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Empirical Analysis and Examination of Executive Compensation Incentive Mechanism in Chinese Listed Companies—From the Perspective of Compensation Determinants

（Thesis submitted for the degree of Executive Doctorate in Business Administration）

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ABSTRACT

Studies on executive compensation started from 1970s and gained further development in 1990s with new research perspectives gradually extended from the disciplines of management to other fields such as economics, psychology, and organizational behavior (MURPHY, 1999). In the 21st century, more researches on executive compensation tended to identify the relevance between compensation and the performance of companies (COLLINS, 2001; DAINES, 2005). As research results came out, more scholars began to show interests on the topic and had conducted many academic studies. On one hand, the popularity of this topic shows how executive compensation influence company's growth and development is of great practice significance. On the other hand, it also reflects the fact that with the change of corporate internal structure, individual executive style and external environment, current studies cannot fully meet the demand of practice. The lacks and limitations of current studies need to be fulfilled by both academia research and practical efforts.

In recent years, although the relationship between executive compensation and company's performance draw higher interests from academics and management practitioners, consensus on this issue has never been reached. Many theorists believe that there is no necessary relevance between the two (MEREDITH, 1992; Wei Zhengang, 2000; Yao Zhenghai, 2005). This is not one-sided statement. Listed companies with declining performance and raising executive salary are not uncommonly seen. According to the data center of caixin.com.cn, statistics from 495 A-share listed company's corporate annual reports showed that in 2014, 164 companies produced negative net profit growth. However, 92, or 56.1% of them provided higher compensations for their senior executives. In response to this phenomenon, the State-owned Assets Supervision and Administration Commission (SASAC) issued the Notice on Conducting Business Performance Appraisals of Persons-in-Charge at Central Enterprises 2015 to take corresponding measures and strategies. Giving such a context, conducting researches on incentive compensation mechanism of senior executives is particularly necessary. By analyzing the effectiveness of China's incentive compensation mechanism for senior executives, this paper studied major determinants for current incentive compensation and further explored the essential relationship between corporate performance and executives' behaviors, provided a reliable theoretical basis for the construction of better incentive compensation structure and its restraint mechanism.

Under the background of listed companies in China, by looking at compensation determinant factors, this paper build a theoretical analysis framework underpinned by diversified theories, including agency theory and tournament theory from an economic perspective, stewardship theory from a sociological perspective, prospect theory and social comparison theory from a psychological perspective and human capital theory and property right theory from a combined perspective. This paper also proposes a research hypothesis based on analysis and summery of overseas and domestic reference, analyzes and exams with scientific statistic instruments, to explore the determinant factors of compensations for executives in listed

companies and its relationships with the executives' and the companies' performances. The paper aims at providing theoretical underpinning for the design of executives' compensation mechanism, rectifying the shortages in the current mechanisms in China, providing bases to improve executives' value and the company performance and providing solid references for the government and competent authorities to enact applicable laws and regulations.

Key Words: Executive compensation, company performance, executive behavior, determinant of compensation, safeguard Mechanism

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