The Impact of Corporate Financial Asset Allocation on Development of Core Business

--The Moderating Effect of Executive Compensation Gap

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Abstract: The investment propensity of corporates, which has been increasingly evident, will affect corporate development in a profound way. This paper takes relevant data of all the A-share listed manufacturing companies from 2008 to 2017 as samples, in order to study the impact of financial asset allocation on the development of core businesses. It surveys the compensation gaps of senior executives in different corporates, and their moderating effect on the above-mentioned two factors. Then it makes further tests on the basis of heterogeneity of property rights. The study shows that: in the whole sample, the financial asset allocation goes against the development of corporate core business, which is embodied as the “crowd-out effect”. With the widening of positive compensation gap, the “crowd-out effect” on the development of the core business brought by financial asset allocation may be inhibited. While negative compensation gap fails to perform moderating effect between financial asset allocation and the development of corporate core business. On account of heterogeneity of property rights, in the case of non-SOEs, positive compensation gap mitigates the “crowd-out effect” of financial asset allocation on the development of the core business, while in SOEs, negative compensation gap intensifies the “crowd-out effect”. These conclusions promote the optimization of corporate compensation contracts, in case the substantial economy distract from intended purpose, so as to enhance the advance of corporate sustainable development.

1. Introduction

Since the 21st century, the development level of Chinese financial industry has been improved significantly, and financial products have been continuously innovated. As a result, more and more corporates invest in financial products with short investment periods and high investment returns. According to CSMAR database, the average size of financial assets held by A-share non-financial listed companies has remained high level since 2012, and in 2017, the average holding amount of non-financial corporate financial assets reached 809 million yuan. Therefore, in the current trend of financial assets investment in the emerging corporates, it is very necessary to explore the impact of financial asset allocation on the development of core business, in order to guide corporate reasonable investment decisions, to prevent economy being distracted from their intended purpose and promote sustainable development.

Companies are required to disclose the salary levels of directors and supervisors in China since 2005, which provides conditions for the higher-level executives to compare their salaries. With the establishment and continuous improvement of the manager market, executives have become more and more concerned about the compensation gap and their reputation[1]. And the difference in managers’ compensation between different industries is relatively large. For example, the annual

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salary of the chairman of Fangda Special Steel is as high as 31.696 million yuan, while it's only 72,100 yuan for the chairman of Shenkangjia A per year. According to the theory of social comparison, executives tend to compare their salaries with others', and the compensation gap between different corporate executives will have an important impact on the investment decisions and risk-taking. So, what role will the executive compensation gap play in the relationship between financial asset allocation and the development of corporate core business?

Solving these above questions helps corporates to optimize the compensation contracts in terms of governance, and guide corporates to allocate financial assets reasonably, then promote the sustainable development of the entity and prevent the entity from "de-reality". This paper takes samples of all A-share manufacturing listed companies from 2008 to 2017 to study the impact of corporate financial asset allocation on the development of core business, investigate the moderating effect of executive compensation gap on the above-mentioned two, and carried out further test based on the heterogeneity of property rights. Compared with the prior research, this study contributes to the literature about compensation gap and investment decisions. Compensation gap has an important impact on corporate investment decision and risk-taking. This paper examines the moderating effects of executive compensation gap on the relationship between financial assets allocation and main business development. It is beneficial for corporates to optimize the executive compensation contracts from the aspect of governance, to guide managers to allocate financial assets rationally, to prevent corporates being distracted from their intended purpose and promote sustainable development.

2. Theoretical Analysis and Hypothesis Development

2.1. The Impact of Financial Asset Allocation on the Development of Corporate Core Business

The impact of corporate financial asset allocation on the development of the core business can be summarized into two categories: "reservoir effect" and "crowd-out effect". The "reservoir effect" means corporates hold financial assets with the motivation of mitigating "financing constraints", and they can quickly dissipate financial assets to support core business, which is manifested in the fact that financial asset allocation is helpful to corporate core business. The "crowd-out effect" is manifested in the fact that when corporates are "arbitrage motives" and invest more funds in financial assets, they will reduce the input of equipment and R&D, thus inhibit the development of corporate core business [2].

From the perspective of mitigating corporate financing constraints, financial asset allocation mainly relies on the following methods to alleviate the financing constraints of corporate physical capital investment and R&D investment, and to promote the sustainable development of the core business of the corporate, which is manifested as "the reservoir effect". ①Sell or pledge financial assets and obtain funds. In the case of external financing constraints, fluctuations in internal funds will affect the investment of corporate physical capital and R&D. When internal funds suddenly decrease, the company will not reduce the investment expenditure proportionally, but will reduce it according to the funds adjustment costs. The funds saved by project with lower adjustment costs will be invested in other projects [3]. Compared with physical capital investment and R&D investment, financial assets have lower adjustment costs. Therefore, corporates can obtain funds to satisfy the capital needs of physical capital investment and R&D investment by selling or pledging financial assets, which is conducive to the development of the core business. ②Financial assets' incomes (such as investment income, interest income, etc.) help to alleviate the fluctuation of internal funds. On the one hand, corporates can hedge their financial risk and reduce their business

risk by arranging the same amount of financial assets in the opposite direction to the spot trading, which helps corporates to obtain stable cash flow. On the other hand, when the development of the core business of the corporate is in a downturn, the financial benefits brought about by the allocation of financial assets can help make up for the losses of the core business, and even turn losses into profits[4]. ③The construction of bank-corporate relation relaxes credit constraints. Information asymmetry is the main factor leading to financing constraints. By purchasing financial products of banks, corporates are conducive to strengthening information communication between banks and corporates, reducing the degree of information asymmetry in the process of capital lending and the probability of adverse selection problems [5]. It encourages banks to relax the credit constraints on entities and ease the financing constraints on the investment of corporate practical capital R&D.

From the perspective of arbitrage motives, the allocation of financial assets is mainly based on the following aspects and has a restraining effect on the development of corporate core business, which is expressed as the "crowd-out effect": ①In terms of salary incentives, financial asset allocation is an important investment decision for corporate executives and is inevitably affected by agency problems. Compared with financial assets, corporate physical investment and R&D investment have the characteristics of long investment period, large amounts of funds demand, high assets management costs and investment risk, thus executives are under huge risks. However, listed companies pay more attention to rewards than penalties for the profits and losses of financial assets, which promote managers to invest more funds in financial assets [6-7]. As a result, managers are in the consideration of maximizing their own interests to obtain excess returns of financial assets, and they will reduce investment in long-term business activities such as R&D. ②Considering equity incentives, the shareholding of managers is an important institutional arrangement in which the interests of managers and shareholders tend to be consistent. This kind of incentives forces managers to take the "maximum shareholder interests" as the guide, driving executives to speculate in the stock market and manipulate stock price changes to improve their own salary and meet the interests of shareholders. Corporate strategy has changed from "retained reinvestment" to "reduce labor costs vigorously and improve dividend distribution continuously" [8-9], ignoring the development of core business.

Accordingly, this paper proposes the following competitive hypotheses:

H1a: Financial asset allocation is conducive to the development of corporate core business, which is manifested as "reservoir effect".

H1b: Financial asset allocation is adverse to the development of corporate core business, which is manifested as "crowd-out effect".

2.2. The Moderating Effect of Executive Compensation Gap on the Relationship Between Financial Asset Allocation and the Development of Core Business in Different Companies.

As corporate practice and academic research indicated, in the process of formulating executive salary, the board of directors has referenced the industry salary benchmark to a certain extent [10-12]. With the establishment and continuous improvement of the manager market in China and the increasing transparency of the information disclosure about directors and supervisors, it provides condition for the comparison of executive salary in the same industry or in different industries. According to social comparative theory and behavioral theory, executives tend to compare their salary with other executives' (compensation gap) in order to obtain an evaluation of self-pay and awareness of pay equity. As a result, investment behavior and management efficiency have changed, affecting the corporate risk-taking ability and performance[13].

In general, executives are important decision makers for the company. To attract and retain good managers, companies often pay them more than the benchmark salary. When executives' salaries are higher than the benchmark pay, on the one hand, according to the risk compensation theory, higher salaries make up for executives to bear the failure risk of high R&D investment, physical capital investment, etc., and weaken executives' concerns about risks. It also relieves the risk aversion tendency, so that executives have the motivation to consider innovation investment and physical capital investment that are closely related to the sustainable development of the company. On the other hand, higher salary attract other executives in the manager market to compete in existing positions. In order to maintain a good reputation and demonstrate their high abilities to the board of directors, the original executives will make reasonable decisions about the future development of the company. In investment decision-making, it is more inclined to choose physical capital investment or R&D investment with long investment period and high managerial management ability. Therefore, when the total amount of funds is limited, when the company invests more funds in physical capital investment or R&D investment, it means that it will reduce the investment in financial assets, thereby weakening the impact of financial asset allocation on the development of core business. This leads the next hypothesis:

H2: Larger external positive compensation gap among executives will weaken the impact of financial asset allocation on the development of core business.

From the perspective of the human capital theory of managers, if executive salary is lower than average level, the board of directors will have a negative evaluation of the executive's ability, which is not accepted by any executive. Generally speaking, when the salary is lower than the benchmark, the executives will be eager to improve the business performance in order to raise their salary so as to improve the pricing of their human capital and establish a good reputation.

Financial asset allocation makes it possible for executives to change the status quo of “low income”, which is mainly because: firstly, the risks of real estate, financing products, trust and entrusted loans as special financial products in China have not been fully released with the explicit returns far greater than the risks [4]. Investment in such financial assets is conducive to the improvement of short-term business performance. Secondly, financial assets tend to be affected by the risk of the capital market, thus the investment in this aspect are highly professional. It is hard for the Board to determine whether financial incomes are caused by executives or systemic risks. Executives often owe financial benefits to their efforts and abilities to obtain higher salary, and owe financial loss to external factors such as market risk to reduce their interest loss. Finally, based on prospect theory, executives tend to desire compensation for their abilities when salary is lower than the benchmark [15], which is in line with the reflection effect, thus motivating them to invest in highly leveraged risky financial assets, hoping to gain excess return.

In conclusion, when executives have an external negative compensation gap, they tend to invest more in financial assets, further expanding the impact of financial asset allocation on the development of core business. The last hypothesis is as follow:

H3: Larger external negative compensation gap among executives will aggravate the impact of financial asset allocation on the development of core business.

3. Sample and Data, Variables, and Research Design

3.1. Sample and Data Source

This paper takes the annual data of all A-share manufacturing listed companies from 2008 to 2017 as the initial sample and processed the data according to the following standards: (1) exclude

ST and *ST companies; (2) eliminate companies with missing data; (3) remove the observed values with undetermined property right attributes. 9,684 observed values were obtained, with 3,670 of state-owned enterprises and 6,014 of non-state-owned ones. In order to eliminate the influence of outliers, this paper conducts about 1% winsorize processing for all continuous variables. Regional economic data are developed from Wind database, financial expense details are from Resset database, and other data are mainly taken from CSMAR database.

3.2. Definition of Variables

(1) Financial asset allocation. Following the literature (Onaran et al [16], Song Jun, Lu Yi[4] and Liu Guanchun[17]), I measure the level of corporate financial asset allocation using the ratio of the profits gained from financial channels such as the allocation of financial assets to operating profits, named Fpr, which is a structural dynamic indicator with the nature of flow. Financial profits mainly include interest income, the deduction of investment income of joint ventures, gains and losses from changes in fair value, and other comprehensive income. Since the operating profit of a few samples is negative, this paper standardizes the absolute value of operating profit, which means financial profit minus operating profit, and then divide it by the absolute value of operating profit; if the value is greater than -1, then the contribution of financial profit to the company profit is positive.

(2) Development of the core business, named CorePerf, is measured by the return on assets excluding financial investment income, referring to the method proposed by Hu Conghui et al.

(3) External executive compensation gap. Fang Fang and Li Shi[18]have suggested that the big gap in executive compensation between corporates is mainly due to the excessively high salary for a few. Considering the impact of extreme salary and industry characteristics on the average value, this paper takes the treatment methods of the external compensation gap of senior executives followed by Gao Minghua, Zhao Feng and Du Wencui [19]. The calculation steps are as follows. Firstly, calculate the relative executive compensation of firm i in industry j, that is :Xij = the average executive compensation of the top three executives of the firm/the added value of the firm. (note: the top three executives in this article refer to the top three executives with the highest pay as revealed in the annual report. If they are board members, they must be executive directors, excluding independent directors. This paper adopts the direct method to calculate the added value, that is, the added value = employee income + creditor income + government income + shareholder income.). Secondly, we take the median of Xij and set the firm as the benchmark firm of industry j, and its Xij is used as the benchmark compensation of industry j, named Yj, as a result, Yj=the median of Xij. Thirdly, add Yj of all industries and divide by the total number of industries to get the executive compensation benchmark Z for all listed companies. Finally, divide Xij by Z-1 to get UFij, the external compensation gap of firm i in industry j. The positive value indicates positive compensation gap , while the negative one indicates negative compensation gap.

(4) Other control variables. Based on the existing research results, this paper selects relevant control variables based on the characteristics of the company, the finance and governance, and the external environment related to compensation gap. Table 1 details the definition of specific control variables.

Table 1 Definition of control variables.

Variables	Description	Calculation
Size	Firm size	Natural log of total assets
Lev	Asset-liability ratio	Total liabilities scaled by total assets
Fix	Fixed asset structure	The net fixed assets scaled by total assets
Cf	Cash flow	Operating cash flow scaled by total assets

Growth	Corporate growth	The rate of increase of the sales income
Tobin's Q	Investment opportunities	Ratio of market value to total assets
R	Employees pay fairness	The lacker coefficient
Soe	property rights	An indicator variable that equals to 1 if it's state-owned enterprise, 0 otherwise
BS	Board size	Number of directors on the board
Idpdt	Size of the independent directors	The proportion of independent directors on the board
SS	Size of supervisors	Number of supervisors
CEO_2	CEO duality	An indicator variable that equals to 1 if a CEO serves as the chair of the board
Top1	Ownership concentration	The proportion of equity shares owned by the largest shareholder
M_hold	Managers' shareholding	The proportion of equity shares owned by senior managers
Lngdp	Region's economic development	Natural log of GDP in the provinces where the headquarters of corporates are located
HHI	Industry competition extent	Herfindahl index
Year	Year-effect	Annual dummy variable

3.3. Research Design

In order to test the hypothesis of H1a, H1b, this paper adopts to the following models based on the research design of Du Yong et al[2].:

$$CorePerf_{it} = \beta_0 + \beta_1 Fpr_{it} + \beta \sum_j Controls_{it} + \nu_{it} \quad (1)$$

Then, we add the intersection of UF and Fpr into model(1) and establish model (2) to test the hypothesis of H2, H3:

$$CorePerf_{it} = \chi_0 + \chi_1 Fpr_{it} + \chi_2 Fpr_{it} * UF_{it} + \chi_3 UF_{it} + \chi \sum_j Controls_{it} + \delta_{it} \quad (2)$$

4. Empirical Results

4.1. Descriptive Statistics and Multicollinearity Test

Table 2 Main variables descriptive statistics of sample firms.

VarName	Obs	Mean	SD	Min	P25	Median	P75	Max
Fpr	9684	-0.3131	1.6652	-1.7700	-0.9662	-0.8857	-0.5338	11.2529
UF	9684	0.2455	1.3087	-0.9782	-0.5994	-0.1620	0.6005	7.0515
CorePerf	9684	0.0397	0.0535	-0.1010	0.0070	0.0315	0.0657	0.2142

Table 2 shows the descriptive statistics of the variables. The mean value of Fpr is -0.3131, the 25-point value is -0.9662, and the standard deviation is 1.6652, indicating that at least 75% of manufacturing listed companies' financial profit contributes to the corporate profit, and the profitability varies greatly among different corporates. The mean value of external compensation gap of executives (UF), is 0.2455, with its median of -0.1620, the standard deviation of 1.3087, the minimum of -0.9782, and the maximum of 7.0515, indicating a huge difference in the external compensation gap for executives in different companies, and at least 50% executives haven't met the benchmark. Focusing on the performance of the corporate core business, its mean value is

3.97%, with its median of 3.15%, the 75-point value of 6.57%, and the maximum of 21.42%, suggesting that the performance of corporate core business is in a downturn, even less than the average return of the financial products.

Table 3 Multicollinearity test of explanatory variables in the model.

VarName	VIF	Tolerance
Fpr	1.13	0.883766
UF	1.74	0.574773
Size	2.4	0.416927
Lev	1.54	0.649867
Fix	1.16	0.861539
Cf	1.24	0.803719
Growth	1.07	0.932946
Tobin's Q	1.77	0.563802
R	1.27	0.787139
Soe	1.57	0.636557
BS	1.53	0.655144
Idpdt	1.29	0.775463
SS	1.28	0.779204
CEO_2	1.28	0.782807
Top1	1.09	0.914446
M_hold	1.45	0.691621
Lngdp	1.3	0.76753
HHI	1.04	0.964474
Mean VIF	2.09	

In this paper, the method of tolerance and variance inflation factor is used to test the multicollinearity between the explanatory variables .As Table 3 shows, the tolerance values of the explanatory variables in the model are greater than 0.1,and the variance inflation factor (VIF)values are less than 10.Therefore,there is no multicollinearity among the explanatory variables in the model .

4.2. Main Results

4.2.1. The Impact of Financial Asset Allocation on Core Business Development

Table 4 The impact of financial asset allocation on core business performance.

VarName	(1)	(2)	(3)	(4)
Fpr	-0.0093***			
	(-23.62)			
L.Fpr		-0.0046***		
		(-11.08)		
L2.Fpr			-0.0034***	
			(-9.97)	
L3.Fpr				-0.0026***
				(-6.19)
Size	0.0092***	0.0090***	0.0098***	0.0095***
	(11.27)	(9.92)	(9.97)	(9.06)
Lev	-0.0653***	-0.0623***	-0.0686***	-0.0697***
	(-16.82)	(-14.00)	(-14.20)	(-12.78)
Fix	-0.0379***	-0.0351***	-0.0440***	-0.0443***

	(-9.05)	(-7.32)	(-8.71)	(-8.08)
Growth	0.0092***	0.0118***	0.0123***	0.0102***
	(9.55)	(9.51)	(9.46)	(7.28)
Cf	0.2460***	0.2642***	0.2811***	0.2731***
	(23.56)	(21.99)	(20.85)	(18.37)
Tobin's Q	0.0063***	0.0075***	0.0065***	0.0061***
	(10.32)	(10.99)	(8.83)	(6.97)
R	-0.0823***	-0.0933***	-0.0933***	-0.0965***
	(-23.79)	(-23.17)	(-21.63)	(-20.60)
BS	0.0009**	0.0007	0.0006	0.0005
	(2.11)	(1.56)	(1.14)	(0.91)
SS	-0.0007	-0.0005	-0.0005	-0.0004
	(-1.29)	(-0.94)	(-0.76)	(-0.58)
Soe	0.0012	0.0023	0.0029	0.0034*
	(0.78)	(1.27)	(1.51)	(1.65)
Idpdt	-0.0144	-0.0199	-0.0285**	-0.0254*
	(-1.31)	(-1.61)	(-2.06)	(-1.65)
CEO_2	-0.0005	-0.0009	0.0001	-0.0003
	(-0.34)	(-0.57)	(0.07)	(-0.16)
Top1	0.0002***	0.0002***	0.0002***	0.0002***
	(4.77)	(3.64)	(3.58)	(3.38)
M_hold	0.0171***	0.0161***	0.0182***	0.0158**
	(3.61)	(2.89)	(2.82)	(2.12)
Lngdp	0.0034***	0.0036***	0.0033***	0.0039***
	(4.01)	(3.81)	(3.25)	(3.38)
HHI	-0.0092	0.0032	0.0078	0.0484
	(-0.37)	(0.07)	(0.15)	(0.86)
_cons	-0.1547***	-0.1571***	-0.1430***	-0.1403***
	(-8.03)	(-7.22)	(-5.87)	(-5.31)
Year	Yes	Yes	Yes	Yes
N	9684	7424	6157	4966
F	154.315	123.825	109.241	92.730
Adj.R-Square	0.60	0.55	0.54	0.53

Notes:

Table 4 reports the results of the impact of financial asset allocation on core business performance. All variables are defined and the sample contains firms from 2008 to 2017. The Z-statistics (t-statistics) reported in parentheses. Here ***, **, and* indicate statistical significance at the 1 percent, 5 percent and 10 percent levels, respectively.

Table 4 presents the results of the impact of financial asset allocation on core business performance. The dependent variable is CorePerf and the independent variable is Fpr. Column (1) show the impact of financial asset allocation on core business performance in current period. Considering that the impact may be lagging behind, we delay the independent variables for 1-3 periods respectively and show the results in Columns (2) to (4) of Table 4. Financial asset allocation has a negative correlation with core business performance ($p < 0.01$), suggesting that corporate financial asset allocation is adverse to the development of their core business, which provides

support for H1b.

4.2.2. The Moderating Effect of Executives' Compensation Gap on the Relationship Between the Financial Asset Allocation and Core Business Development

Table 5 Moderating effect of executives' compensation gap.

VarName	(1)	(2)
	Positive compensation gap	Negative compensation gap
Fpr	-0.0098***	-0.0098***
	(-14.13)	(-6.02)
Fpr*UF	0.0005**	-0.0014
	(2.29)	(-0.70)
UF	-0.0042***	-0.0182***
	(-6.45)	(-5.42)
Control variable	Control	Control
_cons	-0.0580*	-0.0710***
	(-1.96)	(-2.87)
Year	Yes	Yes
N	4135	5549
F	67.657	138.437
Adj.R-Square	0.56	0.66

Notes:

Table 5 reports the moderating effect of executives' compensation gap on the relationship between the financial asset allocation and core business development. All variables are defined and the sample contains firms from 2008 to 2017. The Z-statistics (t-statistics) reported in parentheses. Here ***, **, and* indicate statistical significance at the 1 percent, 5 percent and 10 percent levels, respectively.

Table 5 reports the results of model(2), the moderating effect of executives' compensation gap. The sub-samples are grouped according to the comparison between executive compensation and benchmark compensation.

According to the Column (1) of Table 5, the coefficient for the interaction of positive compensation gap (UF) and financial asset allocation (Fpr) is significantly positive ($p < 0.05$), which is consistent with our assumption that with the expansion of the executive positive compensation gap, the "crowd-out" effect of financial asset allocation on the development of core business will be weakened. Thus, H2 is supported. However, Column (2) shows the coefficient for the interaction of negative compensation gap and financial asset allocation is negatively without significance, H3 has not been confirmed. There are some possible reasons:①When executives face a negative compensation gap, it usually means that the company's performance is poor, which leads to higher financing constraints and restricts the space of financial asset allocation. ②In the whole sample, corporates with different property rights have great differences in incentive mechanism and compensation contract design, which confuse the regression results and need to be further tested by sub-samples.

4.3. Further Inspection: Heterogeneity of Property Rights

State-owned enterprises and non-state-owned enterprises have significantly different incentive mechanisms and salary contract designs. Constrained by policies such as "restricted wage orders", executives of SOEs are faced with an invisible "ceilings" of salary, limiting the compensation gap.

However, executive compensation in non-SOEs is sensitive to corporate performance, which may lead to a large compensation gap .

Based on that, this paper takes further inspections, as shown in Table 6 and Table 7.

Table 6 The impact of financial asset allocation on core business performance (SOEs/non-SOEs).

VarName	(1)	(2)
	State-owned	Non-state-owned
L.Fpr	-0.0080***	-0.0102***
	(-14.61)	(-18.65)
Control variable	Control	Control
_cons	-0.0812***	-0.2166***
	(-3.24)	(-7.98)
Year	Yes	Yes
N	3670	6014
F	67.160	101.571
Adj.R-Square	0.63	0.58

Notes:

Table 6 reports the results of the impact of financial asset allocation on core business performance from the perspective of property rights. All variables are defined and the sample contains firms from 2008 to 2017. The Z-statistics (t-statistics) reported in parentheses. Here ***, **, and* indicate statistical significance at the 1 percent, 5 percent and 10 percent levels, respectively.

Table 7 Moderating effect of executives' compensation gap (SOEs/non-SOEs).

VarName	(1)	(2)	(3)	(4)
	Positive compensation gap		Negative compensation gap	
	State-owned	Non-state-owned	State-owned	Non-state-owned
Fpr	-0.0086***	-0.0104***	-0.0123***	-0.0025
	(-7.78)	(-12.29)	(-5.61)	(-0.99)
Fpr*UF	0.0004	0.0007**	-0.0056**	0.0144***
	(0.65)	(2.49)	(-2.33)	(2.97)
UF	-0.0013	-0.0047***	-0.0203***	-0.0114**
	(-0.98)	(-6.50)	(-4.63)	(-2.33)
Control variable	Control	Control	Control	Control
_cons	-0.0659	-0.0509	-0.0010	-0.1302***
	(-1.13)	(-1.45)	(-0.03)	(-3.27)
Year	Yes	Yes	Yes	Yes
N	959	3176	2711	2838
F	21.385	54.492	68.953	77.728
Adj.R^2	0.55	0.56	0.68	0.64

Table 7 reports the moderating effect of executives' compensation gap on the relationship between the financial asset allocation and core business development, from the perspective of property rights. All variables are defined and the sample contains firms from 2008 to 2017. The Z-statistics (t-statistics) reported in parentheses. Here ***, **, and* indicate statistical significance at the 1 percent, 5 percent and 10 percent levels, respectively.

As noted in Table 6, financial asset allocation is negatively related to the core business

performance ($p < 0.01$) in both SOEs and non-SOEs. It shows that the impact of financial asset allocation on corporate core performance has not changed by different property rights.

According to the results of Columns (1) and (2) of Table 7, in non-SOEs, the coefficient for the interaction of positive compensation gap (UF) and financial asset allocation (Fpr) is significantly positive, while it's not significant in SOEs. These results show that the positive executive compensation gap helps to reduce the "crowd-out" effect of financial asset allocation on the development of core business. However, this moderating effect mainly reflected in non-SOEs. The reason for that could be when executives face a positive compensation gap, the company's performance is usually in an advantageous position and financial constraints are reduced. Especially in non-SOEs, the development of core business is easier to get financial support, which reduces the "crowd-out" effect. While in SOEs, salary contract designs are more diversified, and the positive compensation gap is limited by policies such as "restricted wage orders", thus the moderating effect of compensation gap is restricted and not significant.

Columns (3) and (4) of Table 7 report the results of negative compensation gap. The coefficient for the interaction is negative with **s**ignificance ($p < 0.05$) in SOEs, while it's **s**ignificantly positive in SOEs. These results suggest that, negative compensation gap aggravates the negative effect of financial asset allocation on the development of core business in SOEs, while in non-SOEs, negative compensation gap weakens this effect.

5. Robustness Test

To further address the concern about the reliability of our conclusions, we conduct changes of method and variables for robustness test. The financial assets is divided into general sense and narrow sense based on whether or not to consider the listed companies' investment in joint ventures. Correspondingly, financial profits are also divided into the general and the narrow senses. The general financial profits include investment income, gains and losses from changes in fair value, and other comprehensive income, while in a narrow sense, investment income from joint ventures should be excluded. The narrow financial gains and losses were used in the previous analyses, while the general one is used in the robustness test to re-test the model. Result shows that the main conclusions are still valid. Due to space limitations, the results of the robustness test are not listed.

6. Concluding Remarks

Recent years, Chinese financial industry has achieved great improvements, making financial assets an important part of corporate assets. However, the downturn of the core business and the expanding compensation gap of executives in different industries have aroused the concern of people from all walks of life. This paper takes relevant data of all the A-share listed manufacturing companies from 2008 to 2017 as samples, in order to study the impact of financial asset allocation on the development of core businesses. The study has found that:

Financial asset allocation is adverse to the core business performance ($p < 0.01$) in both SOEs and non-SOEs. (Demonstrated as "inhibition effect") .

In the whole samples, the increasing positive compensation gap can help to weaken the inhibition effect of financial asset allocation on the development of the core business, while the negative compensation gap not.

With the heterogeneity of property rights taken into consideration, positive compensation gap in non-SOEs weakens the "crowd-out effect", but SOEs show completely opposite result: negative compensation gap aggravates the "crowd-out effect".

In order to guide the executives to rationally allocate financial assets and promote the sustainable development of corporate core business, we suggest that: (1) In terms of corporate governance, it is necessary to increase the weight of the performance of core business in compensation contracts, thus encouraging them to invest more in physical capital. (2) In order to prevent economy being distracted from their intended purpose, executive salary should be raised in an appropriate manner to compensate for the risks, and it's conducive to curbing the investment of financial assets, thus guiding them to pay more attention to the development of core business.

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