

The Determinants of Executive Compensation: Evidence from China Listed Companies

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Abstract:

Agency theory argues that companies need to structure their executive compensation so as to attract, retain, motivate, and reward executives. It is implicit in agency theory that executive should be rewarded for his performance and that company size should not be a significant determinant of compensation. Empirical evidence in many countries has concluded, however, that size is a major determinant of executive remuneration and the pay-for-performance link is very weak. Most empirical research has adopted a limited theoretical perspective that draws upon one discipline rather than building upon a broad base of disciplines. We argue that this research has generally been limited because it ignores other criteria that can be used to determine executive pay.

Our analysis leads to a general framework for exploring the impact of behavioral, economic, and strategic constructs and the role of industry on executive compensation. This study examines the determinants of executives' compensation in China Listed companies by using recent available data. In this paper, we use SEM (structural equation model) to explore the relationship between executive compensation and other independent variables identified in the general framework. SEM is used to capture the relationship between unobservable (latent) variables like board control and their observable counterparts (indicator variables) like duality and executive stock ownership.

This study extends our understanding of executive pay in several ways. Most studies have been concerned with the pay of North American executives and UK directors. This study looks at pay in China, a country with a rather different form of corporate governance than that found in the US, the UK and other "Anglo-Saxon" countries. Finally, our work is based on multidisciplinary, with insights from agency theory complemented by insights from human capital theory, strategic management, behavioral theory, institutional theory and so on.

Keywords:

Executive Compensation; SEM; Corporate Governance;

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