

# Salary reform of TMT in Chinese Central SOEs

YU Jin, LI Nan, JIA Qiong

Business School of Hohai University, Nanjing, Jiangsu, China, 211100

Email: yu\_jin@hhu.edu.cn

## Abstract

Central SOEs (state owned enterprises) in China are leading enterprises for Chinese market-oriented economy. The high salary of the TMT (Top Management Team) in Central SOEs has been controversial for a long time, which causes negative public emotions. In August, 2014, Chinese government announced a series of policies on salary reform of TMT in Chinese Central SOEs, and the core of the reform was “Incentive” and “Salary limit”. We conclude that there are many issues in this reform such as insufficient constraint force in reality, lacking of corresponding criteria and effective supervision on Perquisite consumption, difficult implementation and so on. Thus, the reform is more beneficial for anti-corruption and social justice, which can't settle problems fundamentally. Therefore, a rational incentive and restraint mechanism based on enterprises' own situation should be established. Besides, information transparency and effective supervision can be guaranteed. Finally, the resistance to reform should be correctly identified, and the detailed regulations are supposed to be carried out in practice.

Keyword: Central SOEs; Salary of TMT; Salary limit; Incentive; Perquisite consumption.

## 1. Introduction

The Central SOEs of China are directly administered by the SASAC (State-owned Assets Supervision and Administration Commission of the State Council) of the State Council. There are 112 Central SOEs (State owned enterprises) according to SASAC website currently. Central SOEs are the leading enterprises for the economy

development of China. High salaries of the TMT have been controversial for a long time. The salary system has significant flaws, which has aroused widespread concerns and discussions in society. The reasons for this controversy are detailed as follows.

### **1.1 TMTs have stable earnings regardless of how the company performs.**

Differ from common enterprises, many Central SOEs are monopoly. They occupy public resources without taking market risks and get huge profits by monopolistic behaviors. TMTs can also obtain high salaries by the way. According to the published annual reports of the Central SOEs' Listed Corporations in 2013, the executive director, President Boliang Mai in CIMC (China International Marine Containers, jointly owned by China Ocean Shipping (Group) Company and China Merchants) has the highest annual salary with 8697 thousand yuan. However, according to the National Bureau of Statistics, the average annual wage of the employees is 52.7 thousand yuan in the State-owned units and 32.7 thousand yuan in private units in 2013, respectively. This huge gap is striking. In addition, although many Central SOEs have been making a loss year after year, the salaries of the TMTs have been still keeping high and even increasing against the tendency. For instance, although the operating profit of China National Coal Group corp. was 68.79 hundred million yuan, which fell by 46.3% compared with the year of 2012, the president and executive director, Wang An, still had a salary of 1506 thousand yuan in 2013 and his salary increased about 51%. The salaries of the TMTs do not match the performance, and TMTs have stable yields regardless of bad performance. This phenomenon has aroused strong dissatisfaction in society.

### **1.2 The salary in Central SOEs is distributed unfairly and the pay polarization phenomenon is serious.**

First of all, the salary gap of TMTs in Central SOEs is large in different industries. The TMTs in the financial industry and the real estate industry have high salaries. In the disclosed annual report of the Central SOEs' Listed Corporation in 2013, Shaoling Gong, president of the China Merchants Securities of China Merchants Group had a salary of 3196.4 thousand yuan. Guangju Song, president of the Poly Real Estate of China Poly Group Corporation, owned a salary of 2980 thousand yuan. Its general manager Mingxin Zhu's salary was 2750 thousand yuan.

TMTs who have the low salary mainly come from chemical industry. For instance, in Cangzhou Da Hua Group, one of subsidiaries of China National Chemical Corporation, the salary of its general manager Wang Hui was only 93.5 thousand yuan, and the salary of director and vice general manager Sun Lei was 74.4 thousand yuan.

Secondly, the salary gap between the Central SOEs TMTs and the general staff is also large. For example, the annual report of China Railway Engineering Corporation in 2013 showed that total salaries of the central TMT members were 14943.3 thousand yuan and the per capita annual salary of the TMT was 1149.5 thousand yuan. Nevertheless, the per capita annual salary of general staff was only 76 thousand yuan. The salary of TMT is 15 times of the salary of general staff, and the pay polarization phenomenon is serious.

### **1.3 Salary of Central SOEs' TMT is not transparent.**

During the NPC and CPPCC in 2015, the general manager of China Power Investment Corporation, Qizhou Lu, indicated that his monthly basic salary was only 7800 yuan. In addition, president of China General Technology Group, Tongxin He, also said that his salary had dropped by nearly 50%. However, this argument was not accepted by the public. On the contrary, it caused more controversy and query. The reason why the public confused is because of the unclear salary of TMT. Throughout those annual reports of Central SOEs each year, many TMT's salary have not been disclosed, especially the head of Central SOEs. For instance, according to the annual report of the oil giant, Sinopec Group in 2013, 10 of 24 its TMTs didn't disclose their salary, accounting for 42%, among whom there were President Chengyu Fu and another two vice presidents. Furthermore, TMTs of the Central SOEs tend to have a variety of hidden income such as bonus and welfare, and the level of Perquisite consumption are also above the reasonable standard greatly, which has obviously become the second part of the salary. As we all know, the original purpose of the perquisite consumption is to provide the TMT convenience for their position and work. However, because perquisite consumption is not transparent and information disclosure is incomplete in china, few salary details can be disclosed. Thus, it is difficult to monitor and restrict this consumption situation, which is easy to breed corruption.

### **1.4 The salary structure of Central SOEs' TMT is unreasonable.**

Generally speaking, the design of the salary structure consists of fixed salary, variable salary, short-term incentive salary and long-term incentive salary. If the design of the salary structure is unreasonable, the attitude of the employees would be influenced, and then the operating efficiency of Central SOEs will be affected. At present, the salary structure of the Central SOEs TMT is unreasonable. The proportion of fixed salary is a little high, and the proportion of the variable salary associated with operating performance is too low. It lacks the short-term incentive salary and long-term incentive salary. This kind of salary structure is not beneficial for TMTs' motivation.

## **2. Salary Reform of TMTs in Central SOEs and Its Problems**

In the above context, Chinese government has announced a series of policies on salary reform of TMTs in Central SOE. In August 29, 2014, the Political Bureau of Central Committee of the CPC deliberated and passed *A Plan to Reform the Salary System for TMTs in the Central SOEs* and *A Suggestion to Determine Reasonably and Regulate Strictly about Perquisite Consumption and Business Expenses of TMTs in the Central SOEs*. The core of the reform was "Incentive" and "Salary limit". There were 4 main proposals. Firstly, the plan to determine the salary level of the TMT in the Central SOEs is proposed. The basic salary of the TMT would be defined by certain times of the employees' average salary in the previous year. After implementation of the reform, the salary level of TMT in the Central SOEs cannot exceed 7 to 8 times the average salary level of an employee. Secondly, term incentive is added. In the past, the salary structure consisted of two parts, basic salary and performance salary. Now, there are 3 parts in this salary structure, namely basic salary, performance salary and term incentive. Thirdly, classified regulation and management should be carried out, and a differentiation salary distribution associated with the TMT' appointment way and Central SOEs' properties should be established. Fourthly, except for welfare benefits in accordance with State regulations and business expenses meeting the financial standards, TMT would have no other perquisite consumptions. Setting perquisite consumption ratio according to TMT's position and personal preference must be forbidden.

The salary of TMT in Central SOEs has become the hot spots of society. This salary reform caused widespread disputations in society once again. However, the reform has never been easy.

First of all, after the reform is implemented, the salary level for TMT in Central SOEs will fall to 7 to 8 times that of an average employee. Then, most of the TMT's salary level will decrease. However, there is no unified conclusion whether it

is reasonable or not to set their salary to a certain multiple of the employees' salary. Because there is no perfect standard to set a suitable multiple, we can't make an identical conclusion for the Central SOEs in different industries, different development stage and different scale. Therefore, a simple "salary limit" is not reasonable and do not have much practical significance. Under the background of Chinese government's anti-corruption nowadays, "salary limit" is more of an anti-corruption implementation and a response to the social discontent to maintain social fairness and justice.

In addition, the goal of adding the term incentive is to guide the TMT to pay more attention to the Central SOEs' long-term development, preventing short-term behavior in management. However, since 2004, though every reform of the TMT's salary has stressed that the salary of TMT should be linked with their performance, there has been little effect in this decade. What's more, the constraint force is insufficient in reality. When the performance increases, the TMT's salary is improved. But, when the performance declines, the salary of the TMT is still high or even rise against the tendency. It has been always a hard issue that TMT has stable yields no matter the performance of enterprises is good or bad. Moreover, although the adding of the term incentive is well intentioned, the term incentive is likely to become another way for TMT to raise their salary without rigorous evaluation standard and strict supervisory system.

Furthermore, the thought of classified regulation and management is fine, but it is difficult to operate in reality. After all, the identity of most TMTs is fuzzy, and it is always a difficult problem to choose a reasonable standard to determine their identity. It may lead to new conflicts and injustice if one Central SOEs uses two sets of parallel distribution system. What type of TMT should have the decision-making authority directly decides enterprises' future development. It's hard to say that this will not cause the confusion and vicious competition in enterprises.

Finally, the widespread corruption on perquisite consumption has been existed for a long time, and the lacking of moral and legal constraints encourages negative corruptions and unwholesome tendencies. Because the perquisite consumption is not transparent, it is difficult to supervise and restrict the perquisite consumption. Although the government determines to remediate perquisite consumption problems this time, the difficulty lies in how to implement the plan into practice. If the information of TMTs' salary in Central SOEs can't be open and transparent, and the supervision system can't be established and improved, the reform

will inevitably become a mere formality. What's more, if it is short of appropriate penalties, the reform will also lose its deterrent.

### **3. Suggestions on the Salary Reform**

3.1 The main purpose of the salary limit is to readjust the interest and to safeguard social fairness and justice in society. But if we only pay attention to the fairness and disregard the efficiency, it will inevitably discourage TMTs. So a simple "Salary limit" policy can't solve the issue fundamentally. It is more important to establish rational incentive and restraint mechanisms, as well as the reward and punishment mechanism, which make TMTs' salaries more transparent and standardized. In this way, it will be convincing to increase or decrease their salary with adequate reasons and proofs. At the same time, the government should further improve the selection and withdrawing system of TMTs, the management structure and the salary structure. This can coordinate the salary reform to accelerate the pace of market-oriented reform process to attract and retain outstanding talents. In addition, because the Central SOEs are in different industries, different stage of development and different scale, there is no perfect standard to set a suitable multiple. To solve this problem, the same type of positions in enterprise which have a higher marketization degree can be taken as a reference standard.

3.2 This salary reform emphasizes the relationship between the salary of the TMT and their performance again, but the key is how to implement the rules. The government should set up the specialized agencies to make scientific and accurate performance evaluation on TMT and the operation condition of businesses. Rational criteria of assessment that reflects the operating profit and the risk control based on characteristics of different industries should be designed. The government should also regulate the assessment procedures, strengthen assessment management and establish supervision system. This can ensure that the salary of the TMT is truly related to their performance, and the risk and investment are truly related to the benefits. Cutting down the basic salary and increasing the variable salary, combining the short-term incentive with long-term incentive, the reform should not only be implemented during the three-year of tenure, but also a long-term evaluation mechanism also should be established. The government should focus on the long-term issues of TMT in Central SOEs and guide their long-term behavior.

3.3 Government should distinguish different objects and make differentiation plans according to their characteristics, and the basic principle is the complete separation between government and enterprises. Before the role of the TMT is

identified, we could classify the Central SOEs on the basis of enterprises' competition degree. They can be divided into the public welfare Central SOEs, monopoly Central SOEs, and the market competition Central SOEs. The first two types could refer to the salary standard of the civil service, and the last type could implement market-based salary distribution mechanism. With the deepening of salary reform, the board system should be gradually improved, the administrative appointment of the TMT should be reduced and the market-based proportion should be raised. At the same time, opening up the supply channels of TMT, accelerating the development of the professional manager market vigorously and cultivating many outstanding talents are also necessary. The most important thing is to have reasonable, open and fair operation procedures and methods in this process. What's more, it is also important to improve the selection, assessment and incentive system, speed up the market development, dilute the administrative color of the Central SOEs to enhance the market competitiveness of them.

3.4 Compared with other kinds of corruption, perquisite consumption is more covert. So in order to prevent perquisite consumption, TMTs' salaries and Perquisite consumption should be open and transparent, which should be under the supervision. The government could establish and improve scientific salary survey agencies or statistical agencies to announce the salary condition within the Central SOEs. Then, the salary condition of the TMT as well as each level of employees in the Central SOEs will be open and transparent. In addition, we need to strengthen supervision from the government and society. The government should appoint certain administration in charge of the perquisite consumption so as to avoid that too many agencies pass the buck. The media and public should regularly track and disclose the level of the TMT's salary in order to form a strong public pressure. But anyhow, the key is to reform the real thing, constraining the perquisite consumption with morality and law, implementing the rules into practice and preventing the unreasonable system rebound.

## **4. References**

- [1] Ye Qing and Yufeng Tang (2014), Focus on the salary reform of the TMT in the Central SOEs[J].*CAIZHENGJIANDU*
- [2] Zhi mei Yu (2014), The salary reform of the TMT in the Central SOEs -four major problems to be solved [J].*CHINASOE*
- [3] Xiao qun Zhu (2014), The effect is the key to the salary reform of the TMT in the Central SOEs [J].*FAREN MAGAZINE*

[4] Lian li Wang (2014), The salary reform of the TMT needs to base on the market maximization [J]. *China Economic Report*.

[5] Wang Jing and Yun qing Gao(2014), The new program of the salary reform of the TMT in the Central SOEs[J].*Market Modernization Magazine*