

THE SCOPE AND STRUCTURE OF EXECUTIVE COMPENSATION IN CHINA AND THE U.S.

Yu Peng Lin, Department of Economics, University of Detroit Mercy

dx.doi.org/10.18374/JIFE-14-1.9**ABSTRACT**

We believe that executive compensation structures are designed differently in developing and developed countries. The structure of compensation accompanied with the contracting environments and ownership culture implies different incentives to executives. On this first paper of a series of research effort, we report the scope and structure of the top 5 executives' compensation in China and in U.S. public firms over the years of 1992 ~ 2011. The executive compensation in China experienced a substantive reform since the implementation of the "yearly salary system" in 1992. The Chinese executive remuneration is made up mainly of salaries and bonuses. Equity and stock options are a rare phenomenon and introduced only since 2005. On the contrary, equity compensation carries significant weight in a typical U.S. executive pay arrangements. Our extensive comparison shows that overall both the Chinese and U.S. executive compensation experiences a dramatic growth in the past decades. However, the weight of stock options in a typical U.S. executive pay arrangement reaches its maximum in the year of 2000 and drops afterwards. At the same time, stock awards gains more attention. Executive shareholding is a rare phenomenon but it becomes more widespread since 2005 for Chinese public firms. The overall equity compensation (i.e. stock options and stock awards) still dominates U.S. executive remuneration while it is just on the verge of growing in Chinese public firms. As for the contracting environment, while overly concentrated ownership structure is rare in the U.S., the proportion of state-owned shares is substantial in the Chinese public firms. Yet our data shows the percentage of state-owned shares is gradually declining over the years.

Keywords: *executive compensation, China, U.S.*