

## **A study on the correlation between performance and Executive compensation of listed companies**

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**Abstract:** In modern enterprises, the existence of the agency relationship is very common, but because of the separation of the two rights, the interests of the principal and the agent are different, they pursue the maximization of their own interests, and there is also the phenomenon of information asymmetry. The self-interest behavior of the agents may lead to the sacrifice of the interests of the principal in order to satisfy their own interests, and increase the proxy growth. For high-tech enterprises, the owners and operators of listed companies form a typical entrusted agency relationship. With the continuous development of economic globalization, the competition between companies is increasingly fierce. So, how to effectively motivate executives and. Restricting the self-interest behavior of executives has become an important issue in modern enterprise theory research, and the incentive mechanism of executive compensation has been widely concerned by many scholars at home and abroad. How does executive compensation affect the effectiveness of corporate performance? In recent years, the research on the correlation between corporate performance and executive compensation has become the theoretical basis for the establishment of a scientific and reasonable executive compensation system, and has attracted more and more scholars' attention.

### **1. Introduction**

In such a complex and changing market, senior management talents use their own wisdom to serve the enterprise, and the position of such scarce resources in the enterprise is constantly prominent. In order to improve the subjective initiative and creativity of high management and achieve the higher goal of enterprises, there must be no less effective incentive to executives. In particular, it is necessary to make the value of executive property rights of the company recognized by the company and be able to obtain the corresponding benefits. There is a theoretical and practical relationship between executive compensation and corporate performance. The relationship between executive compensation and performance efficiency of listed companies can regarded as executive compensation of listed companies. Through the analysis of the influencing factors of executive compensation, this paper reveals the internal rules and regulations of the executive compensation incentive system of listed companies in China, to provide reference for the further study of the construction of Taiwan. Therefore, how to design the executive compensation system, in order to achieve business performance, does enterprises need to consider designing a suitable executive compensation system. The arrangement of this paper is as follows: firstly, this paper summarizes the relationship between executive compensation and corporate performance at home and abroad, puts forward the hypothetical relationship between executive compensation and corporate performance, and then tests it by using the method of multivariate regression and virtual variables, and puts forward the theoretical meaning of this study. Finally, the conclusions analyzed and some suggestions put forward.

### **2. Research background and significance**

Based on the principal-agent theory, the ownership and management rights of the enterprise

separated, resulting in the relationship between principal and agent, and the executives operate and manage the enterprise under the authorization of the owner of the enterprise. The goal of the principal is to maximize the value of the enterprise, while the goal of the agent is to maximize the interests of the agent. The interests of the principal and the agent are not completely consistent, and the information of the two is asymmetrical. The agent should master more information than the principal should. One of the effective ways for the principal to solve the agency problem is to establish an effective incentive-restraint mechanism, which can maximize the interests of the owners while seeking their own benefits.

In the face of the financial crisis, Guotai Junan relies on the huge “institutional income of the government” as the performance of executives to pay huge salaries that do not match the current economic environment. In addition, many securities firms also pay huge amounts of money. Huge salary is not in line with the current national conditions, affecting the interests of employees, triggered the nerve of social harmony. In addition to the principal-agent problem, there are special reasons based on the special enterprise of state-owned enterprises. first, the sense of trust responsibility of the executives of state-owned enterprises is weak, the ability of executives of state-owned enterprises to bear the responsibility for management is limited, and the executives of state-owned enterprises have the dual roles of administrators and managers. Private sector through this labor market, the value of enterprise managers truly reflects the supply and demand of market prices, thus truly reflecting the salary level. The salary of state-owned enterprises appears the phenomenon of “insider control”. On the face of it, the board of directors and the shareholders’ meeting decides the compensation jointly, but in essence, the insiders of the company decide it. Therefore, in this case, because of the self-protection tendency of the executives of state-owned enterprises, more self-interests are considered in the decision-making, which leads to the phenomenon of “absence of investors”, the loss of state-owned assets, let alone the maintenance and appreciation of state-owned assets. On the surface, the increase in executive compensation seems too related to the level of performance growth of the company, which seems reasonable, but it should be noted that the management of the executive does not necessarily cause the increase in performance. Because of the administrative factors, some state-owned enterprises have the market access threshold, such as traffic, communication, power, railway, etc. These state-owned enterprises often get huge monopoly profits due to their monopoly position, resulting in macroscopic inequality of industry profits, and micro-equality between staff and executive income. Executive and staff pay differences can make. Encourage employees to work more diligently. However, the salary difference between the two is too bad for the long-term development of the enterprise, and it is easy to have a negative impact.

The lack of these compensation systems inevitably requires the improvement of the compensation system to make up for it. but can the “salary management measures” issued by the General Office of the Ministry of Finance solve the relationship between executive compensation and corporate performance in state-owned enterprises, and make state-owned enterprises develop well and rapidly. or can they only “learn from Handan” and fail to achieve their goals?

Annual salary is part of salary incentive. At present, equity incentive is developing in some developed countries in the West, because it is a long-term incentive mode, which takes the residual claim of the company as the temptation. so that executives will not only pay attention to the immediate interests, but bind their own interests with the interests of the company, which is conducive to the long-term development of the company. Foreign hot loyalty has carried on the thorough research to this topic. Forbes magazine counted the compensation of executives in some large listed companies and found that 77 per cent of executives' compensation generated by equity, including earnings at the time of exercise and capital gains held at a later stage.

In modern enterprises, the existence of principal-agent relationship is very common, but because of the separation of the two rights, the interests pursued by the principal and the agent are different, and each pursues the maximization of their own interests, and at the same time, there is the phenomenon of asymmetric information. The self-interest behavior of agents may lead them to sacrifice the interests of their clients and increase the agency cost in order to satisfy their own

interests. To study the correlation between executive compensation and enterprise performance, and to formulate the corresponding executive incentive policy according to the conclusion, can encourage executives to strive to improve corporate performance, to reduce agency costs.

As the most important and scarce human resources in enterprises, how to allocate this kind of resources effectively has always been the focus of theoretical research. However, at present, most of the research carried out for all industries, and its conclusions cannot use as the basis for the adjustment of salary system in different industries. so it is necessary to carry out empirical research and analysis on the physical industry in order to draw the conclusion that ice can reasonably adjust the incentive mechanism of high management salary.

High-tech industry has the characteristics of high-tech dependence, talent dependence and human ice initiative and innovation. With the continuous development of economic globalization, the competition of high-tech industry is becoming increasingly fierce, its competition mainly focuses on the competition for human ice, and human resources become the first resource of high-tech enterprises. Therefore, it is more important to study the relationship between executive compensation and performance in high-tech industry to standardize and improve the salary incentive mechanism of high-tech enterprises.

### **3. Related notion**

Senior executive. Up to now, there is no unified view on the concept of “executive” in academic circles. Different scholars have adopted different concepts in their research, among which there are the following two mainstream views: the first view is that senior managers refer to senior managers. According to Article 217 of the Supplementary provisions of the Company Law, senior managers refer to the managers, deputy managers and financial leaders of the company. The second view is that, since in most companies, directors are also involved in some of the company's matters, some of the senior managers in the financial reports of the companies also include directors. Therefore, executives can also defined as senior managers and directors, managers, deputy managers, treasurers, secretaries of the board of directors of listed companies, other persons specified in the articles of association of the company, as well as the chair and vice chair of the company.

Compensation and executive compensation. In a narrow sense, compensation refers to the contribution of employees to the enterprise (including their performance, efforts, time, knowledge, skills, experience, etc. direct or indirect monetary income, including base wood wages, bonuses, allowances, benefits, etc. Liao Quanwen, 2003). In a broad sense, salary is all the “rewards” that individuals get in their contributions to the enterprise, including direct or indirect, economic and non-economic.

Executive compensation refers to shareholders taking some incentive measures to eliminate the contradiction of interests between executives and shareholders, so that high management can maximize the value of shareholders while pursuing their own interests. Before zero, executive pay mainly includes salary, bonus and long-term incentive compensation. Wages fixed pay, which has nothing to do with the performance of executives; bonuses are root

According to some of the reward compensation extracted from the performance of that year, executives must reach a certain performance 0 mark in order to get it, while long-term incentive compensation, including stock or stock options, usually takes several years to cash in.

### **4. Research and design**

#### **4.1 Data from sample selection.**

This paper is based on the sample of Shenzhen and Guangzhou real estate companies listed in A shares published in wind software and is screened according to the following principles:

(1) Companies that issue B shares and H shares in the same inch are excluded because the principles of disclosure statements of A shares, B shares and H shares are inconsistent, and the selection of such companies will affect the disclosure of the statements, resulting in inaccurate data

and information.

(2) Companies that are excluded by ST, ST\* because such companies want to avoid delisting risk and carry out asset restructuring will have an impact on the authenticity of the data in this paper.

(3) Exclude companies that have not disclosed information or incomplete information disclosure.

(4) Remove companies that go public later than 2015 because of the data selected between 2015 and 2018, and some of the data will be removed by listing by 2015. The sample data of screen are 118. The data published in Wind database used as the source of data collection, and the descriptive analysis carried out from 2015 to 2018. The software of choice is Stata.

## **4.2 Suppose Hypothesis a Corporate performance positively correlated with executive compensation.**

Under the condition of asymmetric interest rate, based on the principal, the agent cannot achieve the same situation of double interests for both sides to reduce the cost, and the performance contract will agree that the remuneration received by the person is related to the business performance and linkage of the enterprise. It is speculated that senior managers will work harder to create better results for the company in order to get high pay, and the performance will prompt them to get more compensation.

## **4.3 Executive compensation positively correlated with corporate performance.**

Shareholders give executive compensation to encourage executives to make more contributions to the enterprise. According to the principal-agent theory, shareholders and operators will sign performance contracts in order to avoid information asymmetry and reduce moral hazard. Enterprise Performance variable (EPS). In this paper, earnings per share are selected as the index to evaluate the performance of enterprises. In order to reflect the operating results of listed companies and the benefits enjoyed by shareholders, earnings per share can be compared among different companies as a measure. EPS is selected as the index to evaluate the performance of enterprises. In order to reflect the operating performance of listed companies and the benefits enjoyed by shareholders, they can also compare with each other. Profit after interest and tax divided by total share capital results in earnings per share.

## **4.4 Executive compensation variables.**

In this article, the top three in executive compensation are used as variable data. It is difficult to obtain all the executive compensation information when the listed companies disclose the information, and the total compensation of the top three is representative to the research and study of executive compensation.

## **4.5 Control variables.**

The proportion of shares held. This variable is the proportion of the number of senior executives in the total equity. Because of the management mechanism, the interests of shareholders and executives in the management have an impact on the performance of the enterprise. Stock ownership

## **4.6 Concentration.**

Choose the largest shareholder shareholding ratio. The more the pursuit of corporate value and shareholder interests, the more purposeful impact on corporate performance, and then affect executive compensation. Enterprise

## **4.7 Scale.**

The larger the scales of the enterprise, the richer its resources, the management can use strong capital to invest and reproduce, create greater value indication.

## **5. Empirical analysis**

### **5.1 Earnings per share Income.**

The data for three years show that the average earnings per share of the vast majority of companies with positive earnings per share of 2015-2018 are about 0.357, 0.308 and 0.273, respectively; the maximum earnings per share are 2.05, 1.42, 2.37; and the minimum values of earnings per share are -0.44,  $\leq 0.78$ , -1. The proportion of EPS with negative EPS is about 0.077, 0.050 and 0.169, respectively.

### **5.2 Executive pay.**

Compensation is increasing every year between 2015 and 2018, which may relate to the expansion of the size of the company and the improvement of performance. The salary data of 2015 / 2018 are described from the mean value, the maximum person value and the minimum value, in ten thousand yuan; the average executive compensation in these three years is 289.23, 308.35351. The maximum values were 1446.29, 1565.39, 1739.83; the minimum values are 7.4, 9.89, 0.084, respectively.

### **5.3 Executive shareholding.**

Among the 118 sample companies selected, the number of companies held by executives in 2018 increased, while the number of executives holding a small number of shares increased. In the 118 sample companies selected, the number of companies held by executives increased in 2018, while the number of executives holding a small number of shares increased. For example, the number of companies with high stocks in 2015-2018 is 76, 72, 88; the proportion is 0.5%, 0.644, 0.610, 0.746; the average value of executive shareholding was 0.5%, 0.076, 0.068.

### **5.4 Ownership concentration.**

Among the 118 companies selected, the degree of ownership concentration is very high Changping, with a value of more than 60%, which related to the operating nature of listed property companies in China. Most real estate companies are subsidiaries of large groups, and the average value of equity sets of majority shares of parent companies in 2015-2018 is 0.5%, 0.550, 0.557, 0.567; the maximum values are 0.930, 0.912, 0.975; the minimum values are about 0.5%, 0.189, 0.199; the proportion greater than 50% is 0.602, 0.619, 0.627.

### **5.5 Asset size.**

From 2015 to 2018, the scale increased year by year, reflecting the rapid development of the real estate industry in China in recent years. The three-year production scale of 2015 / 2018 described from the mean value, the maximum value and the minimum value, and the average value of the unit per unit from 2015 to 2018 is 1818507.069, 2173229.172, 3228796. The maximum value is 31393985.43, 36576564.33, 60043607. Real estate enterprises can adapt to the situation that they have the ability to do so. When the expansion of the size of the enterprise.

## **6. Inspiration and suggestion**

The above empirical study shows that the executive compensation incentive system and the enterprise performance complement each other and promote each other. We can consider the executive compensation system as an incentive method to promote the performance of the executive transfer work, so the salary incentive system should combine the reasonable performance evaluation mechanism and optimize the salary structure. Around the development goal of the enterprise, establish a set of fair and reasonable performance evaluation system. For real estate enterprises, we should construct a specialized and targeted evaluation index system according to their own characteristics, design around the development objectives of real estate enterprises, explain the performance of real estate as far as possible and reasonably, and establish a price evaluation system.

We can also draw lessons from the principles of the balance scorecard and select the indicators from the four dimensions of finance, customer, internal operation and learning growth. In addition, we should not only take the past financial indicators as the basis, but also pay attention to the indicators such as economic value added and sustainable development rate, to reflect the overall economic situation of the company more comprehensively.

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