

# Research on China State-Owned Enterprise Professional Managers' Incentive System

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## Abstract

*Reasonable incentive mechanism can stimulate managers' efforts, reduce the cost of agent management, improve the company governance. To built the state-owned enterprises professional managers' incentive mechanism is an important dust of the current reform of Chinese state-owned enterprises. This article explains the reason of China state-owned enterprise professional manager's inefficient incentive system from the point of principal-agent and distribution system, proposed how to build the systematic incentive mechanism from the external incentive environment and internal diversification. The construction of incentive mechanism will make beneficial exploration for the reform of state-owned enterprises.*

**Keywords:** State-owned enterprises; Incentive mechanism; Incentive environment; Professional manager

## 0. Introduction

State-owned enterprises are the pillar of China's national economy. The reform of state-owned enterprises is the core content and center link of the reform of economic system, and its direction is to build the construction of modern enterprise system. At present, China has made significant progress in the construction of modern enterprise system. But there are some deep-seated problems have not been completely solved, such as State-owned enterprises' inefficiency, professional managers' lacking of energy. Therefore building systematic incentive mechanism of state-owned enterprises professional manager has become the current urgent problem for the reform of state-owned enterprise.

## 1. Causes of China State-Owned Enterprises Professional Managers Incentive Mechanism Inefficiency

In the reform of China State-owned enterprises, establishing an effective incentive mechanism is always a difficult problem. From the corporate contract system, the director responsibility to the yearly salary, they are not quite successful in practical application. The reasons are:

(1) State-owned companies, special principal-agent problem has not been solved, the lack of effective external incentive environment.

The separation of ownership and the right of management is the basic characteristics of modern enterprise system, causing lots of principal-agent problems. Under the socialist-market-economic system, the relationship of state-owned enterprises principal-agent is infinite loop: the state-owned assets belong to the whole national people, the working class is a good representative of all people, as the initial principal, entrust the government to manage companies. Government as the principal operate managers in charge of companies, then managers arrange some workers for production. This sample, the worker as early principal and eventually "agent" form into a closed loop, causing the deficiency of state-owned enterprise possessor, ambiguous property rights of state-owned enterprises, unclear of power and responsibility, incentive inefficient. Mainly displays in:

①The deficiency of state-owned enterprise possessor, only makes the ownership of state-owned enterprises ambiguous, state-owned property rights virtual. Overall, governments at all levels and the competent departments are the ownership representative, but if analysing from specific situation, they are all not the main body of ownership, who also refuse to bear the economic responsibility. State-owned property right has not been effectively exercised. No one is really care of the interests of the state-owned property rights. The restrictions of ownership is so soft that managers responsibility is missing.

The operator form no intrinsic motivation of incentive.

②The deficiency of state-owned enterprise possessor, government at all levels and competent departments inevitably become the principal of state-owned enterprises, which give the enterprises external constraint, often leads to direct administrative intervention to the enterprise. Managers are appointed by the government, not produced in the market competition; As a result ,their quality are poor. They care about personal promotion, always being ready to mobility, and lacking the motivation for state-owned assets's long-term operation .It is not conducive to the implementation of the incentive mechanism.

(2)From the point of internal state-owned enterprise , since China's distribution system is relatively rigid, the contradiction between managers ,short-term interest and cooperation, s long-term interest is not solved. Mainly displays in:

① The salary of the state-owned enterprise managers is generally low , for complex brain power managers who undertake risk lacking incentive strength, certainly will cause the following results: first, managers are longing for "Gray income" and "preference", which can erode enterprises' interests; second, it may lead to managers engaged in the management of low risk, but does not pay attention to technology updates and looking for new profit growth point, affecting the enterprises' long development; last, the lack of effective state-owned enterprise human capital value, hurt the managers business heart and sense of responsibility for a long time, causing people to flow.

②Most of the incentives have short period tendency, long-term incentive effect is poor. At present, the basic incentives are with heavier "immediacy" and "one-time" features. Although yearly salary determines the income on the basis of the present or previous performance, compared with the distribution system of salary plus bonus, it is improving, but by contrast to long-term management behavior, it is short term.

③ Lack of social security and institutionalization of consideration. State-owned enterprise managers have certain fixed number of work year, After retirement, the original incentive is interrupted, easily causing prize and contribution disconnect. As a result, the managers on one hand work for the current interests, on the other hand also seek after retirement security, doing short-term behaviors not good for owners. Thus, to achieve the effective reform of state-owned enterprises and establish effective incentive mechanism, must firstly, restructuring state-owned enterprises property rights relationship scientifically and solving the problem of principal-agent, to create the outside environment for the establishment of effective incentive mechanism .

## ***2. Environmental Construction of Incentive Mechanism of State-Owned Enterprises***

Property rights relationship restructuring for the development and establishing the law person governance structure of state-owned enterprises, should concentrate on a breakthrough of the system innovation.

(1) Restructuring property rights relationship scientifically, clearing responsibilities.

The relationship of property right is to determine how companies can independent operation and independent management; Innovating the system of scientific restructuring of state-owned property right is the key to establish incentive mechanism . First, GuQuan Hua of state-owned property rights reform, realizing the separation of ownership and management, adjusting administrative subordination relations between the government and state-owned enterprises, the release of state-owned enterprise autonomy, improve the competitiveness and vitality of state-owned enterprises. To establish a unified national ownership on behalf of the organization, a management system state owned share, the exercise of state ownership. The original points belong to the government departments of state-owned enterprise management responsibility unified line made by the agency, shorten principal-- agent chain scale, reducing agent cost. At the same time, due to the high efficiency characteristics of private property rights, should try to make the state-owned property rights of a generation of "personification" , clearing rights. The relationship between state-owned enterprise ownership and management distinction , can supervise managers effectively, improve the effect of incentive mechanism .

(2)Into the line of state-owned property rights reform.

From the nation as the state-owned capital owner's point of view, enterprise managers through amount of possession by the state-owned capital and social capital to the national average rate of pay of state-owned capital use and the right to the use of the state-owned capital; And from the point of view of value of state-owned assets, state-owned assets investment countries to operate And then charge state capital to take up the interest on a regular basis.

From the perspective of the incentive for companies, because of state-owned capital gains and uneven distribution of China has the capital and the average profit margin of the social capital, and business Condition has a direct relationship, so companies can get rid of the government of the excessive intervention of the enterprise, can really enough for themselves. This truly independent management decision-making is given into the power of the enterprise is the most important incentive factors, the same, because the enterprise law of fixed income rate is decided by the operations of companies, only is doing good, just to get high profits, it is in the interests of the enterprise strong incentives.

(3) Build professional manager market, develop the state-owned enterprise operator's incentive to move in.

As a long-term goal of the reform of state-owned enterprises, must be established to adapt to the development of the modern enterprise professional manager market, introducing competition mechanism, the operator before the change of state-owned enterprises operators "line colour", improve the state-owned enterprise management of grain quality. Stimulate the operator's initiative and creativity. Formation of intrinsic motivation.

### **3. Build Diverse Internal Incentive Mechanism of State-Owned Enterprises**

Diversification of incentive mechanism is to point to, according to the demand of the enterprise operator from each layer. With many kinds of means, various forms of multiple factors encouraging. Managers is not only an economic man, and is a social people. Not only material needs, also have a non-material aspects of demand, so pluralistic excitation advised mechanism mainly includes the following contents:

#### **3.1 Material Incentives**

By means of incentives. Meet the characters of quality of life in demand, from and to inspire the manager artificial enthusiasm of purpose. Should adhere to the short term and long term with the principle of combining safeguard mechanism.

(1) Spreading late years salary incentive. Managers' salary can be divided into two parts, part is fixed presidents-averaged income, with the full foot of managers of the basic material demand. One part is the risk of income related to managers' performance effect. This part can be divided into Current income, such as the current bonus, this year with the enterprise or the annual performance; Delayed income, after the expiration of the operator or outgoing, the root according to the comprehensive operating performance and corporate value of state-owned assets to pay Risk premium. On the split, presidents-averaged income and risk income should insist on the principle of small after big before. Delayed releasing or make operators in both the short term, at the same time the production and operation of emphasis on long period development.

(2) Stock options incentive. Stock option is the enterprise to give the operator a right. Hold this power operators can be within the prescribed time to stock option exercise price to buy the shares of the company, the called line. An operator may be within the prescribed time (generally for the presidency) to decide when to sell stocks gained by the exercise. Personal benefits for price and exercise, the difference of the market price. Straighten out the stock option system, the relationship between the owner and operator companies make two person form common interests orientation. As a result of the enterprise managers pay is an option, is uncertain expected income rather than stocks, on the one hand is to avoid the malicious loss of state-owned assets, and when the operator in cash exercise period, the state-owned capital will increase; Because options, on the other hand, emphasized in the future, when running a considerable amount of compensation in the form of options to reflect, make the operator attention long futures of value creation, is conducive to the long-term development of the enterprise.

(3) Effective welfare program. To build high pension system, to in the enterprise management is a high level of old and medical social security, but in order to protect the business person still can maintain a higher level of life after retirement, can eliminate the operator after Goodyear, make it threw herself into the enterprise operation and management. Therefore the establishment of a stabilisation of the retirement security system will have an Incentive to Operator.

#### **3.2 Non-Material Motivation**

The role of non-material incentive is not entirely replaced by material incentives, it can produce extraordinary efficiency, the complete non-material incentive mechanism including admits the battalion's social status in state-owned enterprises, recognize their value and give high evaluation, full foot their sense of honor; Giving managers control the permissions of the enterprise, gives them power motivating factors; Create good working conditions and environment for operators, gives the opportunity to show his abilities for the realization of self-worth.

Established in line with my back to the situation of the incentive mechanism of state-owned enterprises is a system work, must be accompanied with the establishment of the restraint mechanism, and is associated with bearing degree of reform, such as the transformation of government functions and will plan, taxes and the legal system perfection, etc. However, it has great practical significance, to some degree , will determine the fate of the state-owned enterprises in the future.

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