mean	Median	Standard deviation	Minimum	Maximum
ROA	6646	0.042	0.043	0.08	-1.859	0.547
INMPAY	6646	15.065	15.016	0.749	12.124	18.276
INSTIFRE	6646	1.155	1.099	0.998	0	4.71
FCF	6646	0.001	0.017	0.131	-2.221	2.776
LEV	6646	0.391	0.383	0.188	0.009	2.394
H10	6646	57.712	58.543	13.802	8.975	95.094
DUL	6646	1.654	2	0.476	1	2
Tobin Q	6646	2.258	1.827	1.59	0.153	31.4
TAT	6646	0.612	0.518	0.509	0.003	11.416
SIZE	6646	22.091	21.997	1.079	19.226	28.179

The empirical results about the mediating role of compensation incentive in the impact of institutional investor attention on enterprise performance are shown in Table 2. Among them, the results of model (1) show that, on the basis of controlling other variables, the coefficient of institutional investor's attention is 0.0009, which indicates that institutional investor's attention will improve enterprise performance; in model (2), the coefficient of institutional investor's attention is 0.109, which indicates that institutional investor's attention can improve the degree of compensation incentive, and the above coefficients are significant at the level of 1%. In model (3), the coefficients of institutional investor attention and compensation incentive are positive, which are significant at the level of 1%, indicating that institutional investor attention and compensation incentive are positively correlated with enterprise innovation investment.

The bootstrap test is shown in Table 3, and the coefficient is 0.001, which is significant at the level of 1%. The above test results show that the implementation of institutional investor attention can significantly improve corporate performance, and compensation incentive plays a mediating role in the transmission mechanism.

Table 2 Mediating Effect Test Results

Variable	(1)	(2)	(3)
	ROA	INPAY	ROA
INMPAY			0.006*** (4.67)
INSTIFRE	0.009*** (9.53)	0.109*** (13.3)	0.008*** (8.66)
FCF	0.19*** (30.21)	0.121*** (2.13)	0.189*** (30.13)
LEV	-0.173*** (-32.11)	-0.398*** (-8.2)	-0.17*** (-31.53)
H10	0.001*** (13.87)	0 (0.29)	0.001*** (13.88)
DUL	-0.004** (-2.34)	-0.015 (-0.96)	-0.004*** (-2.29)
Tobin Q	0.005*** (8.81)	0.04*** (7.27)	0.005*** (8.37)
TAT	0.019*** (10.07)	0.139*** (8.3)	0.018*** (9.56)
SIZE	0.017*** (17.1)	0.388*** (42.57)	0.015*** (12.99)
Year	YES	YES	YES
Ind	YES	YES	YES
Sample Size	6646	6646	6646
R ²	0.3304	0.3795	0.3326

Table 3 Bootstrap Test Results

Mediated effect	Mediated effect value	P-value	95% Confidence interval	
indirect	0.001	4.76	0.0004	0.0010
Direct	0.008	6.99	0.0057	0.0101

5. Empirical Results and Analysis

In order to ensure the reliability of the empirical results, this paper makes a robustness test. Replace the mediated variable and retest. The top three top executives' total compensation is logarithm to express the incentive level of executive compensation. After replacing the intermediate variables, the two-way fixed effect estimation results of equations (1) - (3) show that the coefficient symbols of the main variables are consistent with those in Table 3, and they are significant at the level of 1% or 10%.

6. Conclusion

This paper uses the “interactive easy” platform of Shenzhen Stock Exchange to construct the institutional investor concern index. Taking the data of listed companies of Shenzhen Stock Exchange of China from 2014 to 2019 as samples, the paper tests the influence of institutional investor attention on enterprise performance. The results show that the institutional investor attention will significantly improve the performance of enterprises. Institutional investor attention can improve corporate performance by increasing executive compensation incentive

The conclusions of this paper are as follows: first, enterprises should pay attention to the influence of institutional investor attention, accept the research of external investors and the suggestions of institutional investors with a more open attitude, so as to promote the improvement of enterprise performance. Third, enterprises should pay attention to the impact of executive compensation incentive on enterprise performance. To improve the incentive part of executive compensation, the performance of the enterprise is linked with the remuneration of the senior executives, and the more strict conditions of executive compensation incentive are implemented to promote the executives to attach importance to the long-term performance improvement of the enterprise.

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