

A Study on the Relationship Between Professional Managers' Compensation and Companies Performance in Private Listed Companies

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Abstract This paper studies the relationship between the professional managers' compensation and company performance according to the data of 358 Chinese private listed companies in a share market from 2006 to 2008. On the whole, the correlation between the professional managers' compensation in money terms and the company performance is notable. While the correlation among professional managers' stock compensation and the company performance isn't notable. The same status exists in the private listed company in which the chairman holds a concurrent post of the CEO. However, if the chairman doesn't hold a concurrent post of the CEO the correlation between both compensation in money terms stock compensation and the company performance wasn't notable. The conclusion indicated the professional managers' compensation system must be improved in Chinese private listed companies.

Key words Private listed company; Professional manager; Compensation; Company performance

1 Introduction

The American economy historian Alfred D. Chandler has studied the history that how modern American industrial enterprises came into being and developed from 1840's to 1920's characterized by "managers" in detail in his famous writing *The Visible Hand: The Managerial Revolution in American Business* (Chandler, 1987). This period was just the critical period that American economy changed from Agricultural Economics to Industrial Economics. Now, Chinese private business is very like American business which Chandler has described in his book. Therefore, it is significant to study the problem of professional managers' in Chinese private business. Compensation plays an important role in incenting professional managers. This paper will test the relationship between the professional managers' compensation and the company performance in Chinese private listed company by the means of empirical research with the samples of private companies which listed in Shenzhen and Shanghai Stock Exchange in A share market. The purpose of research is to provide advices for the supervisor in private listed company.

2 Literature Review and Hypotheses

Many people have studied the relationship between managers' compensation and company performance both in China and abroad. Some people assume that the correlation between them was not notable (Jensen & Murphy, 1990; Tosietal & Wemer, 2000; Li Zengquan, 2000; Ji Xiaoli, 2006). However, some thought the correlation between them was notable (Johnson, 2000; Boschen, 2003; Fang Junxiong, 2009). It is easy to know that the current conclusions are different and the research about Chinese private listed company is lagging behind.

With the development of Chinese economic system reform, the Corporate Governance of Chinese private listed company is becoming more and more reasonable. The managers' compensation incentive should have notable effects on the company performance. Therefore, the first hypothesis was put out as following:

H11: The correlation between the professional managers' monetized compensation and the company performance is positive.

H12: The correlation between the professional managers' stock compensation and the company performance is positive.

Considering during the past years, some Chairmen of the Board are also employed as the CEO while some others are not yet. It is generally recognized that the one who is employed as the both post should understand the importance of managers' compensation incentive more and should compensation more attention to it. So the second and third hypotheses ware put out as following:

H21: The correlation between the professional managers' monetized compensation and the

company performance is notable in the private listed company in which the Chairman is also employed as the CEO.

H22: The correlation between the professional managers' stock compensation and the company performance is notable in the private listed company in which the Chairman is also employed as the CEO.

H31: The correlation between the professional managers' monetized compensation and the company performance isn't notable in the private listed company in which the Chairman isn't employed as the CEO.

H32: The correlation between the professional managers' stock compensation and the company performance isn't notable in the private listed company in which the Chairman isn't employed as the CEO.

3 Research Design

First, the research had collected the relevant data of 665 private companies that listed in Shenzhen and Shanghai Stock Exchange in A share market from 2006 to 2008. Then some companies' data were deleted under the following conditions: the company performance was weak and the stock was ST or PT during the three years (102); the ROE was negative during the three years (56); the company listed in 2008(58); the true company control person wasn't private (49); the data wasn't comprehensive (42). At last, only 358 private listed companies' data remained as samples. The research data mostly came from the database of Chinese Private Listed Company in GTA Research Service Center and the Annual Report that private listed company disclosed to public. The statistical software of SPSS15.0 for windows in social science was used in research.

Looking from the graph of scatter, there was a kind of linear relationship between the professional managers' compensation and the company performance in private listed company. So the following model of Multiple Linear Regression was built:

$$PERF = \beta_0 + \beta_1 SALA + \beta_2 STOC + \beta_3 SIZE + \sum_{i=4}^{14} \beta_4 IND_i + \epsilon \tag{1}$$

In the model PERF was on behalf of the company performance and was indicated by the mean of the ROE of the three years multiplying by 100 of all the sample companies. SALA was on behalf of the professional managers' monetized compensation and was indicated by the mean of the first three top managers' compensation of the three years of all the sample companies. STOC was on behalf of the professional managers' stock compensation and was indicated by the mean of the CEO's share held rate of the three years multiplying by 100 of all the sample companies. SIZE and IND were controlling variables. SIZE was on behalf of firm size and was indicated by the natural logarithm of the total business value. IND was on behalf of the company industry and was indicated by Dummy Variable. According to *the guide of Chinese listed companies' industry classify* there wasn't a sample in extraction industry and the other samples were divided into 12 kinds of industry. The research ordered the kind of A was the reference kind and the other kinds were IND4, IND5 ...IND14 in turn.

4 Results of Empirical Analysis

4.1 Descriptive statistics

As shown in Table 1, the Standard Deviation of the first three top managers' total yearly salary was 1176050 Renminbi Yuan of all the sample companies. It told us that the professional managers' monetized compensation had a big gap between each other. That which company the professional managers were in had an important effect on the monetized compensation that they could obtain.

Table 1 Descriptive Statistics Analysis of Sample Companies

variable	minimum	maximum	mean	Std.
PERF (%)	0.0047	1.9766	0.1228	0.1208
SALA (yuan)	77525	18154167	965316	1176050
STOC (%)	0.000	63.000	3.646	9.035

Analyzing from the index of the CEO' share held, the minimum was 0 while the maximum could be 63%. It told us that the professional managers' stock compensation also had a big gap between each other. The big difference of market salary illuminated the big difference that each company attached importance to professional managers' compensation incentive. The mean of CEO's share held was only

3.64% in sample companies and it showed a lower degree of the professional managers' stock compensation in private listed company, which made it difficult for stock compensation to bring into full play.

4.2 Correlation between the professional managers' compensation and the company performance in private listed company

After putting the relevant data of 358 private listed companies' into the model, the research got the following results in Table 2:

Table 2 Correlation Between Managers' compensation and Company Performance

Variables	Partial regression Coefficients	Std. Error	T	Sig.
SALA	1.94E-006	0.000	2.142	0.033
STOC	0.001	0.001	1.402	0.162
SIZE	1.915	0.782	2.449	0.015
IND4	0.662	4.160	0.159	0.874
IND5	4.910	6.636	0.740	0.874
IND6	-1.684	6.636	-.254	0.800
IND7	-2.874	6.614	-.435	0.664
IND8	3.198	4.819	0.664	0.507
IND9	13.424	4.931	2.722	0.007
IND10	-40.085	19.173	-2.091	0.037
IND11	-1.304	5.200	-.251	0.802
IND12	-1.273	6.024	-.211	0.833
IND13	-2.128	12.349	-.172	0.863
IND14	1.377	4.853	0.284	0.777

Note: The model's R^2 was 0.102 and the Adjusted R^2 was 0.067 and its F value was 2.902 and the Significant was 0.000.

The results indicated professional managers' monetized compensation passed the t-test at the significance level 0.05. However, the stock compensation failed to pass. The analysis results said the correlation between professional managers' monetized compensation and the company performance was notable in Chinese private listed company from 2006 to 2008 and the H11 was supported. The correlation between professional managers' stock compensation and the company performance wasn't notable, which indicated the H12 could be refused.

Furthermore, there were 77 samples in which the chairman was also employed as the CEO in all the 358 samples. That was 21.51 percent. Then the amount of company in which the both posts didn't employ the same person was 281 and that was 78.49 percent. After putting all the relevant data about the 77 samples into the model to carry out the regression analysis and then the other 281 samples, the research got the next results in Table 3:

Table 3 Regression Results of Sample Companies Whose Chairman is CEO or Not

If the chairman held a concurrent post of CEO	Independent Variable	Partial regression Coefficients	Std. Error	T	Sig.
yes	SALA	3.49E-006	0.000	1.856	0.048
	STOC	0.001	0.000	1.326	0.190
no	SALA	2.47E-007	0.000	0.312	0.755
	STOC	0.002	0.002	1.098	0.273

Note: The model's R^2 was 0.245 and its F value was 2.902 and the Significant was 0.000 when the chairman held a concurrent post of CEO. The model's R^2 was 0.100 and its F value was 2.244 and the Significant was 0.008 when the chairman didn't hold a concurrent post of CEO.

As showed in table 3, the professional managers' monetized compensation had passed the t-test at significance level 0.05, which indicated the correlation between the professional managers' monetized compensation and the company performance was positive in the private listed company in which the chairman held a concurrent post of the CEO and the H21 was supported. However, the stock compensation in the company in which the chairman held a concurrent post of the CEO and the monetized compensation and stock compensation in the company in which the chairman didn't hold a concurrent post of the CEO didn't passed the t-test at significance level 0.05, which indicated the correlation between the professional managers' compensation and the company performance wasn't notable and the H22, H31, H32 were refused.

5 Conclusions

The professional managers' stock compensation was lower in Chinese private listed company on the whole sight and even quite a few managers' stock compensation was zero, which will make the professional managers be lack of long-term incentives. Then, it was difficult to build up the employees' host consciousness and enhance their belonging sense and incent them.

In private listed company that the chairman held a concurrent post of the CEO the correlation between the professional managers' monetized compensation and the company performance was notable, which indicated the professional managers' monetized compensation had deep effect on the company performance and the incentive function of the monetized compensation was shown. The empirical results didn't contradict the request that company should separate its ownership from managerial authority during the period of building up the Modern Enterprises System. However, it told that the directorate not only should trust and understand their professional managers but also should support their work and reduce the unnecessary constraint in the private listed company that the chairman didn't hold a concurrent post of the CEO.

The correlation between the professional managers' stock compensation and the company performance wasn't notable, which indicated the stock compensation didn't play its important role in promoting the performance. Therefore, it is time to strengthen the design of the compensation system to every private listed company. The professional managers' stock compensation should relate the company performance and its incentive function should be made full use.

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