

Research on Compensation Incentive Mechanism of State-Owned Enterprises - A Case Study of Chinese Enterprises

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Abstract: The sudden change in the global economic situation has brought about changes in internal and external market conditions. In this context, China's state-owned enterprises continue to use the traditional salary management model in the salary system, which has many shortcomings in the degree of market openness, distribution mechanism and supervision, which is not conducive to our economic development. It is very important to establish and improve the salary incentive mechanism of state-owned enterprises. A scientific and perfect incentive mechanism can effectively stimulate the enthusiasm and creativity of employees and play a vital role in the healthy and sustainable development of public enterprises. However, with the progress and development of the times, the traditional wage incentive mechanism has exposed some problems that cannot fully function. To this end, this paper analyzes the problems in the current salary management model of state-owned enterprises and finds that performance-based salary incentives actually reflect the wealth created by employees for their work. The consistency of goals among employees, managers and shareholders. Finally, from the existing problems, measures are proposed to improve the current wage management model of SOEs in order to enhance their economic development.

Keywords: State-Owned Enterprises, Compensation Incentives, Performance Evaluation.

1. Introduction

Traditional incentive theory points out that there are mainly two executive incentive mechanisms. One is the material incentive mechanism represented by compensation incentive; the other is the promotion incentive. However, due to the long-term, uncontrollable and space-limited nature of the promotion, executives will pursue material incentives (compensation) in the short term. Prior literature suggests that executives will wield their influence to seek rent, leading to morbidly excessive executive compensation that far exceeds their earning power through fair negotiation. Abnormally high executive compensation has attracted wide attention since the 1980s. During the 2008 global financial crisis, the 'sky-high' executive compensation of the U.S. financial sector, especially investment banks, brought this issue under the spotlight. In China, the public has cast doubts on executive compensation with the compensation gap between executives and employees enlarged. This is particularly serious with SOEs in China. In addition to the aforementioned factors, such as management power, government support for SOEs also facilitates executives to pursue excessive compensation, thus making SOE executive compensation deviate from the optimal level. A direct consequence of such deviation is the 'sky-high' compensation of SOE executives.

Existing research on the relationship between different incentive modes mainly focuses on the material incentive modes, few research has explored the relationship between material and promotion incentives. Prior studies on different material incentives provide evidence that with the reduction of compensation, SOE executives have resorted to perquisite consumption and corruption as alternatives. To the best of our knowledge, no study has explored the impact of the CRP on SOE executives' motivation to pursue political promotion. Further, with the policy restricting the perquisite consumption behaviors of SOE executives, the new round of SOE reform, the corruption crackdown from the central government, etc., and the incentive effect of perquisite consumption and corruption minimized, we anticipate that, after the inception of the CRP, SOE executives will pay more acute attention to their political future and promotion incentive will become a substitute or supplement to the compensation incentive.

2. The Relationship Between Compensation Management and Performance Appraisal Under Modern Enterprise System

Operating systems essentially represent all of the systems an enterprise has designed to protect its core business, employees, and finances [1]. A scientifically accurate and practical operating system is essential to improve team performance, optimize resource allocation, reduce losses, and increase corporate profits while ensuring a sustainable, performance-oriented business environment. The management of payroll is primarily focused on the organizational aspects and is determined by the nature and state of the business. Salary management in this business involves employment standards, promotion systems, bonus payments, etc., which are closely linked to the basic interests of individuals and the human cost of their work [2]. Among other things, performance audits enable each employee to be targeted accordingly and set performance-oriented organizational goals for staff to achieve for salary purposes, in accordance with the business development goals. In short, what is being discussed here is a set of evaluation criteria that allows for the release of results in stages and the use of some sort of evaluation mechanism to reward them. The receipt of rewards and the payment of penalties are directly related to the phasing of workers' salaries and the mechanisms for raising them over time. It is clear that in the modern corporate sector, compensation management is the basis for performance management, while the results of performance management are an important factor influencing the performance and performance of employees [3]. In addition, the combined effect of compensation utility, payroll management and performance auditing has a direct impact on employee benefits, and simplified mechanisms encourage clear accountability and effective business management. But poorly managed mechanisms can negatively affect labor dynamics, create conflict, and undermine the health of the business [4]. Therefore, the most important thing in a modern business system is to establish proper payroll management and performance evaluation mechanisms. And human resources are the permanent driving force for the sustainable development of public enterprises, and the cultivation of human resources is a key factor for the long-term development of enterprises. The development of technology shows that enterprises cannot do without talents, especially private enterprises, and talents determine the development direction of enterprises. Compensation incentives in human resource management provide a way for public enterprises to think about how to attract and retain high quality talents. Effective salary incentives in HRM of public enterprises can maximize the value of talents. In addition, salary incentives not only increase the motivation of employees in public enterprises, but also help optimize the allocation of human resources and enhance the centripetal force and cohesion of the enterprise. Modern incentive has gone beyond salary incentive, which can not only motivate employees' economic goals, but also guide employees' minds for effective salary incentive, which can help employees' self-identification, lifestyle choices and employees' work, create working conditions and promote joint development of employees and public enterprises. This incentive model can largely meet the individual needs of employees and demonstrate the effectiveness

of talent. At the same time, it can create greater economic benefits for public enterprises and achieve a win-win situation.

3. The Role of Incentives in State-Owned Enterprises

3.1. Improve Employee Motivation

The main purpose of motivation is to increase the motivation of employees. The main motivation of employees to work hard is related to various needs for their own development. Improving incentives in public enterprises can meet the needs of employees and increase their motivation. Many SOEs have low motivation and low productivity of their employees. There is a lack of responsibility and enthusiasm for their work. In this case, public enterprises can improve employee motivation by assessing their performance, encouraging them to work harder and motivating them effectively [5].

3.2. Stabilize the Workforce and Optimize Team Structure

Incentives help stabilize the workforce. Brain drain causes huge losses to SOEs, and dissatisfaction with incentives is one of the main reasons for employee turnover. Improving incentives can alleviate workers' dissatisfaction and reduce their willingness to leave the labor market, thus ensuring their stability.

3.3. Improving Basic Skills in Public Enterprises

In a knowledge-based economy, competition among enterprises is ultimately a competition for human resources, and workers are an important basis for building the core competencies of enterprises. From this point of view, improving employee motivation through performance appraisal is conducive to enhancing the basic competitiveness of public enterprises, strengthening employees' loyalty and working ability, keeping them motivated to their work, and injecting more positive energy into the healthy development of enterprises [6].

4. Common Problems in Compensation Management of State-Owned Enterprises

4.1. Backward Concept of Salary Management

For a long time, under the influence of the planned economy, state-owned enterprises, civil servants and public institutions have been regarded as "iron rice bowls", i.e., relatively stable employment positions in state-owned enterprises and "drought and flood protection". This stability provides the greatest security for the livelihood of SOE employees, but it also hinders their initiative and creativity. It also has a profound impact on the management of SOEs. Since the wage management model of SOEs is fixed, the wage management experience adopted by SOEs in their centralized management of continuous optimization model and wage management model is in line with the development of market economy. Faced with the rapidly changing market economy, SOEs are satisfied with their own wage management model, but have not learned the advanced wage management model in the market in time [7].

As a result, the development of public enterprises will stop. Unlike other enterprises in the market, SOEs are constrained by the leadership mechanism and political system, and their development process is influenced by traditional economic management ideas, and they do not recognize the importance of salary incentives in human resource management in time. SOEs are generally considered to have good prospects and high salaries, but their leaders and management are outdated in their thinking. They believe that wages are more attractive if they are higher than those in the market, and ignore the role of salary incentives. In addition, the listed companies' salary levels are

significantly lower than the market level and they have difficulties in development. Wage incentives not only do not help SOEs achieve better economic benefits, but also increase their operating costs. To sum up, in the process of developing state-owned enterprises, the traditional ideology has not adapted to the development requirements of the times. The lack of scientific salary incentive concept and certain strategic consciousness of the leadership of the mass enterprises is contrary to the full exploitation of talent value, common growth of employees and corporate interests of business operation [8].

4.2. Lack of Fairness in Incentive

In China, state-owned enterprises have their own characteristics. On the one hand, they must pursue their own interests; on the other hand, they must bear the corresponding social responsibilities. Therefore, public and private undertakings are subject to different compensation systems. The design of the compensation management system should take into account not only economic interests, but also more equitable factors. The "fairness" characteristic of public sector payroll models may appear to be fair, but in reality it is not, because each individual has different abilities, levels of expertise and contributions to the business. Most companies are unable to use flexible and effective performance indicators to assess performance. It is not difficult to understand the lack of motivation and creativity among SOE employees. The root cause is that the way enterprises manage wages affects employee motivation [9].

4.3. The Attributes of Government and Enterprises are not Effectively Distinguished, and the Design of the Regulatory System is Unreasonable and Incompatible

The special nature of state-owned enterprises makes them very different. For ordinary enterprises, the design and control of products, their organization and autonomy in terms of the scope of activities, business and the task of salary allocation are far less. In other enterprises, in terms of organizational structure, SOEs are generally financed by the State Council and local governments under the supervision of the State Assets Management Supervisory Committee. As a result, they have natural management characteristics in terms of organizational design. However, the supervisory authorities of these administrative units are not as capable of making decisions and functioning as professionals, nor do they have the capacity to develop policies aimed at promoting the economic development of public enterprises. In addition, excessive administrative evaluation mechanisms lead to overload and lack of corresponding incentive system to study the wage management model of the enterprise, which leads to chronic delay in the management model of wages, compared to the needs of the enterprise development [10].

The special characteristics of state-owned enterprises make them very different from ordinary enterprises in terms of organizational design and supervision, and their autonomy in terms of scope of activities, business tasks and wage allocation is much less than that of other enterprises. In terms of organizational structure, SOEs are generally funded by the State Council and local departments and supervised by the State-owned Assets Management Supervisory Committee. As a result, they have a natural managerial character in terms of organizational design. However, the supervisory departments of these administrative units are not as competent in decision making and business as professionals and are unable to formulate policies to properly stimulate the economic development of SOEs as needed. In addition, too many administrative assessment mechanisms lead to an overload of work and a lack of energy to study compensation management models, resulting in enterprises and listed companies' compensation management models lagging behind development needs for a long time [11].

4.4. Lack of Strategic Thinking about Human Resources and Compensation System

The lack of strategic planning in human resources and compensation system is not conducive to the realization of the development goals of public enterprises. The design of the compensation system of public enterprises is subjectively influenced by the managers of enterprises and is not based on strategic thinking or professional theories. As a result, the compensation system does not produce the expected effect and value. State-owned enterprises do not fully consider the external environment when designing salary incentives, resulting in a talent compensation system that lacks attractiveness and competitiveness, which directly affects the effectiveness of the employee compensation system. However, with the development of technology, state-owned enterprises are facing bottlenecks in their development and need talents to overcome development obstacles. The lack of a strategic compensation system and long-term rigidity seriously affect business transformation and modernization. At the same time, the salary structure, material rewards, and the neglect of stimulating the mind seriously weaken the personnel working in SOEs, and are not conducive to the integration of high-quality talents in SOEs, the humanization of corporate culture, and the economic remuneration attributed to the destruction of the environment within SOEs .

5. Specific Measures to Optimize the Compensation Incentive System of SMEs

In response to the challenges posed by SME salary incentives, it is necessary to implement strong performance-based salary incentives in SMEs in order to effectively motivate employees to work and thus promote high-quality development of the enterprise.

5.1. People-Oriented, Constructing Diversified SME Salary Incentives

As part of the implementation of wage incentives, SMEs must be structured around the needs of the company's employees. First, SME managers must understand the needs of employees when developing wage incentives and develop targeted performance indicators based on the needs of employees; and improve relevant pay incentives. The needs of SME employees are diverse, and they can only be motivated by implementing an incentive plan that meets their needs. Therefore, business leaders should ensure that the salary incentive system meets all requirements. Second, improve the non-monetary incentive system. Financial incentives are a common measure used by SMEs, but they ignore long-term employees. Therefore, companies should establish a non-financial incentive system to enhance employees' sense of belonging by establishing career advancement mechanisms and shareholder incentives. For example, SMEs should strengthen indirect wage incentives and attract talents by improving social benefits to cope with the serious staff turnover caused by the current epidemic.

5.2. Optimize Salary Incentive Structure and Establish Dynamic Salary Management Mechanism

For a long time, the policies implemented by SMEs on wage incentives have been fragmented and indirect. For example, SME workers receive higher wages and fewer social benefits, often leading to dissatisfaction, so SMEs must become the new normal for economic growth. First, wage incentives must continue to be realized in the context of optimal performance and business strategies. Companies should develop strong wage incentives as required by their growth strategies. On the one hand direct wage incentives have an important role, on the other hand they emphasize indirect wage incentives. For example, in covid 19 get sick cases, companies can significantly reduce wages, increase benefits, reduce employee losses, and establish a close relationship between corporate benefits and empowerment of employees to advance. Second, arrange continuous wage arrangements. A dynamic

adjustment mechanism that takes different financial rather than financial performance measures based on individual skills, performance, and corporate income is developed, and different weights are assigned according to these indicators, depending on the corporate context. The income gap is adjusted with the size of the income gap.

5.3. Establish a Scientific Salary Performance Appraisal System and Refine Performance Appraisal Indicators

First, establish a scientific standard system. Determine the value of labor through labor analysis, and then determine the value of labor compensation according to the market level and enterprise conditions, even SMEs should pay cash for their core employees. Employees are the center of SME development. In order to attract the core staff, the company must serve to pay fully and give the core staff an affordable pay incentive system at market price. Second, the pay scale is clear. The performance measurement system should be based on the principles of quantitative and qualitative examinations, taking into account the universal quality of individual performance measures that cannot be properly adopted, as well as the veto of the criteria for evaluating staff to obtain being reassessed in the assessment of performance measures financial. The assessment and the strategic goals of the company must not be affected. Third, it is also necessary to improve the results of salary examinations. The reward system should be made public immediately and the results of the examination should be published through the internal working group of the enterprise to improve transparency and to play a role of public control in achieving salary-related goals.

5.4. Improve the Compensation and Performance Management System

Some companies do not pay attention to salary and performance assessment, which leads to talent loss. Talent is mainly distributed among general employees, professional and technical staff, and managers. Ordinary employees can perform the specific tasks initially assigned. They are the most employed people in the enterprise and their tasks are simpler. As a result, they are more mobile and can change jobs without embarrassment when they find a better paying job. Both technicians and managers need to have a more advanced grasp of a field and be more technical. Therefore, a stricter management system should be established for these talents, so the more talents the company develops, the more they contribute to the company. In order to avoid such changes, the compensation and performance management system needs to be improved to enhance their motivation. Firstly, it needs to be supported by the management of the SOEs, so the necessary funds are needed to implement the employee compensation and incentive system. Secondly, the public enterprise sector is in a state of remuneration in the external market, internal and external analysis of the market of its public enterprise sector, the advantages and disadvantages of the public enterprise development strategy. Finally, the public enterprise talent compensation incentive strategy should be developed to highlight the importance in the institutional level of talent training, talent compensation incentive system should be flexible to adapt to the current market situation, in order to guarantee the promotion of the talent compensation incentive system.

5.5. Improve the Quality of Incentive

State-owned enterprises must pay attention to the needs of workers to obtain job satisfaction. Harmonize the content with their skills and strengths, provide healthy motivational work, give enough appreciation for the work we do on working hours, fair behavior, and enhance the motivational power. For example, a public enterprise could hold annual competitions to gain greater recognition and reinforce a sense of belonging to the enterprise. In addition, a public enterprise can create job role rotations for employees so that they can change jobs frequently, thereby creating new jobs, reducing

workloads, relaxing spirits, and increasing employee satisfaction and motivation. State-owned companies can frequently compete for employment opportunities, allowing employees to apply for new positions based on their own interests and abilities, maintaining work motivation, enhancing a sense of success, and promoting self-esteem. Listed companies in turn can take full account of employees' subjective environment, boost their confidence, and support employees in managing flexible work patterns to enhance their sense of satisfaction and conviction.

5.6. Improve Pay Incentive Fairness

State-owned enterprises need to improve the fairness of salary incentives. On the one hand, care must be taken to ensure that key employees are not paid below market levels. For some economically feasible SOEs, they can also adopt market-based pay models to improve pay levels and employee competitiveness. For example, SOEs can conduct regular market wage surveys to get a general idea of the market wage levels for different positions, establish a stable wage increase mechanism and adjust regular wages. On the other hand, wage distribution in SOEs should emphasize fairness and actively develop performance-, skill- and value-based wage distribution models so that more productive and competent workers are better compensated. In addition, it should be noted that in most countries, women are paid less than men. Pay allocations in public enterprises should be matched to the performance and contributions of employees to ensure higher pay-for-performance ratios for lower-performing employees. These firms can divide their own performance ratings into good, better, and consistent with ability, and then into four performance categories. For a given difference in performance factors is sufficient to effectively reflect the fairness of the wage incentive system. In addition, SOEs should actively look for alternatives to the traditional work compensation model. The traditional work compensation model should be more flexible and fairer to wage incentives, thus increasing employees' wage satisfaction. Specifically, SOEs can reduce the number of pay scales and increase the volatility between scales, which will make staff work harder, gain more wage satisfaction, and create more room for wage increases. The broadbanding approach to pay is particularly suitable for professionals and technicians. By working hard, it ensures that professionals with different skills at the appropriate pay levels are paid more.

6. Conclusion

In conclusion, it is of great practical importance to study wage management and wage incentives in public enterprises. On this basis, establishing control mechanisms, considering individual needs, developing and improving the mechanisms discussed in this paper in the long term, provides a relatively feasible path for wage management and wage incentives in public enterprises. To improve the level of wage management and wage incentives, attention should also be paid to the exclusion of external interference with employee skill assessment, the penetration of harmonious management concepts and the practical application of humanistic concepts. Improving human resources and wage incentives is a necessary condition for the development of SOEs. Salary incentive not only reflects the degree of importance state-owned enterprises attach to talents, but also represents the level of wisdom of enterprise development, which can effectively improve the motivation of employees in state-owned enterprises. The human resources and salary incentive mechanism of state-owned enterprises should be innovated according to the market changes and the development of the enterprises themselves to ensure the smooth and healthy operation of the economy.

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