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Intangible Cost Influence on Business Performance of Wholesale and Retail Brokerage in Korea: Focusing on HRM, Marketing and CSR

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Abstract

Purpose: The purpose of this study is to analyze the Cost-Effectiveness Analysis (CEA) of wholesale and retail brokerage businesses in Korea. And give managerial implications and contribute to academics. **Research design, data and methodology:** This research empirically analyzes the relationship between expenses and business performance. As for business performance, this research considered two financial performances; sales and profit. As for antecedent variables, this research measured three cost investment expenses; human resource management (HRM), marketing (MKT) and corporate social responsibility (CSR). This research used frequency analysis, correlation analysis, stepwise regression analysis and curve estimation analysis. **Results:** The result shows that HRM and CSR positive significant influence on sales yet marketing negatively significant influence on sales. And for profit, HRM and CSR give a positive significant influence. However, marketing's influence was not significant. According to curve estimation analysis, the relation between individual cost and performance, best functional relation was all quadratic functions. Some results show ∩ shape and others show ∪ shape. **Conclusions:** Based on this study result, implications for practical management to Wholesale and Retail Brokerage companies in Korea. And the contribution to academics is expected. Also, based on the limitation of this study, future research is suggested.

Keywords : Wholesale, Retail Brokerage, Business Performance, Sales, Profit, Cost Investment Expense, HRM, Marketing, CSR

JEL Classification Code : D23, M12, J28

1. Introduction

As the saying goes, "It's hard to go back to the world before COVID-19," the whole world is entering a new daily life due to the large and small changes brought about by COVID-19. COVID-19 quickly established non-face-to-face unmanned systems, online shopping, platform companies, easy payment services, and flexible work systems that could not speed up due to social rejection and difficulty in adapting to changes. In the global economy, companies and individuals have no choice but to adapt to COVID-19. With such untact consumption and the revitalization of the online industry, wholesale and retail brokerage companies are also in need of a change in their existing management methods. According to Timotius and Octavius (2021) rather than substitutes, both online and offline stores are integrated as omnichannel. And Kdata shows that with the revitalization of e-commerce, wholesale and retail growth increased by 176,000 units (12.7%) in five years from 2015 to 2020, and the number of wholesale and retail companies in Korea increased to 900,000. An increase in growth and number means an increase in business opportunity yet it also means an increase in competition. However, the study of wholesale and retail brokerage business is limited (Kim & Choi, 2021). Therefore, empirical study in the field is necessary.

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Also, in the era of long-term low growth and long-term recession, breakthroughs to seek reverse or cost management to wisely sustain this period have become more important than anything else for companies. And the influence of the COVID-19 Pandemic is unpredictable. According to the distribution and service industries study by Ryu and Chae (2022), compared to the pre-COVID-19, companies increased DA in the post-COVID-19 period. This study focuses in particular on aspects of cost management. A company is an organization that produces performance at a certain cost. Some costs disappear as expenses, and some are considered investments to produce performance. In particular, in recent years, the proportion of value has rapidly transformed and increased from tangible to intangible. In the meantime, companies are also expanding their interest and investment in intangible assets. The expansion of investment in intangible assets is attributed to the development of information and communication technology, the servitization of industrial structures, globalization and the easing of trade barriers (Haskel & Westlake, 2017).

Especially, in a service-oriented economy, more added value is created from intangible assets (Shih, 2002). From a resource-based point of view, intangible assets are expanding in importance as a key factor that secures a competitive advantage and affects corporate profits and performance in the long run (Albertini & Berger-Remy, 2019). However, in the current cost-based accounting system, intangible assets except R&D are not recognized as assets and are treated as expenses. In this study, the role of cost in terms of corporate performance, especially financial performance, is verified in terms of expense and investment to provide implications for performance management and cost management to companies.

Therefore the purpose of this study is to analyze the Cost-Effectiveness Analysis (CEA) of wholesale and retail brokerage businesses in Korea. To do that this study focus on three cost investment expense; human resource management (HRM), marketing (MKT) and corporate social responsibility (CSR). And two business performances; sales and profit. Also, five firm characteristics were considered; listed firm, firm size, internationalization, technology competitiveness and technology progressive. Based on this study result, implications for performance management and cost investment management to Wholesale and Retail Brokerage companies in Korea.

2. Literature Review and Hypotheses Setting

2.1. Literature Review

In general, intangible assets are defined as non-monetary assets without physical entity accounting theories such as the FASB (Financial Accounting Standards Board), the IASB(International Accounting Standards Board), and K-IFRS (Korean International Financial Reporting Standards). It is defined as identifiable, controlled by a company through purchase or internal creation and expected to generate economic benefits in the future (Jozef, 2018). Such as innovation activities,

R&D, marketing, human resources and socially responsible activities, etc that can generate profits are included. The classification of intangible assets varies from scholar to scholar. Corrado, Hulten, and Sichel (2005) are classified into three categories; computerized information, intellectual property and economic competence. And Hunter, Webster and Wyatt (2005) are classified into three categories; human capital, structural capital and relational capital.

According to previous studies, intangible asset investment activities are not classified as capital expenditures (assets investment) in an accounting sense but are classified as profitable supports (costs as expenditure). The items of financial statements closely related to these intangible assets are representative license fees, research and development expenses, advertising expenses, human resource expenses, and social responsibility activities expenses, etc. Through literature research, this study like to examine empirical studies on the relationship between these cost-related items and corporate performance or corporate value. Based on literature research, this study like to examine the role of these intangible asset costs, whether they are expenditures or investments. Especially, this study focus on three cost investment expense; human resource management (HRM), marketing (MKT) and corporate social responsibility (CSR). However, the relationship between investment activities of individual intangible assets and corporate value is still unclear. These results may be the result of different attributes for each investment activity item and different business structures for each company and industry (Andras & Srinivasa, 2003).

2.2. Hypotheses

According to resource-based theory, human resource is one of the important resources in business competitiveness (Wright & McMahon, 1992). And as the development of the knowledge-based economy, human resources are becoming increasingly important in securing the competitiveness of corporations (Lev & Radhakrishnan, 2005). Therefore, the productivity and efficiency of employees can be improved through quantitative and qualitative investments such as wages, education and training and welfare in human resources management (HRM) to enhance the performance of the corporation. However, the relationship between HRM cost and corporate value and performance is not clear.

Okwy and Christopher (2010) showed that human capital is important to the financial performance and future benefits of a company. Salman and Tayib (2012) showed a connection between financial performance and spending on human capital. And the result showed that human capital spending influences positively the efficiency of a company. Job and Adesina's (2018) results show that human capital expenditure has a significant influence on ROE and ROA. Albertini and Berger-Remy (2019) suggested that although it is difficult to directly verify the effect of human capital on financial light, the analysis results showed that human capital has a significant positive effect on financial performance and is even more relevant when estimated by accounting indicators such as total ROA (return on asset) and ROE (return on equity).

Hypothesis 1-1: HRM cost give a positive influence on business performance.

Hypothesis 1-2: HRM cost give a negative influence on business performance.

According to resource-based theory, marketing capability is one of the important competitive advantages of business performance (Day, 1994). And as marketing (MKT) activities such as brand-related activities, advertising promotion, and customer-related are recognized as driving the company's profitability and growth and can be expected to be positively reflected in the corporate value and performance. However, the results of previous studies on the relationship between advertising costs and corporate value (performance) are not consistent. As advertising costs systematically affect the company's market value as a factor that creates future economic profits, Hirschey and Weygandt (1985) argued that amortization through assertazation is necessary instead of treating them as costs. Chauvin and Hirschey (1993) empirically analyzed that advertising costs have a significant positive effect on market share. And the impact of advertising costs on the market value of companies is greater in large companies than in SMEs (small and medium-sized enterprises). Graham and Frankenberger (2000) said that changes in advertising expenditure are related to corporate profits for four years after expenditure, and the asset value of advertising expenses is maintained for three years. Andras and Srinivasan (2003) said that the intensity of advertising expenditure differs between consumer goods companies and production goods companies, and consumer goods companies have high public announcement expenditures to secure brand assets. In addition, analysis results show that advertising costs show a positive relationship based on the PMR (profit margin ratio). Joshi and Hansen's (2010) study showed that advertising directly affects sales and profits and influences market value by raising investor awareness. However, since marketing expense is a direct expense to companies, some studies claim a negative relationship with financial performance. Bubiltz and Ettredge (1989) claimed that advertising costs do not affect the excess rate of return, and there is no basis for recognizing them as assets. In the study of Xu, Liu, and Chen (2019), only advertising expenses showed a significant positive effect on the ROA of large companies, while both advertising and R&D expenses showed a significant negative effect on the ROA of SMEs.

Hypothesis 2-1: Marketing costs give a positive influence on business performance.

Hypothesis 2-2: Marketing costs negative influence on business performance.

As social responsibility pressures on companies are increasing (Berman, Wicks, Kotha, & Jones, 1999), companies are turning CSR(Corporate Social Responsibility) activities into important strategic activities (Bansal, 2005; Porter & Kramer, 2006; Wang & Bansal, 2012). Prior research related to CSR is mainly about how a company's CSR activities directly affect the financial performance of the company. But despite many studies, no conclusive conclusion has been reached (Margolis & Walsh, 2003). Overall, CSR activities are generally expected to have a positive impact on financial performance (Surroca, Tribo, & Waddock, 2010; Eccles, Ioannou, & Serafeim, 2014; Flammer, 2015). Kim and Kang (2014) showed that an increase in donation expenses significantly increased firm value. The positive impact of CSR activities on financial performance can be explained by stakeholder theory and resource-based theory. According to stakeholder theory, companies can gain positive relationships by making decisions that benefit stakeholders and ultimately contribute to financial performance (Berman et al., 1999). According to resource-based theory, CSR activities can strengthen competitive capabilities and contribute to financial results (Surroca et al., 2010). However, since CSR activities are a direct expense to companies, some studies claim a negative relationship with financial performance (Jensen, 2002; Barnett & Salomon, 2006).

Hypothesis 3-1: CSR cost give a positive influence on business performance.

Hypothesis 3-2: CSR cost give a negative influence on business performance.

3. Methodology

3.1. Research Model and Measurement

Based on the literature, this research focuses on relationship analysis between cost variables and business performance variables. Figure 1 summarizes the research

model. As shown in Figure 1, cost variables include three costs; HRM, MKT and CSR. And two business performance variables; sales and profit. Also, five firm characteristic variables are analyzed(listed, firm size, internationalization, technology competitiveness and technology progressive).

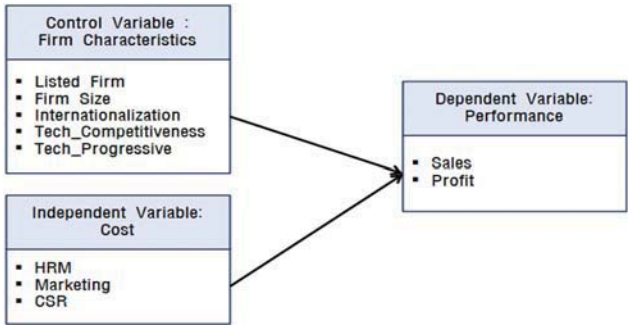


Figure 1: Research Model

As for the measurement of variables, this study used the 2019 Corporate Activities Survey (CAS) by the Economist Statistics Planning Division (ESPD) of Statistics Korea (kostat.go.kr). The purpose of CAS is to provide a comprehensive understanding of various management activities of enterprises (management performance, diversification, affiliation, performance management system, etc.) and provide basic data on various economic policies and research, analysis, and data on changes in enterprise management strategies and industrial structures. The purpose of this study is to analyze the cost influence on the business performance of wholesale and retail brokerage in Korea. To do that this study focus on three costs; HRM, MKT and CSR. And two business performances; sales and profit. Also five firm characteristics; listed, firm size, internationalization, technology competitiveness and technology progressive. To measure cost, this study used the expense of labor to measure HRM, the expense of advertising to measure marketing and the expense of donation to measure CSR. To measure business performance, this study uses operating revenue as sales and pre-tax income as profit. To focus on the rate and difference also because the number is big, three costs and sales were logged. However, profit was not logged due to loss (-) of revenues. Lastly, five firm characteristics were considered (listed firm, firm size, internationalization, technology competitiveness and technology progressive). Listed and technology progressive is measured as a dummy variable. A listed firm is measured as not listed (0) or listed (1 if a firm is listed as KOSPI or KOSDAQ or KONEX). Technology progressive is measured as a firm do not use any kind of 4th industry technology(0) or firm use any kind of 4th industry technology(1). In the survey, 4th industry technology includes the internet of things (IoT), Cloud, Big Data, 5G mobile, artificial intelligence (A.I), BlockChain, 3D printing, robotics, virtual reality (VR) and augmented reality (AR). Other firm characteristics (firm size, internationalization, technology competitiveness) were measured as a continuous variable. Firm size is measured by the total employee number of the firm. Internationalization is measured by the foreign capital ratio of a firm. Technology competitiveness is measured by the total number of intellectual property rights a firm hold.

3.2. Research Sample

Among the 2019 Corporate Activities Survey, this study focuses on 1,113 wholesale and retail brokerage firms. The characteristic of the research sample is summarized in Table 1. Firms include 112(10.1%) listed firms and 1,001(89.9%) are not listed. Firm size means 167.542 employees, internationalization means is 31.502 of the foreign capital ratio of the firm and technology competitiveness mean is 26.049 of the total number of intellectual property rights the firm hold. Technology progressive includes 111(10.0%) use 4thr industry and 1,002(90.0%) do not use 4th industry. Means of the cost are HRM (10,743.429 mil.), MKT (2,191.175 mil.) and CSR (116.61 mil.). The means of the business performance are sales (218,552.373 mil.) and profit (5,675.878 mil.).

Table 1: Characteristics of Sample

Total N=1,113		N	%
Listed Firm	Not Listed	1,001	89.9
	Listed	112	10.1
Firm Size	Mean: 167.542, Median: 74, Mini: 5, Max: 8113, S.D.: 454.343, Variance: 206427.184		
Internationalization	Mean: 31.502, Median: 0, Mini: 0, Max: 100, S.D.: 0.484, Variance: 0.234		
Technology Competitiveness	Mean: 26.049, Median: 1, Mini: 0, Max: 1654, S.D.: 113.005, Variance: 14770.054		
Technology Progressive	Not Use 4th Industry	1,002	90.0
	Use 4th Industry	111	10.0
Cost (Mil.Won)	HRM	Mean: 10743.429, Median: 4699, Mini: 172, Max: 406311, S.D.: 24234.547, Variance: 587313270.1	
	MKT	Mean: 2191.175, Median: 97, Mini: 0, Max: 160649, S.D.: 8138.139, Variance: 66229229.74	
	CSR	Mean: 116.61, Median: 1, Mini: 0, Max: 11768, S.D.: 659.451, Variance: 434875.258	

Business Performance (Mil.Won)	Sales	Mean: 218552.373, Median: 50843, Mini: 34, Max: 22743722, S.D.: 952592.966, Variance: 9074E+11
	Profit	Mean: 5675.878, Median: 1147, Mini: -271917, Max: 292373, S.D.: 27166.364, Variance: 738011343.4

4. Analysis Results

4.1. Correlation Analysis

Before analyzing the causality relationship, this research executed a correlation analysis, and the result is summarized in Table 2. The highest correlation is 0.740 between Cost_HRM and Sales. Multicollinearity issue is safe because all the VIF(Variance Inflation Factors) score was lower than 2.4 in Table 3. Therefore step-wise regression analysis continued.

Table 2: Results of Correlation Analysis

	M	S.D.	1	2	3	4	5	6	7	8	9	10
1	0.101	0.300	1									
2	167.542	454.343	.134‡	1								
3	31.502	45.346	-.201‡	.065*	1							
4	26.049	113.005	.270‡	.324‡	-.117‡	1						
5	0.100	0.300	.128‡	.122‡	.051	.140‡	1					
6	8.482	1.168	.134‡	.521‡	.273‡	.223‡	.191‡	1				
7	5.141	2.664	.090‡	.282‡	.357‡	.234‡	.104‡	.573‡	1			
8	2.880	2.103	.178‡	.356‡	.110‡	.243‡	.109‡	.511‡	.445‡	1		
9	10.921	1.525	.109‡	.405‡	.122‡	.152‡	.151‡	.740‡	.371‡	.435‡	1	
10	5675.8778	27166.364	.009	.239‡	.116‡	-.011	-.041	.292‡	.145‡	.246‡	.355‡	1

Note: ‡< 0.01, * <0.05, 1-Listed Firm, 2-Firm Size, 3-Internationalization, 4-Technology_Competitiveness, 5-Technology_Progressive, 6-Cost_HRM, 7-Cost_MKT, 8-Cost_CSR, 9-Sales, 10-Profit

4.2. Step-wise Regression Analysis

To analyze the influence of cost on business performance, this research suggested two research questions. One, is the cost an expense or an investment? Two, do the effect of costs have a similar or different effect on sales and profit? To confirm the relationships among variables, stepwise regression is analyzed and the results are in Table 3. Two steps are taken, in the first step (M1) only the firm characteristics were analyzed. And in the second step (M2), cost variables were added.

As a result of sales shown in Table 3, the explanatory increase was 42.3% to 77.7% from M1 to M2. This means that the cost variables explained much better sales than only firm characteristics. Results show that all the firm characteristics were not significant, except internationalization which gives a statistically negative significant influence on sales. This means a higher foreign capital ratio of a firm lowers the sales. Among the cost, HRM (.815) and CSR (.104) give a statistically positive significant influence, however, MKT (-.147) give a statistically negative significant influence on sales. These results mean higher the HRM and CSR, the higher the sales. However, the higher the MKT lower the sales. This implies that the cost of HRM and CSR acts as an investment yet the cost of MKT act as an expense. Later in the conclusion, a detailed implication for this will be discussed in conclusion.

As a result of the profit shown in Table 3, the explanatory increase was 27.1% to 26.1% from M1 to M2. This means that the cost variables explained much better profit than only firm characteristics. Results show that all the firm characteristics were not significant, except technology progressive which give a statistically negative significant influence on profit. This means that the firms which use 4th industry technology show lower profits than the firm which do not use 4th industry technology. Among the cost, HRM (.303) and CSR (.150) give a statistically positive significant influence on profit, however, MKT was not significant. These results mean higher the HRM and CSR, the higher the profit. This implies that the cost of HRM and CSR acts as an investment. Later in the conclusion, a detailed implication for this will be discussed in conclusion.

The summary of the hypothesis results is as follows. First, both sales and profit results show a significant positive influence on HRM. Therefore hypothesis1-1 is supported and hypothesis 1-2 is rejected. Second, marketing gives a significant negative influence on sales. However, in profit, it was not significant. Therefore hypothesis 2-1 is reflected and hypothesis 2-2 is partially supported. Lastly the third, CSR give a significant positive influence on both sales and profit. Therefore hypothesis 3-1 is supported and hypothesis 3-2 is rejected.

Table 3: Results of Step-wise Regression Analysis

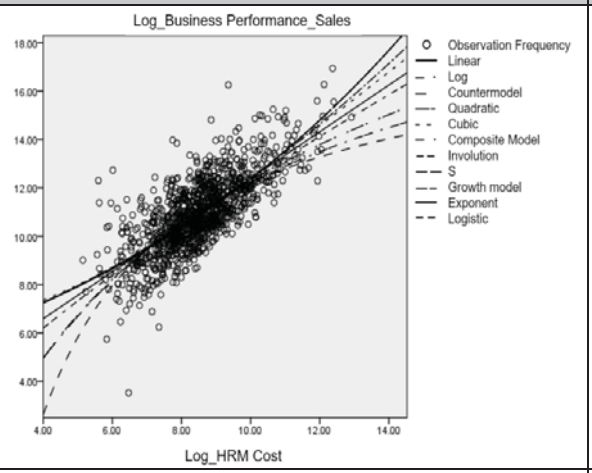
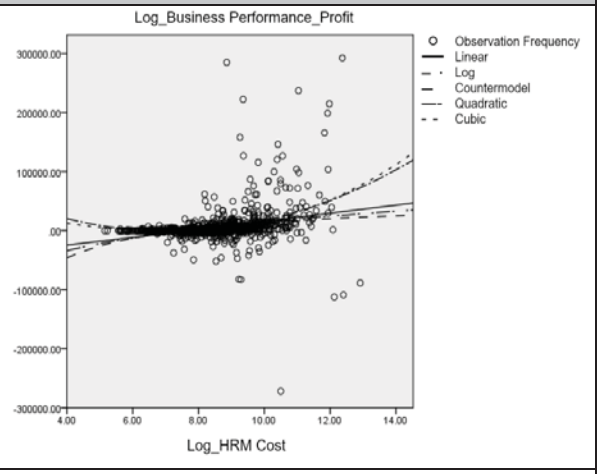
Standard Ƀ(S.E.)		Sales		Profit		Multicollinearity
		M1	M2	M1	M2	(M2)VIF
Firm	Listed Firm	.109(91702.790)⁂	.023(.135)	.024(2769.683)	.029(4228.325)	1.244
	Firm Size	.377(61.038)⁂	-.002(.000)	.265(1.844)⁂	.004(3.122)	1.627
	Internationalization	-.028(591.586)	-.065(.001)*	.098(17.868)⁂	.048(35.627)	1.514
	Tech_Competitiveness	.025(252.433)	-.046(.000)	-.083(7.624)⁑	-.080(10.224)+	1.418
	Tech_Progressive	.033(88352.185)	.028(.137)	-.069(2668.485)*	-.107(4273.926)⁑	1.081
Cost	HRM		.815(.054)⁂		.303(1689.018)⁂	2.315
	MKT		-.147(.020)⁂		-.098(611.608)+	1.877
	CSR		.104(.023)⁂		.150(719.641)⁑	1.488
R^2		.423	.777	.281	.361	
ad. R^2		.175	.599	.075	.118	
F		48.159⁂	109.006⁂	18.929⁂	.281⁂	

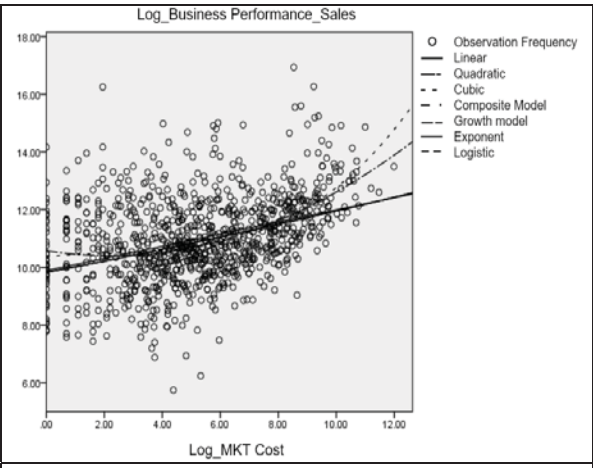
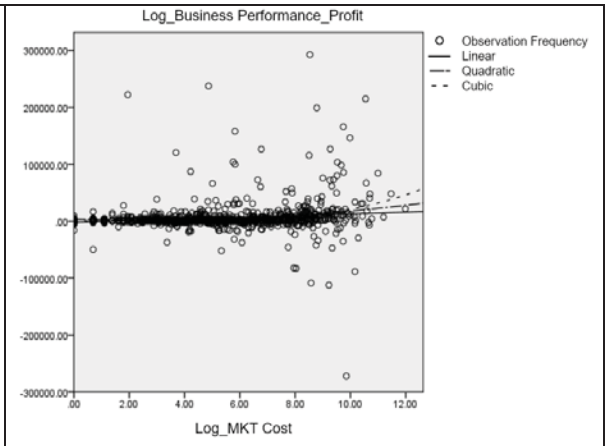
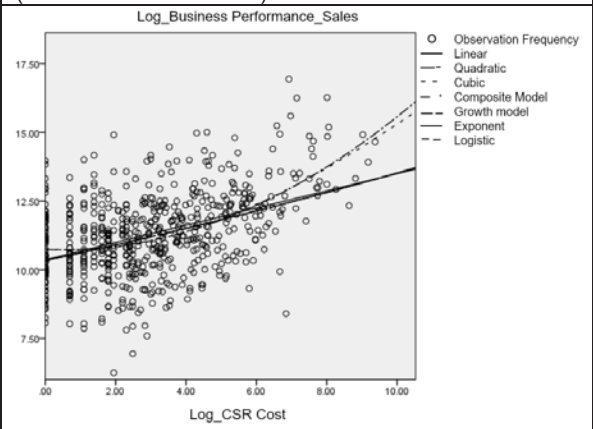
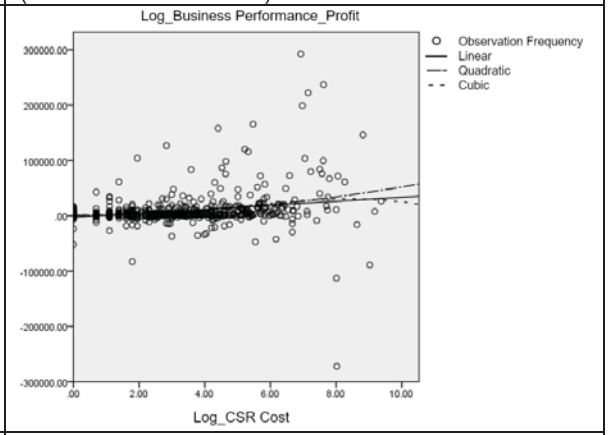
Note: ⁂< 0.001, ⁑ < 0.01, * <0.05, * <0.1

4.3. Curve Estimation Analysis

Above in regression analysis assume a linear functional relationship between variables. However, the theory of marginal utility and the law of diminishing returns suggest consideration of other equation relations. Therefore, to determine the appropriate functional relation for the regression model between each cost and performance, this study additionally analyzes six curve estimation analyses. And model fit diagram and the best function of curve estimation analysis results are shown in Figure 2. As the results show, diverse functions were appropriated however the best function was all quadratic functions. And the result also shows that the slope inflection points of the equation and saturation effect points are calculated. Two out of six relations, HRM-Sales and CSR-Profit results show ∩shape. This means until the saturation point, an increase in cost influence an increase in performance however after the saturation point, the increase of cost influence decrease. Four out of six relations, HRM-Profit, MKT-Sales, MKT-Profit and CSR-Sales results show ∪ shape. This means saturation point is a critical point. Until the critical point increase in cost influence a decrease in performance however after the critical point, an increase in cost influence an increase.

Figure 2: Results of Curve Estimation Analysis

	Sales	Profit
HRM		
	y=5.154+0.396x²+0.033x (Saturatio Effect : 6.000)	y=111803.502-31684.878x²+2218.318x (Saturatio Effect : 7.142)

MKT		
	y=10.588-0.163x²+0.037x (Saturatio Effect : 2.203)	y=3581.947-1584.374x²+300.752x (Saturatio Effect : 2.634)
CSR		
	y=10.744-0.057x²+0.054x (Saturatio Effect : 0.528)	y=863.322+273.095x²+487.302x (Saturatio Effect : 0.280)

5. Conclusions

5.1. Result Summary

This exploratory research focuses on the relationship between investment activities of individual intangible assets and business performance. And this study focuses on three cost investment expenses; human resource management (HRM), marketing (MKT) and corporate social responsibility (CSR). Also, this focus on two business performance; sales and profit. And this study focuses on wholesale and retail brokerages business in Korea. Statistics can be summarized in three ways, the first two from step-wise regression analysis and the last one from curve estimation analysis. First, as for sales, HRM and CSR give a statistically positive significant influence, however, MKT gives a statistically negative significant influence. This implies that the cost of HRM and CSR acts as an investment yet the cost of MKT act as an expense. Second, as for profit, HRM and CSR give a statistically positive significant influence on profit, however, MKT was not significant. These results mean that cost of HRM and CSR act as an investment. Lastly, the third, diverse functions were appropriated however the best function was all quadratic function. between three cost investment expenses and two business performance.

5.2. Contribution and Implication

This research has a few academic contributions and managerial implications. As for academic contribution, this study makes academic contributions by providing empirical analysis of wholesale and retail brokerage business in Korea which field that lacks academic research. Based on the empirical result, three managerial implications could be made to increase business performance. First, the cost of

HRM act as an investment in both sales and profit. However, according to the curve estimation analysis, the shape of the influence differs for sales and profit. So, a firm should measure the proper saturation point and careful investment must be made. Second, the cost of CSR act as an investment in both sales and profit. However, according to the curve estimation analysis, the shape of the influence differs for sales and profit. Therefore, a firm should measure the proper saturation point cautious investment must be made. Lastly, the third, cost of marketing act as an expense in sales and according to the curve estimation analysis show ∪ shape. Therefore, companies must analyze appropriate cost-effectiveness and conduct effective cost-spending management.

5.3. Limitation

Even though there are academic contributions and managerial implications, there are two limitations of this study. And based on limitations, improvement of future studies is suggested. First, as for the measurement of this study, business performance and cost were measured in simple, direct and absolute figure measurement. Therefore this study show correlation between the size of the company, that is, the performance-size and the cost-size. Therefore, in the future study, it is necessary to utilize relative measurements like rate-and-variable such as ROA or ROE as performance and expenses ratios compare to the asset, equity or employee, and others (Albertini & Berger-Remy, 2019; Xu et al., 2019). Also, this study measured HRM by the expense of labor, MKT by the expense of advertising and CSR by the expense of donation. However, there are other expenses to each cost. As for HRM, other than employee wage, such as education, training and welfare, etc. As for MKT, other than advertising, such as channel management like SNS (social networking service), public relations personnel, etc. As for CSR, other than a donation, such as CSR activities like talent donation, creating shared value, community service, sponsorship, etc. Therefore, in the future studies comprehensive measurement is needed. Second, as for the statistical methodology of this study, business performance and cost were measured at identical times. However, time is needed to influence to emerge. Therefore, in future studies, it is necessary to consider the time gap between business performance and cost investment expense through longitudinal analysis (Graham & Frankenberger, 2000; Jeon, Kim, & Youn, 2019).

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