

Can Digital Transformation Restrain Perk Consumption? Evidence from China

Qi'an Zhong*

School of Business, Suqian university, Suqian 223800, China

*21074@squ.edu.cn

Abstract

Using samples of Chinese listed companies from 2010 to 2020, this study examines the impact of digital transformation on executives' perk consumption in China. The results show that digital transformation restrains perk consumption, and that this effect is more significant for excess perk consumption. A mediation effect test reveals that digital transformation restrains perk consumption and excess perk consumption by alleviating information asymmetry. Meanwhile, this inhibitory effect is also found to be more significant in non-state-owned enterprises and firms with low internal controls. This study clarifies the mechanism through which digital transformation influences corporate governance, and provides important empirical evidence and insight to solve the problem of excess perk consumption.

Keywords

Digital Transformation; Perk Consumption; Excess Perk Consumption; Information Asymmetry.

1. Introduction

Executives obtain income from a firm, including both monetary compensation, such as an annual salary and a bonus, and non-monetary compensation, such as perks [1]. Although perks are an invisible form monetary compensation, they are abused or even out of control in some Chinese listed companies [2]. This phenomenon has also caused widespread concern in the academic community, and many scholars have conducted in-depth research on the factors influencing perk consumption from different perspectives [1-4].

In the current scenario, perk consumption can be divided into two categories based on its impact, namely, normal perk consumption and excess perk consumption [3]. The former refers to the provision of compensation to meet demands for executive incentives, whereas the latter is a real agency cost resulting from a separation of ownership and operating rights [4]. Specifically, through excess perk consumption, executives may sacrifice the interests of shareholders to maximize their own benefits. Restraining executives' perk consumption has always been a focus of academic and theoretical circles.

Digital transformation refers to the application of cutting-edge digital technologies to improve the collection, sorting, and analysis of firm data [5]. Therefore, digital transformation, as an important strategic choice for enterprises, can help to improve product mixes, business models, and governance efficiency [6]. Although digital technologies can promote business development, little research has been conducted on the economic consequences of digital transformation. Only a few empirical studies have examined the impact of digital transformation on management decision-making [7], production efficiency [8], innovation capability [6], management efficiency [9], risk taking [5], and stock price crash risk [10]. However, studies on the impact of digital transformation on perk consumption are quite rare.

Therefore, by using companies listed in China during 2010-2020 as a research sample, we find that digital transformation restrains perk consumption and that this effect is more significant for excess perk consumption. Meanwhile, we examine the channels through which digital transformation affects perk consumption. The results show that digital transformation reduces information asymmetry and thus restrains perk consumption. Finally, by using a heterogeneity test, we find that this inhibition is more significant in non-state-owned enterprises (non-SOEs) as well as in firms with lower internal controls.

The marginal contributions of this study are mainly the following. Firstly, The application of digital technology in the enterprise not only changes the business model[6] as well as the production efficiency[8], but also enhances the level of corporate governance[9]. This study emphasizes the impact of firms' digital transformation on perk consumption, which in turn enriches the research on the effects of digital transformation. Secondly, in contrast to the existing literature, this study examines the information asymmetry perspective and verifies that digital transformation restrains perk consumption by regulating information asymmetry. Finally, this paper provides insight for alleviating perk consumption and shaping high-level corporate governance systems. Perk consumption behavior is particularly excessive in developing countries with relatively low levels of corporate governance. The results of this paper indicate that enterprises should actively carry out digital transformation and form a system of internal and external supervision of perk consumption.

2. Theoretical Analysis and Research Hypothesis

2.1. Digital Transformation and Perk Consumption

Digital transformation refers to the use of big data, cloud computing, blockchain, artificial intelligence, and other technologies to collect large amounts of internal and external data, including on rich governance frameworks, profit distribution, equity incentives, and the needs of stakeholders [11]. It lays a foundation for breaking the information barriers between existing departments and coordinating internal and external relations. Digital governance theory advocates the role of “data-based decision-making”, emphasizes the core role of information in corporate organizational decision-making and governance in economic organizations, and highlights structured data as a key factor for corporate governance [12]. Based on the characteristics of digital transformation, how does it affect executives' perk consumption?

Firstly, digital technology can provide enterprises with accurate governance information [13], help regulators to understand detailed information about perk consumption in a more comprehensive way, and formulate targeted policies to inhibit perk consumption. Secondly, the integration of digital technology into all levels of a firm can assist in effectively sorting originally fragmented information and provide transparent and comprehensive information for corporate governance [14]. Executives usually use related transactions among departments to satisfy their own consumption and damage the interests of shareholders. In this case, shareholders can use big data, blockchain, and other digital technologies to comprehensively understand transactions among the various departments of a company, and accurately control the possible ways that executives can use related transactions for perk consumption. Finally, digital technology can improve the visualization of enterprise processes, facilitate regulators to monitor managers' self-interested behaviors, and restrain perk consumption. Based on the above analysis, Hypothesis 1 is proposed as follows:

H1. Digital transformation is negatively correlated with perk consumption.

2.2. The Mediation Effect of Information Asymmetry

Information asymmetry is an important factor for executives' perk consumption [15]. It refers to the significant differences in the information held by different stakeholders, which forms a

"digital divide" and thus influences perk consumption behavior. Breaking the "digital divide" has become a key factor in curbing perk consumption behavior. In the traditional supervision scenario, the supervision of executives' perk consumption mainly lies with the internal organizations of a firm [16], such as the board of directors, the board of supervisors, and the general meeting of shareholders, but these still cannot restrain executives' perk consumption. Digital technology, as a new supervisory tool and means of governance, can effectively solve information asymmetry and reduce perk consumption. The specific merits of digital technology are as follows. Firstly, the use of digital technology can increase the amount of information available to decision makers. Compared with traditional methods of information collection, digital technology uses big data, blockchain, and other means to obtain massive amounts of internal and external data [17] to provide more adequate data for decision-making and to control perk consumption more accurately. Secondly, the application of digital technology can improve the ability of decision makers to analyze data. Specifically, it enables enterprises to obtain massive amounts of data and improves decision makers' policy perception and data analysis abilities [18]. Accordingly, it can accurately expose the existing perk consumption behaviors in the management's operation process and improve the targeting of shareholder supervision. Finally, the use of digital technology can improve the quality of corporate information disclosure. Information disclosure is the main means by which enterprises communicate with internal and external sources [19]. Before digital transformation, the quality of enterprise information disclosure depended on the attitudes of management teams. However, this undoubtedly increased the likelihood for executives to conceal perk consumption. In contrast, digital transformation can help enterprises to improve their own disclosure system, improve the quality of information disclosure [20], and thus regulate perk consumption. Based on the above analysis, Hypothesis 2 is proposed as follows:

H2. Digital transformation alleviates information asymmetry, and thus restrains perk consumption.

3. Research Design

3.1. Sample Selection and Data

We selected China's A-share listed companies from the 2010-2020 period as the research sample, and screened the initial sample according to the following rules: we excluded financial companies and companies with missing data. In total, 15,495 samples were obtained.

3.2. The Definition of Variables

3.2.1. Independent Variable

In the existing literature [20], the text analysis method based on machine learning is used to measure corporate digital transformation. In general, a company's annual report discusses its direction for future development and transformation [20]. Accordingly, the annual reports released by the sample firms from 2010 to 2020 were processed as follows. Firstly, the meaning of digital transformation was defined at both the digital technology level and the application level, and 83 representative keywords of digital transformation were selected. Secondly, Python language was used to count the words representative of digital transformation in the annual reports during the 2010-2020 period. On this basis, negative statements, all information contained in tables, and ambiguous statements were assessed and deleted via a manual reading. Finally, the logarithm of the total number of these keywords plus 1 was calculated to quantify the degree of digital transformation.

3.2.2. Dependent Variable

According to Cai and Walkling (2011) [22], perk consumption can be measured by dividing the sum of the eight expenses in the table of "Other Cash flows related to business activities" in the

appendix of financial statements by the total initial assets. The eight expenses include office expenses, travel expenses, business entertainment expenses, communication expenses, overseas study expenses, directors' dues, car fares, and conference expenses.

3.2.3. Intermediary Variable

We follow previous literature studies[23], Information asymmetry is proxied using the ratio of firms' intangible assets to total assets. The reason for using this indicator is that intangible assets are difficult to value and corporate managers may manipulate the value of intangible assets through accounting policy choices. Therefore, we believe that the higher the ratio, the higher the information asymmetry of the company.

3.2.4. Control Variables

According to previous research, the control variables in this paper include the company's profit status, leverage level, growth, audit expenses, the size of the executive team, the ratio of the number of independent directors to the board of directors, the size of the board, and the size of the company. The definitions of the main variables are presented in Table 1.

Table 1. Definitions of the main variables

variables	Definition
DIG	Ln (1 + indicates the frequency of digital keywords in the annual report)
Perk consumption	The definition of the variables in the text
Information asymmetry (IA)	The ratio of firms' intangible assets to total assets
ROA	Net profit / average total assets
Lev	Total liabilities / total assets
Grow	The growth rate of corporate operating revenue
Audit	Ln (audit costs)
TMT	Ln (executive team numbers)
Indb	The ratio of the number of independent directors to the board of directors
Board	Ln (board numbers)
Size	Ln (total assets)

3.2.5. Research Model

To examine the impact of digital transformation on perk consumption, Model (1) was constructed as follows:

$$Perk_{ijt} = \alpha_0 + \alpha_1 DIG_{ijt} + \sum Control_{ijt} + \sum YEAR + \sum IND + \sum Firm + \xi \quad (1)$$

where i , j , and t represent the firm, industry, and year, respectively; DIG denotes the level of digital transformation; and Perk represents the level of perk consumption. If α_1 is less than 0, it means that digital transformation restrains perk consumption and Hypothesis 1 is verified.

This paper also empirically examines the mechanisms by which digital transformation affects perk consumption. Following Cui et al. (2023) [25], regression models (2) and (3) were constructed to examine the mediation effect. Model (2) was used to verify the impact of digital transformation on the quality of information disclosure. Since this study uses an inverse indicator for information asymmetry, the expected value of β_1 is less than 0. If β_1 is less than 0, it shows that digital transformation is helpful for improving the quality of information disclosure. In Model (3), both DIG and IA were included in the regression model. If β_1 is significant with a decreasing coefficient and β_2 remains significant, a mediating effect exists. Model (2) and (3) were constructed as follows:

$$IA_{ijt} = \beta_0 + \beta_1 DIG_{ijt} + \sum Control_{ijt} + \sum YEAR + \sum IND + \sum Firm + \xi \tag{2}$$

$$Perk_{ijt} = \gamma_0 + \gamma_1 DIG_{ijt} + \gamma_2 IA_{ijt} + \sum Control_{ijt} + \sum YEAR + \sum IND + \sum Firm + \xi \tag{3}$$

4. Empirical Results and Analysis

4.1. Descriptive Statistics

Table 2 shows the descriptive statistics of the variables involved in regression. The maximum and minimum values of the core variable digital transformation (DIG) are 5.674 and 0.658, respectively, with a mean value of 1.203, indicating that there are some differences in the digital transformation of the sample enterprises. The maximum and minimum values of perk consumption are 0.428 and 0.005, respectively, and the mean value of 0.219 is greater than the standard deviation of 0.150, indicating that perk consumption in Chinese listed companies is more severe. All of the other variables were within a reasonable range.

Table 2. Descriptive statistics of the main variables

Variables	Count	Min	Max	P50	Mean	SD
DIG	15495	0.658	5.674	1.125	1.203	0.827
Perk	15495	0.005	0.428	0.184	0.219	0.150
ROA	15495	-0.138	0.196	0.039	0.045	0.051
Lev	15495	0.054	0.881	0.399	0.420	0.206
Grow	15495	-0.208	0.584	0.201	0.158	0.620
Audit	15495	13.305	14.185	13.710	13.824	0.705
TMT	15495	1.069	2.052	1.792	1.805	0.352
Indb	15495	1.063	1.099	1.095	1.146	0.165
Board	15495	1.106	2.706	2.197	2.135	0.195
Size	15495	19.732	25.768	21.852	22.034	1.254

4.2. Regression Results Analysis

4.2.1. Baseline Results

The baseline results are shown in Table 3. Column (1) denotes the situation without the addition of any control variables. The regression coefficient of enterprise digital transformation (DIG) is -0.095, which is significantly negative. Column (2) represents the case where the control variables are joined. The regression coefficient of enterprise digital transformation (DIG) is -0.109, which is significantly negative, indicating that digital transformation has a significant inhibitory effect on executives' perk consumption, thus confirming Hypothesis 1.

Column (3) and Column (4) test the impact of digital transformation on excess perk consumption. Referring to Gul et al. (2011) [26], the following model was constructed to estimate excess perk consumption:

$$ExpPerk_{it} = \alpha_1 \times LnTotalComp + \alpha_2 \times Lnasset + \alpha_3 \times LnTotalncperCap \tag{4}$$

where ExpPerk represents normal perk consumption; LnTotalComp denotes the logarithm of the total salary of the company; and LnTotalncperCap represents the logarithm of the wage level of each province. The difference between the actual perk consumption and the normal perk consumption can be used to determine if the perk consumption is excessive. If the difference is greater than 0, the sample will be assigned a value of 1, otherwise 0. The results show that the

regression coefficients of digital transformation (DIG) are -0.309 and -0.315, which are significantly negative. This effect is significantly greater than perk consumption, indicating that digital transformation has a more significant effect on restraining executives' excess perk consumption, further confirming Hypothesis 1.

Table 3. Baseline results.

Variables	(1)	(2)	(3)	(4)
	Perk	Perk	ExpPerk	ExpPerk
DIG	-0.095***(-3.52)	-0.109***(-3.66)	-0.309***(-8.63)	-0.315***(-10.35)
ROA		-0.015***(-2.12)		-0.060***(-3.67)
Lev		-0.752***(-6.38)		-0.579***(-7.09)
Grow		0.254*** (4.58)		0.092*** (2.33)
Audit		-1.529***(-12.06)		-0.674***(-8.06)
TMT		0.052** (4.03)		0.030** (2.06)
Indb		-2.035***(-8.63)		-0.738***(-9.14)
Board		0.065*** (3.06)		0.037*** (3.15)
Size		0.052 (1.25)		0.005 (0.93)
Constant	0.158*** (2.65)	0.068 (0.65)	0.206*** (6.31)	-0.062* (-1.09)
Year	YES	YES	YES	YES
Firm	YES	YES	YES	YES
Industry	YES	YES	YES	YES
Adj-R ²	0.45	0.52	0.30	0.35
N	15495	15495	13522	13522

Note: T-statistics for the regression coefficients are in parentheses. *, **, and *** represent statistical significance at the 10%, 5%, and 1% levels, respectively.

4.3. Robustness Test

4.3.1. Endogenous Test

The problem of endogeneity may still exist if there are unobserved effects between digital transformation and perk consumption. Therefore, the following approaches have been adopted to address this. First, based on Fang et al. (2021) [27], the control variables were lagged by one period and brought into Model (3) for regression. The estimated coefficient of DIG is significantly negative. Second, considering the possible problem of sample self-selection, the control variable in Model (3) was selected as the characteristic variable using the tendency score matching method, and 1:1 nearest-neighbor matching was adopted for enterprises that had not implemented digital transformation. After matching, the differences between the variables were all less than 5%. The results are reported in Column (1) and Column (2) of Table 4. We find that digital transformation restrains perk consumption.

4.3.2. Sample Adjustments

We exclude the sample of firms located in provincial capitals because the digitisation level in provincial capitals is significantly higher than that in non-capital cities. The results are reported in Column (3) and Column (4) of Table 4. We find that digital transformation restrains perk consumption.

4.3.3. Alternative Measures of Digital Transformation

We also requantified enterprise digital transformation. Based on the work by Tian et al. (2022) [5], digital transformation was quantified using the sum of the digital transformation keywords in the MD&A (management discussion and analysis) section divided by the total number of words. The results are reported in Column (5) and Column (6) of Table 4. We find that digital

transformation restrains perk consumption. This shows that the conclusions of this study are robust.

Table 4. Robustness checks

Variables	PSM(1)	PSM(2)	(3)	(4)	(5)	(6)
	Perk	ExPerk	Perk	ExPerk	Perk	ExPerk
DIG	-0.104**(-2.41)	-0.051***(-4.28)	-0.106*** (-4.52)	-0.181*** (-8.67)	-0.035*** (-3.65)	-0.096*** (-7.51)
Constant	0.010**(3.92)	0.028**(2.62)	0.053*** (2.51)	0.097*** (3.97)	0.124*** (4.62)	0.051*** (4.59)
Controls	YES	YES	YES	YES	YES	YES
Year	YES	YES	YES	YES	YES	YES
Firm	YES	YES	YES	YES	YES	YES
Industry	YES	YES	YES	YES	YES	YES
Adj-R ²	0.24	0.30	0.22	0.26	0.15	0.19
N	15495	15495	15495	15495	15495	15495

5. Further Analysis

5.1. Mediation Effect Analysis (Information Asymmetry)

Table 5 reports the results of mediation effect regression. As can be seen, the estimated coefficients of DIG in Column (2) and Column (5) are -0.308 and -0.126, respectively, which are significantly negative, indicating that digital transformation alleviates information asymmetry. When DIG and IA were regressed together as explanatory variables of perk consumption, the absolute values of the regression coefficient of DIG dropped to 0.096 and 0.264 compared to Columns (1) and (4), respectively, while the coefficient of IA remained significant. This suggests that IA mediates the effect of digital transformation on perk consumption, confirming Hypothesis 2.

Table 5. The results of the mediation effect regression.

Variables	(1)	(2)	(3)	(4)	(5)	(6)
	Perk	IA	Perk	ExPerk	IA	ExPerk
DIG	-0.109***(-3.66)	-0.308***(-6.87)	-0.086***(-6.34)	-0.315***(-6.35)	-0.126*** (-5.41)	-0.264*** (-5.34)
IA			0.156***(3.06)			0.231*** (2.67)
Constant	0.158***(2.65)	0.268***(4.39)	0.327***(4.35)	-0.062*(1.09)	0.169*** (3.67)	-0.274*** (-5.41)
Controls	YES	YES	YES	YES	YES	YES
Year	YES	YES	YES	YES	YES	YES
Firm	YES	YES	YES	YES	YES	YES
Industry	YES	YES	YES	YES	YES	YES
Adj-R ²	0.18	0.28	0.33	0.24	0.29	0.31
N	15495	15495	15495	11548	11548	11548

Note: T-statistics for the regression coefficients are in parentheses. *, **, and *** represent statistical significance at the 10%, 5%, and 1% levels, respectively.

5.2. The Effect of Firm Ownership

The effect of firm ownership on the relationship between digital transformation and perk consumption is further discussed. State-owned enterprises (SOEs) are under the dual supervision of the government and the market. In particular, the Chinese government has made a major attempt to reduce perk consumption. The introduction of national audit policies (Cai et al., 2019) [28], the "Eight Provisions", and other measures have effectively restrained executives' perk consumption in SOEs. It is hypothesized that digital transformation has a significantly greater inhibitory effect on perk consumption in non-state-owned enterprises (non-SOEs) than in SOEs. The regression results are shown in Table 6. The estimated coefficient of DIG is significantly negative for non-SOEs, while it is insignificant for SOEs, confirming the above hypothesis.

Table 6. The effect of firm ownership.

Variables	SOEs(1)	non-SOEs (2)	SOEs(3)	non-SOEs(4)
	Perk	Perk	EXPerk	EXPerk
DIG	-0.218(-2.38)	-0.385***(-6.06)	-0.136(-1.62)	-0.257***(-5.42)
Constant	0.139*** (3.41)	-0.105***(-3.12)	0.224*** (6.47)	0.052*** (3.02)
Chow test	8.684***		6.025***	
Controls	YES	YES	YES	YES
Year	YES	YES	YES	YES
Firm	YES	YES	YES	YES
Industry	YES	YES	YES	YES
Adj-R ²	0.33	0.43	0.36	0.48
N	6984	8511	5217	6331

Note: T-statistics for the regression coefficients are in parentheses. *, **, and *** represent statistical significance at the 10%, 5%, and 1% levels, respectively.

5.3. The Effect of Region

Table 7. The effect of internal controls.

Variables	Eastern (1)	Midwest(2)	Eastern (3)	Midwest(4)
	Perk	Perk	EXPerk	EXPerk
DIG	-0.304***(-6.58)	-0.180***(-4.06)	-0.136***(-2.64)	-0.037***(-1.67)
Constant	-0.062***(-2.84)	0.235** (2.14)	0.197*** (3.61)	0.361*** (7.19)
Chow test	7.524***		5.067***	
Controls	YES	YES	YES	YES
Year	YES	YES	YES	YES
Firm	YES	YES	YES	YES
Industry	YES	YES	YES	YES
Adj-R ²	0.33	0.43	0.36	0.48
N	8084	7411	6024	5524

Note: T-statistics for the regression coefficients are in parentheses. *, **, and *** represent statistical significance at the 10%, 5%, and 1% levels, respectively.

The effect of region on the relationship between digital transformation and perk consumption is also further explored. Eastern China is more economically developed, with a better digital infrastructure and a large pool of IT professionals, which can meet the requirements of the market environment, resource supply and human capital needed for digital transformation[29]. While the level of economic development in the Midwest regions is relatively backward, the

degree of marketisation is not high, and the digital infrastructure has yet to be improved, which is not conducive to enterprises relying on digital transformation to restrain perk consumption. We suggest that the restraining effect of corporate digital transformation on perk consumption is more significant in the East region. The regression results are shown in Table 7.

6. Conclusion

This study provides new evidence on the effect of digital transformation on perk consumption. Our findings show that digital transformation effectively reduces perk consumption and that the effect is more significant for excess perk consumption. This effect is also heterogenous across firm types; for example, digital transformation is more significant for non-SOEs as well as firms with lower internal controls. Further research reveals that digital transformation can reduce perk consumption by reducing information asymmetry.

These findings provide some micro-level evidence for the effect of enterprise digital transformation on perk consumption. First, enterprises should accelerate the digital transformation process to alleviate information asymmetry and reduce perk consumption. Second, the government should introduce relevant supportive policies to improve digital transformation in enterprises.

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