

Survey Data Analysis of Executive Compensation System of State-owned Holding Listed Companies in Yunnan

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Abstract. In recent year, the reform of China's salary system has made some achievements, and initially established a systematic framework of executive compensation management in state-owned holding listed companies. With the deepening of the mixed ownership reform in state-owned enterprises, the executive compensation system of state-owned enterprises is also being perfected. However, there are still some problems in the executive compensation system of state-owned enterprise. This article hopes to have a certain reference significance and value to the reform of the compensation system of the state-owned enterprises in China through the investigation and research on the current situation of the executive compensation incentive mechanism of the state-owned holding listed companies in Yunnan Province.

1. Introduction

In 2015, the Central Leading Group for Comprehensively Deepening Reform implemented the reform of compensation system for the head of the state-owned enterprises and carried out the differential compensation distribution system. Later in 2018, the group deliberated and passed the "Opinions on Reforming the Salary Decision Mechanism of State-owned Enterprises", in which it proposed to "establish and improve the basic adaptation of the labor market, the wage decision and normal growth mechanism linked to the economic and labor productivity of the state-owned enterprises, perfect the wage distribution supervision system of the state-owned enterprises, and fully mobilize the enthusiasm, initiative and creativity of the staff and workers of the state-owned enterprises". This means that economic efficiency and labor productivity are two significant factors that determine the wages of state-owned enterprises. It is also foreseeable that the details of the reform of state-owned enterprises will gradually come to practice. Under the current situation, the reform of executive compensation system is the most critical and imperative in the reform of state-owned enterprises.

This study mainly focuses on the state-owned holding listed companies of Yunnan Province as the primary research object, including theoretical and data studies on executive compensation structures, compensation levels, decision mechanisms, implementations and assessment systems.

2. Analysis of Executive Compensation System of State-owned Holding Listed Companies in Yunnan

In order to truly and comprehensively understand the compensation system of senior managers of state-owned holding listed companies in Yunnan Province, the author collected relevant data from Cninfo. By the year 2017, 17 companies were actually controlled by local or central state-owned assets management institutions.

2.1 The structure of senior executive compensation system of state-owned holding listed companies in Yunnan

At present, the annual salary of senior management personnel of the companies consists of basic salary, performance salary, and medium/long-term incentives. The basic salary is comprehensively drawn up by the company's board of directors and the remuneration and appraisal committee based on factors such as the size of the company, the salary level of the industry, and the remuneration of

the previous year. Performance-based remuneration is determined after the board and the committee make a comprehensive assessment based on the company's production goals and business objectives. As the medium/long-term incentives, according to the company's situation and the accomplishment of the indicators involved in the work performance of senior executives, the committee proposes plans that shall be issued by the board in accordance with relevant regulations. It seems that the calculation of the compensation of senior managers of state-owned holding listed companies in Yunnan is based on basic salary, combined with performance assessment which determines performance-based remuneration, and reported to the board of directors and the shareholders' meeting for approval. Stock and equity compensations are employed as medium/long-term incentives. However, there might be a lack of long-term incentives, as most state-owned holding listed companies' executives hold no shares.

2.2 The salary level of executives of state-owned holding listed companies in Yunnan

As Figure 1 shows, the executive compensation of state-owned holding listed companies in Yunnan is 176,800 yuan in 2014, 165,600 yuan in 2015, and 182,400 yuan in 2016, and the salary level is not considering high. These growth rates increased from 2015 to 2016, with a growth rate of 10.14%. Since 2015, the compensation level of chairman, president, chief supervisors and other deputy principals of state-owned enterprises has shrunk significantly, due to the salary cap carried out based on the opinion on the reform of the compensation system for state-owned enterprises. The salary cap had also led to an outflow of talents. In 2016 the cap was eased, and a growth of the annual salary level appeals.

Unit: ten thousand yuan

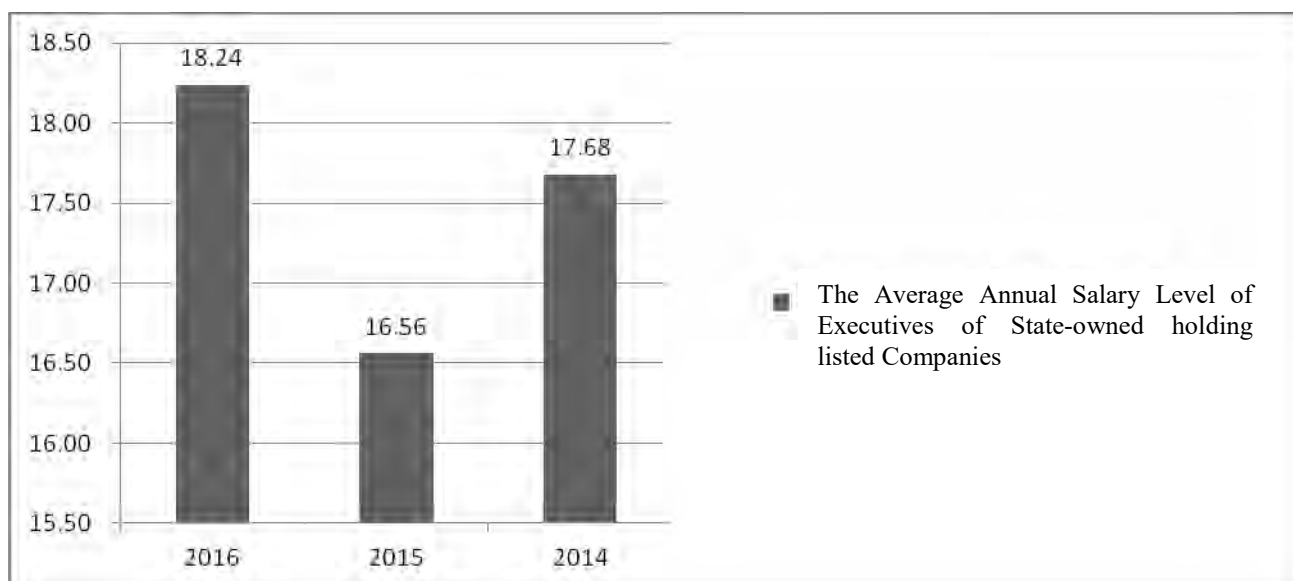


Figure 1. The average annual salary level of executives of state-owned holding listed companies in Yunnan 2014-2015

According to Figure 1, the average annual salary of executives of state-owned holding listed companies in Yunnan was 182,400 yuan. Based on Figure 2, information technology was the highest in terms of average annual salary of all industries involved in state-owned holding listed companies in Yunnan, followed by pharmaceutical manufacturing. Among them, the average annual salary of information technology companies was 433,700 yuan, which was 253,100 yuan more than the average level of state-owned holding listed companies in Yunnan. The average annual salary of pharmaceutical manufacturing companies was 351,800 yuan, 169,400 yuan more than the average. In contrast, the annual salary of agriculture, forestry, animal husbandry and fishery companies was relatively low, with an annual salary of 86,500 yuan. Therefore, it is concluded that the average salary level of senior executives in Yunnan state-owned holding listed companies was not high, and there was a large difference in salary level between different

industries.

Unit: ten thousand yuan

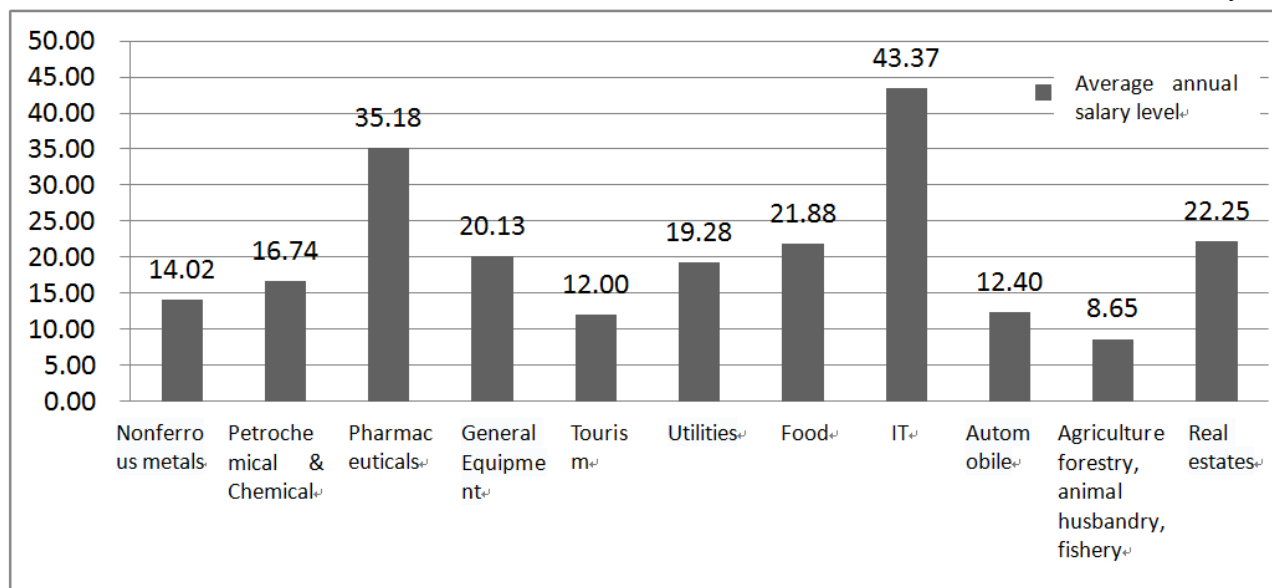


Figure 2. Average annual salary level of state-owned companies in different industries in Yunnan 2016

2.3 Decision-making mechanism for senior executive compensation of state-owned holding listed companies in Yunnan

2.3.1 Decision-making Procedure

The decision-making procedures for senior executive compensation of state-owned holding listed companies in Yunnan are as follows: First, the company's remuneration and appraisal committee is responsible for proposing and formulating compensation plans for the company's directors, supervisors, and senior executives. Each director, supervisor and senior executive will be evaluated annually according to the company's performance and the performance evaluation standards by the committee, based on the roles and responsibilities, adjustments can be made within a certain range in order to formulate a plan. The plan will be reviewed by the board of directors and the general meeting of shareholders, and then implemented after deliberation and approval. Secondly, according to the relevant provisions of the company law and the company's articles of association, the general meeting of shareholders determines the remuneration of directors and supervisors, and the board of directors decides the remuneration of senior management personnel. According to assessment criteria and performance evaluation of the company, annual performance appraisal will be conducted on the performance of the company's directors and senior management personnel in order to determine the annual bonus.

2.3.2 Basis of Determination

According to the basis of national, provincial, and company policies, regulations, methods, and other relevant system regulations, combined with the completion of annual production and management goals, local wage levels, responsibilities undertaken, and relevant regulations of higher authorities, etc., a quantitative assessment is conducted by the board of directors, the remuneration and appraisal committee and the representatives of staff, to finalize the annual assessment score of senior executives and determine their remuneration according to the implementation measures.

2.4 Implementation of executive incentive mechanism of state-owned holding listed companies in Yunnan

2.4.1 Phenomenon of Zero Salary and Zero Shareholding of Executives

As can be seen from Figure 3, there were 8 state-owned holding listed companies with executive ownership in 2014, and these companies accounted for 26.67% of all listed companies in Yunnan.

Compared with 2014, the ration had increased in 2015 only by a small growth to 37.5%. However the ratio dropped in the following year, as the number of listed companies had risen and the number of state-owned holding listed companies with executive ownership stayed the same. This indicates that the phenomenon of executive ownership is not common in Yunnan.

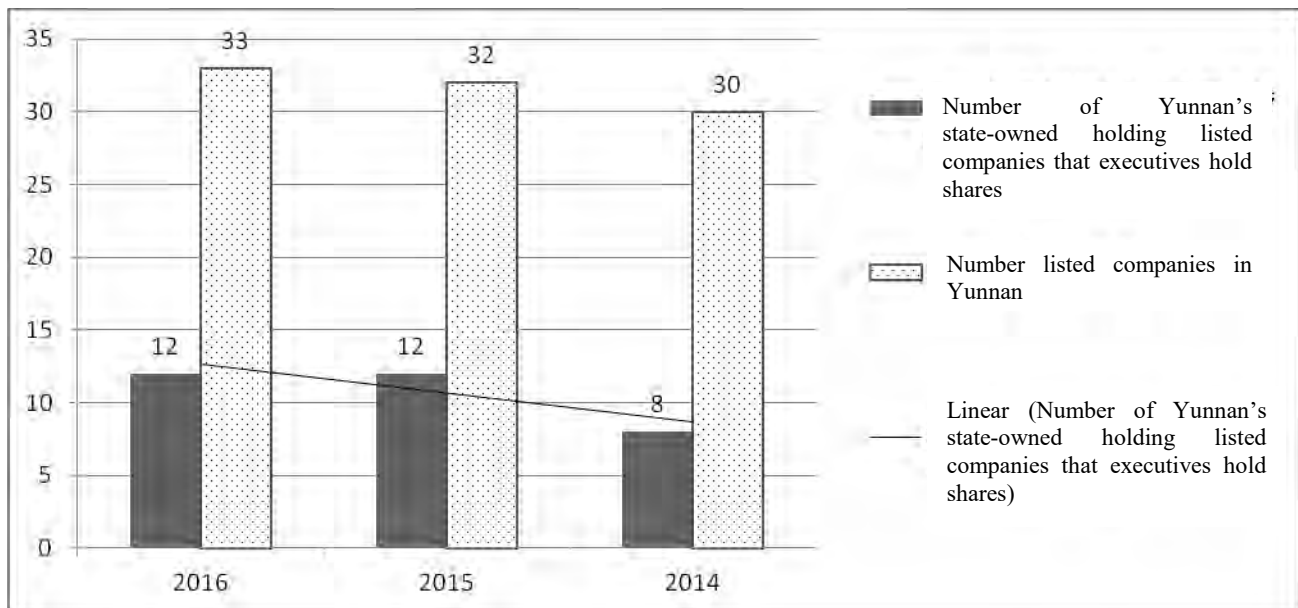


Figure 3. Number of Yunnan's state-owned holding listed companies without executive ownership

As shown in Figure 4, the number of state-owned holding listed companies with executive ownership in Yunnan had tripled since 2014, from 32 to 97 in 2015, the shareholding ration had also increased from 8.42% in 2014 to 20.94 in 2016. However, the proportion of executives ownership in Yunnan state-owned holding listed companies against the number of executives of listed companies in Yunnan was considerably low, only 20.94%.

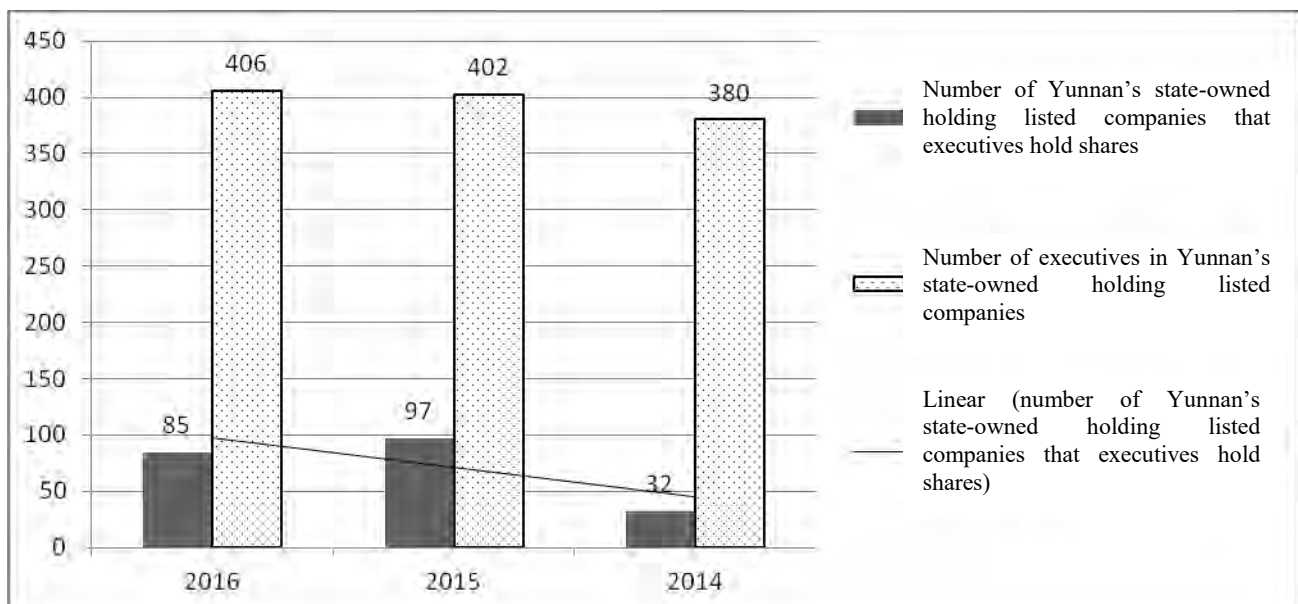


Figure 4. Number of Yunnan's state-owned holding listed companies with executive ownership

By reviewing and analyzing the annual report of listed companies in Yunnan, it is suggested that the phenomenon of zero salary and zero shareholding for executives exists in Yunnan's state-owned holding listed companies. This paper reviewed the executive compensation data report of state-owned enterprises in Yunnan, and found such phenomenon exists in 17 of the companies. Because the executives of state-owned holding listed companies generally have two kinds of identity, one is the manager of the company, and the other is the national civil servant of the

organization, some even act as both identities. The compensation can be issued from the national institution to which they belong and not required to be paid by their companies. Furthermore, there are still cases where the state-owned company's subsidiaries are listed. Therefore, some executives may also receive compensations from their parent company or the group company, which may conceal senior executives' payment, hence, no salary in the public annual report.

Among all 17 state-owned holding listed companies in Yunnan, executives hold zero shares in 5 of them, there are 6 of them that 1-3 executives hold shares, 4-9 executives hold shares in 2 of them, and 10-20 executives hold shares in the rest. It can be seen that the phenomenon of zero holdings of executives is widespread. This may be due to the late development of executive ownership in state-owned list companies and the restrictions attached to it. The low proportion of executive ownership may seem not to be conducive to the long-term development of state-owned holding listed companies, and it may be easy for senior executives to produce short-sighted behavior in the operations.

2.4.2 Equity Incentive

This paper finds none of the companies has employed equity incentives, after reviewing and analyzing the annual reports and public data of all 17 state-owned holding listed companies.

2.5 Performance appraisal system of executive compensation system in state-owned holding listed companies in Yunnan

At present, the performance appraisal system adopted by state-owned holding listed companies in Yunnan Province can be briefed as follows: the company formulates annual business plan and task indicators at the beginning of the business year, and evaluates the completion of the management plan and task plan of the senior management at the end of the year. According to the performance evaluation results and the remuneration policy, the executive officer's compensation amount and reward method are proposed, and then the annual salary of the company's senior executives is honored. The company's business plan is mainly the company's performance, the operating task indicators are mainly financial ones, and a few will also evaluate the business performance of senior managers' business innovation capabilities and profitability. The primary financial indicators involve corporate profits, annual financial budgets, production and business indicators, and the completion of management goals, etc.

3. Conclusion

Judging from the results of the article analysis, the reform of the executive compensation incentive mechanism for state-owned holding listed companies in Yunnan Province has achieved certain results. From 2014 to 2016, the number of state-owned holding listed companies' executive ownership has increased. Still, there are some flaws, such as the shortage of long-term incentive in the compensation structure, the lack of equity incentive in the listed companies, and other incentive methods have not been further explained. The management performance appraisal methods of senior executives are also roughly based on the company's annual production and operation target completion and final individual annual appraisal scores, and the appraisal methods and disclosure of compensation information appear to be incomplete, as are not specified in details according to the remuneration policy and company performance appraisal implementation methods. This research hopes to gain a certain reference significance and value to the reform of the compensation system of the state-owned enterprises in Yunnan and other areas of China through the data analysis of the current status of the executive compensation incentive mechanism of the state-owned holding listed companies in Yunnan Province.

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