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A Summary of Researches on the Governance of Non-state-owned Shareholders, Executive Compensation Incentives and Earnings Management

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Abstract

With the advancement of the mixed ownership reform of state-owned enterprises, my country's state-owned listed companies have generally established management compensation incentive systems related to corporate performance. However, executive compensation incentives have also constituted a basic incentive for listed companies' earnings management. Executives may manipulate company earnings information out of self-interested motives. This article conducts a theoretical analysis of relevant domestic and foreign literature, including executive compensation incentives and earnings management, Non-state-owned shareholders governance and earnings management, Non-state-owned shareholders governance and executives Compensation incentives are analyzed and sorted out from three perspectives, affirming the results of the mixed ownership reform, and also providing policy recommendations for the further development of the subsequent mixed ownership reform.

Keywords

Non-state Shareholder Governance; Executive Compensation Incentives; Earnings Management.

1. Introduction

State-owned enterprises are an important pillar of my country's economy, and their business survival is related to the stable operation and high-quality development of the entire country's economy. In the context of supply-side structural reforms and "vigorously promoting high-quality economic development", the report of the 19th National Congress of the Communist Party of China further clarified The direction of state-owned enterprise reform is to develop a mixed-ownership economy, and the importance of mixed-ownership reform has been raised to an unprecedented height. The basic idea of mixed ownership reform is to absorb Non-state-owned capital to participate in the reorganization of state-owned enterprises, promote the transformation of state-owned enterprises' operating mechanism, and allow Non-state-owned investment to enter through equity transfers and capital increase. By introducing Non-state shareholders to participate in the governance of state-owned enterprises, the mixed ownership reform aims to supervise and restrict the speculative behavior of state-owned controlling shareholders and state-owned enterprise executives and improve the governance efficiency of state-owned enterprises.

How to improve the incentive mechanism of state-owned enterprise executives is a key part of the success or failure of comprehensively deepening the reform of state-owned enterprises in the new era. With the advancement of marketization, my country's state-owned listed companies have generally established management compensation incentive systems related to corporate performance, and the sensitivity of state-owned enterprise executives' compensation performance has gradually increased. However, executive compensation

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incentives also constitute a basic incentive for the earnings management of listed companies. In order to obtain high salaries, executives conduct earnings manipulation from their own interests and endanger the value of the company.

Therefore, in the context of the new system of mixed ownership reform, we should study the impact of Non-state-owned shareholders' participation in governance on state-owned enterprise executive compensation incentives and earnings management behaviors, and promote executive compensation incentive mechanisms to play a greater role in improving the sustainability of earnings. State-owned capital allocation and operational efficiency are of great significance in terms of maintaining and increasing the value of state-owned assets.

2. Research on Executive Salary Incentives and Earnings Management

In recent years, domestic scholars have conducted in-depth research on the relationship between executive compensation incentives and earnings management. Yuan Zhizhu (2014) [1] investigated the impact of management incentives on earnings management, and found that both the management shareholding ratio and total monetary compensation are significantly positively correlated with accrued earnings management, and significantly negatively correlated with real earnings management; Lu Junwei (2015) [2] conducted an in-depth analysis of the characteristics of the three earnings management methods: manipulative accrual earnings management, real earnings management, and non-recurring profit and loss earnings management. The research results show that the greater the intensity of salary incentives, the more senior executives prefer Use manipulative accrual earnings management; Luo Hong et al. (2016) [3] found that if executive compensation is lower than the median executive compensation of comparable companies in the same industry, the greater the incentive for executive compensation to be compared, and the greater the current period. It is possible to manipulate compensation through real earnings management; Wu Hongyan et al. (2019) [4] found that the relationship between earnings management and executive compensation in listed companies is different in different economic development intervals.

3. Research on Non-state Shareholder Governance and Corporate Governance

3.1. The Positive Role Played by the Governance of Non-state Shareholders

Most domestic literature studies have found that the governance of Non-state shareholders has a positive effect on improving corporate value. Li Jinglin (2021) [5] found that the mixed ownership reform of state-owned enterprises can improve corporate governance by forming a diverse and integrated equity structure of equity entities, which in turn has a significant effect on corporate investment efficiency; Lu Jiaxuan and Wan Shouyi (2021) [6] found that mixed ownership reform can alleviate the debt financing mismatch problem of manufacturing enterprises by reducing external debt financing dependence and increasing external debt financing capabilities; Non-state shareholders' participation in corporate governance promotes enterprise innovation (Feng Lu et al., 2021) [7]; The participation of Non-state-owned shareholders in the high-level governance of state-owned enterprises can significantly reduce the size of redundant staff and increase capital intensity, thereby reducing the tendency of state-owned enterprises to become zombies (Ma Xinxiao et al., 2021) [8]; Corporate governance can significantly reduce audit fees (Tang Taijie et al., 2020) [9].

3.2. Governance of Non-state Shareholders and Executive Compensation Incentives

In recent years, research on the impact of Non-state-owned shareholders' active participation in corporate governance on the compensation incentives of state-owned enterprise executives

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has also been gradually improved.Byappointing senior management representatives to actively supervise the internal management activities of state-owned shareholders, Non-state-owned shareholders can effectively reduce the information asymmetry problem of Non-state-owned shareholders and weaken the "inner control" of state-owned enterprises (Huang Sujian, 2014) [10]. Pure Non-state-owned shareholders' shareholding has no significant impact on the sensitivity of executive compensation performance. Non-state-owned shareholders appointing executives to state-owned enterprises are more conducive to improving the sensitivity of state-owned enterprise executives' compensation performance, and can effectively curb the excessive compensation of state-owned enterprise executives and excess in-service consumption (Cai Guilong et al., 2018) [11].

3.3. Non-state Shareholder Governance and Earnings Management

Qi Huaijin et al. (2020) [12] found that mixed equity checks and balances improve performance, enhance internal control, and increase the restraint of real earnings management, thereby reducing real earnings management behavior. Cao Feng and Gu Xiaoying (2021) [13] found that Non-state shareholders appointing directors and supervisors can significantly reduce earnings management, thereby inhibiting the financialization of state-owned enterprises. Zeng Fuquan and Chen Xianbin (2020) [14] empirically studied the impact of changes in the ownership structure of state-owned enterprises on the real earnings management of management under the background of mixed reform of state-owned enterprises. The research results show that Non-state capital has a significant inhibitory effect on the real earnings management behavior of management. Liu Yunguo et al. (2016) [15] found that the participation of Non-state-owned shareholders in the high-level governance dimension is conducive to improving the quality of internal control of state-owned enterprises; Hu Mingxia (2018)[16] shows that the internal control system is conducive to restraining two types of earnings manipulation. In the case of high control quality, it is more difficult for management to use real earnings management for personal gain.

4. Research Review and Policy Recommendations

4.1. Research Review

This paper analyzes the relevant domestic and foreign literature from the three perspectives of Non-state-owned shareholder governance and executive compensation incentives, Non-state-owned shareholder governance and earnings management, and executive compensation incentives and earnings management. It is found that under Non-state-owned shareholders' participation in corporate governance, An efficient compensation incentive mechanism can fully motivate and supervise the management behavior of senior executives, limit the manipulation of earnings management, and enhance the effectiveness and rationality of the company's daily operating decisions, thereby maintaining and increasing the value of state-owned assets. In the context of vigorously advancing the mixed ownership reform of state-owned enterprises, studying and analyzing the impact of Non-state-owned shareholder governance on executive compensation incentives and earnings management will help to further improve the mixed ownership reform of state-owned enterprises in my country, and have certain implications for improving the state-owned enterprise executive incentive system Reference value.

4.2. Policy Recommendations

First, the mixed capital and reform mechanism should be closely integrated to realize the promotion of "reform" by "mixing". Non-state-owned shareholders cannot only hold company equity in order to achieve a mix of equity. What is more important is to build effective checks and balances of corporate governance, allow Non-state-owned shareholders to actively

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participate in the company's strategic decision-making, and realize the resource advantages, organizational advantages of state-owned enterprises and the market mechanism of private enterprises. The organic combination of advantages effectively stimulates the vitality of market entities.

Second, establish and improve a market-based compensation mechanism that is compatible with mixed-ownership enterprises, and effectively play the role of compensation incentives. Adhere to the principle of combining incentives and constraints, clarify assessment and incentive standards, implement equity incentives, excess profit sharing and other medium and long-term incentive tools for company management and core backbones, and truly link the interests of company management and core backbones with corporate interests and risks To improve the sustainability of corporate earnings and improve corporate governance.

Finally, improve the regulatory system for mixed-ownership enterprises to prevent possible risks and problems in the reform of mixed-ownership. Implement differentiated supervision of mixed-reform enterprises, improve decision-making approval procedures, strictly assess assets, introduce investors fairly, prevent the transfer of benefits, and prevent the loss of state-owned assets.

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