Research on the Impact of Manager Identity on Cost Stickiness

Lanqiu Wu
Zhuhai Huafa Group, Zhuhai, Guangdong 519000, China

ABSTRACT. In the actual production and operation process, the relationship between cost and business volume is not a simple linear relationship, but affected by various factors, with cost stickiness. Managers play a very important role in enterprise decision-making, and the cost of enterprises will be affected by the behavior of managers. This paper discusses the effect of different identity characteristics of managers on Cost Stickiness.

KEYWORDS: Manager identity characteristics, Cost stickiness, High level echelon theory

1. Introduction

In the traditional theory, the cost changes with the same direction of business volume and the same range of change, that is, there is a linear relationship between the two. The foreign scholar Anderson (2003) found that the cost of sales, general expenses and administrative expenses are sticky. When the data shows that the sales increase by 1%, the cost increases by 0.55%, but when the sales decrease by 1%, the cost only decreases by 0.53%. That is to say, these costs are symmetrical with the change direction of sales revenue, that is, there is cost stickiness. In the actual production and operation process, managers will make the enterprise cost approach the initial target through actual manipulation in order to achieve the desired performance, thus violating the linear theory of cost changing with business volume. Therefore, we study the impact of the identity characteristics of managers on cost stickiness, and provide an important guidance for enterprises in selecting managers. By analyzing the effect of the identity of managers on the performance of business performance, it provides some valuable information for enterprises to make economic decisions. When sales revenue increases, the proportion of cost increase is greater than the proportion of cost reduction when sales revenue decreases, while the excess part is sticky. As the key subject of enterprise's major decision-making, enterprises' cost is directly or indirectly affected by managers' behavior under the complex and changeable macro and micro environment of politics, economy, society and enterprise development. Therefore, we can analyze the manager's own characteristics according to the “high-level echelon theory” (The theory of high-level echelon refers to the fact that managers can not have a comprehensive understanding of all aspects due to the complexity of internal and external environment. The characteristics of managers affect their strategic choices and then affect the behavior of enterprises.) to study its effect on Cost Stickiness. Next, the impact of different identity characteristics of managers on Cost Stickiness is analyzed[1].

2. Existence of Cost Stickiness

Scholars at home and abroad attribute the cause of the stickiness to “adjustment cost”, “optimistic expectation” and “agency problem”. According to the viewpoint of cost adjustment, when the sales volume of an enterprise declines, if the enterprise does not adjust the resources, it will cause waste of resources, and the adjustment of resources will result in high adjustment costs, which will lead to cost stickiness. Because the demand for future sales volume is random, based on the consideration of maximizing the value of future sales volume, most managers with optimistic expectations will consider the decline of sales volume to be temporary, so they choose to retain the surplus resources rather than bear the adjustment cost to dispose of these resources, because the surplus resources will be reduced when the sales volume drops. It may result in additional costs (such as the cost of firing employees) when resources are adjusted downward, and re adding resources (such as training fees for new employees) will be needed when the sales volume recovers in the future. In addition to the consideration of maximizing the company's value, due to the existence of agency problem, managers choose to retain redundant resources for the reasons of personal interests, such as expanding the scale of enterprises, increasing the resources under their own control, and increasing personal compensation, which makes the resource adjustment decision of managers inconsistent with the optimal resource allocation of enterprises, and such self-interest behavior also produces cost stickiness[2].
3. The Impact of Manager Identity on Cost Stickiness

3.1 The Influence of Manager's Age on Cost Stickiness

Different age managers have different risk preference and behavior habits, which leads to different decision-making behaviors of managers. Relevant research shows that in complex environment, managers with lower average age have stronger self-confidence in effective management of enterprises. According to the theory of optimistic expectation of managers, one of the causes of cost stickiness, optimistic managers tend to over purchase capital when the market demand is rising, and they are not willing to cut costs when the market is depressed. Instead, they keep relevant resources and wait for market demand to rebound, thus greatly increasing the degree of cost stickiness. Because the young managers may be over optimistic, while the older managers have rich management experience; in the face of market changes, the older managers can make more rational decisions, making the Cost Stickiness of enterprises smaller[3].

3.2 The Influence of Managers' Educational Background on Cost Stickiness

The quality of managers affects their economic decisions. The so-called quality refers to the sum of the characteristics of the quality, character, knowledge and ability of the managers. Among them, the level of education and the personal ability of managers have a close relationship. The degree of education to a certain extent shows the cognitive ability, professional technical level and behavior of managers to a certain extent. Smith et al (1994) believed that there was a positive correlation between personal education level and flexibility, information and processing ability. Managers with higher cognitive ability and decision-making professional and technical level will be able to analyze problems more deeply, consider more comprehensively, and collect and process information with stronger ability and more adaptability in response to changes in the environment. If the management level of the enterprise is low, and the managers have more than enough energy to adjust the cost according to the changes of the situation, the stickiness of the cost will be highlighted at this time. That is to say, because of the lack of judgment ability of the manager, the cost will be more sticky in the initial stage of business decline, and will be reduced in the later stage[6].

Moreover, the moral concepts and values obtained from education would also spread among the management, thus affecting team performance in an all-round way. Therefore, the higher the education level of managers, the more effective information the team will obtain, the higher the relative efficiency of gathering strategic resources, and the more likely it is to formulate and implement investment strategies conducive to the development of enterprises. They are able to deal with the negative impact of various complex and uncertain environments to make scientific judgments on opportunities and threats. In the face of market demand fluctuations, they will pay more attention to the future development prospects of enterprises and the realization of their own value, so as to make more scientific cost decisions and reduce the Cost Stickiness of enterprises[3].

3.3 The Impact of Manager's Tenure on Cost Stickiness

The length of time a manager has been in the company can reflect his familiarity with the company. The length of time management is an important factor to determine the communication among members of the organization. The research team also found that the project team with long working hours is easier to form fixed communication and expression than the project team with short working time. When managers have a long-term position in the company, they are more familiar with the enterprise and make decisions that are conducive to the development of the enterprise by using the more comprehensive information they have. Therefore, compared with the managers who are unfamiliar with the business and organization team, it reduces the risk of making wrong decisions, and at the same time, it also suppresses the agency cost to a certain extent. Therefore, the longer the manager's tenure, the more conducive to weakening the cost stickiness[6].

3.4 The Influence of Managerial Overconfidence on Cost Stickiness

The overconfidence of managers is formed by a variety of internal and external factors. Psychology has found that overconfidence behavior is better than the average effect, that is, when people evaluate their abilities, they think they are above average. This effect makes overconfident managers generally overestimate their expectations of future sales performance. When sales decline, managers will think that they can solve the situation. The decline in sales is only temporary and will rebound in the near future. At this time, if the cost adjustment is carried out, it may bring unnecessary losses. As a result, managers prefer to maintain the scale of existing resources rather than adjust costs in a timely manner. Secondly, overconfidence will lead to overestimation of future demand and over investment. In this way,
when sales fall, managers are more willing to maintain or even further invest in resources, thus increasing cost constraints[7,8].

In addition, different gender characteristics will produce behavioral differences, and psychological difference between men and women is a very important aspect of producing behavior difference. On the whole, female managers are more likely to survive in an industry; Peng and Wei (2007) believe that male managers are more likely to show overconfidence than female managers, which leads to decision-making mistakes, and female managers tend to adopt conservative strategies when making decisions. Meanwhile, according to the contract theory, an enterprise should sign a long-term contract to ensure that when you need to obtain the corresponding resources immediately, it is not only conducive to the stability of the enterprise, but also can maintain good cooperative relationship with other enterprises. In special circumstances, it can give appropriate help. At the same time, from the perspective of economy of scale, it can also save costs and obtain other benefits for the enterprise. Because male managers are overconfident, they are more optimistic about their future development prospects. Therefore, when drawing up some contracts, they tend to choose long-term and stable contracts, thus increasing the cost stickiness[9-10].

4. Conclusion

The above discussion on the impact of manager identity characteristics on Cost Stickiness has certain limitations. It needs to be further confirmed by empirical research on the overall identity characteristics of managers and whether each feature has a significant impact on Cost Stickiness. Since Cost Stickiness has a negative impact on the cost control of enterprises, enterprises should look for the factors that weaken Cost Stickiness and strengthen their application.

References