

Top Executive Compensation, Subnational Institutions and Firm Performance: A Study of Chinese Listed Firms

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Abstract

The agency theory highlights the essential role of compensation structure in mitigating agency costs. The listed firms established compensation policies aimed to encourage top management entrust to achieve the goals of companies and to increase value for principals. In the past, it is common for company to apply stock-based and option based executive compensation as CEO incentives strategy in order to improve firm performance. Thus, the upper management incentives have been linked with shareholders' interests as well as the stock prices movement. CEO's overall compensation is more sensitive with firms share price as result of the firms with more incentivized CEOs, and the firms' earning management is always at the high level position. There is positively relationship between firm performance and the share value owned by CEOs as well as share equity based compensation. CEOs compensation is typically based on the combination of a mix of short-term and long-term pay. Compared to short-term compensation contracts, long-term incentives plan have different implications for executive behaviors and strategic choice. A incentive system normal lead the top executives more carefully take the long-term development of firms into account as result of limited rewards from short-term compensation, thus, the top executives are more likely responsible higher risk to achieve higher performance in order to seek long term rewards.

Integrating agency and institutional theories, this paper examines the impact of top executive compensation and sub-national institutions on the firm performance of Chinese listed firms during the economic reform in China using a large data set including 758 Chinese listed companies between 2003 and 2009. The research is focused on analysing relationship between top executive compensation and firm

performance in terms of shareholders' profit and employment growth; and the impact of institutional environment on firm performance.