

THE PRESENT SITUATION, CRISIS AND WAY OUT OF THE REWARD SYSTEM OF THE MANAGER OF STATE-OWNED ENTERPRISE

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1. PER PROCURATION PROBLEM AND REWARD SYSTEM OF MANAGER

Separation of propriety and managing authority is the main characteristics of modern enterprise system. Proprietor owns full propriety and seeks remaining value, but usually without the direct power of making strategic decision, while manager executes to make managing strategic decision as a agent of the proprietor and undertakes the result of his decision. The relationship is that of commission and procuration in modern enterprise. The target of the mandator (proprietor) is to make value of enterprise maximum, so theoretically the agent (manager) should try his best to reach this target. However, the agent is also a pursuer of maximum self-effectiveness, who may damage the mandator's benefit to get his own goodness. The difference between mandator and agent is called per procuration problem, which produces procurating cost. The procurating cost is the difference between business achievements produced in cooperation of proprietor and manager and those produced during the separation of them. How trustier encourages agent's working activity through one kind of restricting and encouraging system to reduce largely procurating cost is the central point of the relationship of commission and procuration, while the design of reward system becomes the most important encouraging method to solve the problem.

Reward system is essentially one contract to share remains among the proprietors of various productive factors. On one hand, good reward

system can encourage the competent managers to work on their full heart and create large material wealth for the society as well as for themselves by their creative working. On the other hand, the bad moral of some managers will be restricted, to ensure the healthy running of the enterprise.

2. THE EVOLUTION, PRESENT SITUATION AND PROBLEM OF REWARD SYSTEM OF MANAGER IN OUR COMPANY

The reformation history of our state-owned enterprise is actually an evolution one of reward system of enterprise manager. The reformation model of state-owned enterprise is from planned system, contracting system, leasing one, stock one to stock joint venture. The reward system of manager is from salary system of administrative grades, contracted proportion one, income of leasing, annual salary to wage and bonus. Further more, in the large range of none-state-owned enterprise, two reward systems of manager exists, that is, system of occupying all remain value (full-propriety system) and market competitive reward system. In general, at present, various reward systems under the dual economic structures exist in the meantime. For the above-said various reward systems, samples can be found in reality.

For long time, the reward system of manager of state-owned enterprise was printed with too much man-made governed trace. The reward deviates seriously from the value created by manager. The interrelationship between the reward and effect is very low, and the style is improper, the evaluating method is not scientific. For detail, the following shows several defects:

The reward of manager is too low for long time. According to the statistic, only 3.7% managers are satisfied with their own economic status. In 1996, the average income of manager in state-owned enterprise is 1,024 Ren Ming Bi, which is 2.2 times of average monthly income (458 Ren Ming Bi) of city workers nationwide. In Japan, the difference is 20-50 times while over 50 times in USA.

- B. The interrelationship of reward and effect is too low. It makes no Difference neither manager do well or not. 45.5% managers of state-owned enterprise think their income is not well connected with their managing achievements. 8.5% managers think the two factors have not any relationship. Comparing with the managers in enterprise of

other kind of propriety system, the manager in state-owned enterprise think the proportion of not good connection or no relationship is highest.²¹

- C. The reward style and structure is improper. For the reward counting Way, most state-owned enterprises execute to pay monthly, connecting the income of manager and that of ordinary staff . For the reward structure, the fixed income like basic salary occupies too much proportion with less encourage. Even there are encourage item, short-term award is mostly used. There is shortage of scientific and effective long-term encourage item.
- D. The reward content is not clear and none-monetary. Though the income of manager is not high in name, they usually take use of various opportunities and nominal to form their own shadow economy, such as public-fee travel, public-fund eating and drinking, guide leasing and so on to get the income which is 40 times more than that of ordinary staff. Moreover, some managers in state-owned manager supply the chance of making profit to other company in order to get profit for themselves. For being influenced by long-time idea of "official post position", the phenomenon of " official instead of award" occurs.
- E. Lack of effective measurement to punish the immoral manager in their reward. The mortgage of manpower capital and "replace threat" are two kinds of usual ways to punish immoral people in advanced country. But in our country, since the market of managers is not advanced and perfect, it occurs the unreliable or not existence and
?_AN INVESTIGATION REPORT O F GROWTH AND DEVELOPMENT OF CHINESE ENTREPRENEUR IN 1995 ? SAME AS ?A
not smoothness of the information of past action of relative manager, and the manpower capital of manager is not of mortgage while designating system ensures the keep-on-using level of the immoral persons, which make some hard-working managers of state-owned enterprises in less effective level than those grip a large amount of money for one time in their position. Thus, changed-post officials "loss director or manager" are often seen, which make the embarrass situation of "director profitless, enterprise loss, bank pay, country responsible".

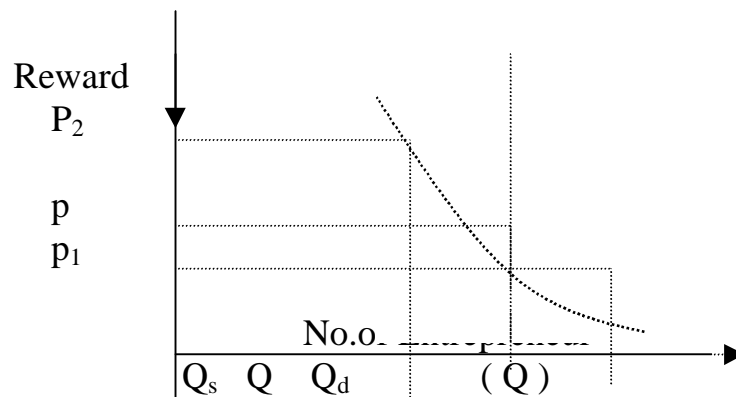
3. ANALYSIS OF THE INFLUENCE OF PRESENT REWARD SYSTEM TO THE BEHAVIOR OF MANAGERS OF STATE-

OWNED ENTERPRISES

In a perfect market economy, the balance price of factors is the result of both parties of supply and demand mutually, that is, the entrepreneur reward is determined mainly by product market, capital market and labor market, and connected with their managing achievement. In this point, the work supplied by entrepreneur is remedied properly. But in China, because of the idea and system reasons, this remedy is not realized, which makes managers of enterprise lack of working activity, their action of short term, loss of the competent. The direct result is increased procurement cost and large range of loss of state-owned enterprise. The article will develop and analyze the supply and demand model of labor market.

A. Supply and Demand Model of Talent Entrepreneur of Manager Market

The following sketch shows the balance relationship of Supply and Demand of talent entrepreneur in manager market.



Balance Sketch of Supply and Demand of Talent Entrepreneur In Manager Market

Note: a) Horizontal coordinate refer to the number of talent entrepreneur while vertical one means income level of manager of enterprise. In this point, the reward, that is the price produced by entrepreneur talent, is determined by the relationship of the supply and demand of market.

b) The supply of talent entrepreneur is limited by many factors like system, education and so on, existing a delay effecting of supply. Moreover, the flow of the talent is not fully free in realistic life, which

make no enough flexibility of supply of talent entrepreneur. For the same reason, the number of enterprise will not be changed within short period of time. The present enterprise is not only impossible to cancel the post position of its manager because of lack of talent entrepreneur but also can not add more posts for manager because of sufficient talents. Therefore, the need for talent entrepreneur is not enough flexible. Generally, the more restriction to demand is, the more rigidity is. Reflected in the sketch, the supply and demand curves of talent entrepreneur is near the vertical line, while the demand curves (D) is more near.

c) Without restriction, both parties of supply and demand balance at O point, when the supply of talent entrepreneur = Q = demand. All the posts of manager in enterprise are occupied by qualified talent entrepreneur. Their reward is P.

d) With the function of various subjective and objective reasons, the reward which manager of enterprise should get is lowered to P1 artificially. The limited price brings surely shortage. And the supply of talent entrepreneur is lowered to Qs while the demand is increased to Qd falsely, which brings a serial of bad affect.

B. Some Supplemental Explanation for the above model

A) In realistic, the supply and demand of entrepreneur is determined by labor market, capital one, products one (while manager market is one part of labor market). But when market system is more perfect, the supply and demand of entrepreneur of capital market and products one will be reflected finally to the supply and demand of labor market. Moreover, the movement trend is basically constant. So figure 1 of the model largely reflects the actual situation.

B) Code of conduct of manager of enterprise should be maximization of individual effect. The variable of individual effect function not only includes the reward of physical side but also satisfaction of spirit. The reward type not only includes income of currency but also raising chance and increased value of manpower capital and so on. Since an interchangeable relationship exists among various effective factors, to simplify analysis, it is supposed

manager is pure theoretical economic person, that is reward is the only factor to determine his behavior. His reward content may be expressed as monetary income.

C) Manager of enterprise, talent entrepreneur and entrepreneur are three concepts which has connection and difference. The manager of enterprise refer to the individual which owns the supreme commanding authority in the organizational structure, which is corresponding to certain post and position. Talent entrepreneur refers to the individual to own the talent and professional target. Those who own the enterprise talent should have experiences of managing successfully at least more than one enterprise. The talent entrepreneur must keep going in for managing and administrating of enterprise as his professional target. When they are unemployed, they flow in the managing market to seek for posts fit for them and become latent entrepreneur. As soon as the talent entrepreneur occupies the post of managing enterprise, he is turned into a realistic entrepreneur. Therefore, entrepreneur is a unitary of post of manager and talent entrepreneur. Both of them can not be short. However, in our country, for the well-known reasons, it occurs manager is not qualified with his post seriously. The constancy of them is very lower.

D) The talent of manager of enterprise is usually quite different. The reward of manager with different talent should be different. In our model, only one kind of standard talent is selected as a representative for analysis. Those who get the standard talent is defined as qualified manager (say entrepreneur) while those who can not reach is called unqualified manager. The supply and demand curves of enterprise manager of other talent standard parallels mostly to those of the model. The final-got model of supply and demand of all enterprise managers in the whole manager market is constant to the standard model.

C. The Crisis of Chinese Entrepreneur Under the Present Reward System

a) serious shortage of talent entrepreneur

The shortage of the talent has mainly two reasons: 1) The present entrepreneur gives up the post of enterprise manager and undertakes other profession, like going to work in governmental section, which makes large loss of entrepreneur. Enterprise becomes one resource of selecting party and administrative officials. One American research illustrates the excellent scientific talent in Japan works in the post of production and engineering. The excellent scientific talents in our country concentrate in none-enterprise departments.?

2) The backup talent is getting less and less. Post-graduates are one important resource of backup talent of excellent entrepreneur. One investigation of Beijing University in 1997, the post-graduates who enter enterprises occupy only 31% , which is 6.3% lower than ten years ago, among which those to triple-invested enterprises is 23% and those to state-owned enterprise is only 8%. In the meantime, those who flow to official departments are 27%, which is 11.3% higher than ten years ago. And the scientific persons of science structure and senior university who go to enterprise are lower.?

The mutual function result of loss of present talent and of less supply of the talent makes Chinese talent entrepreneurs short seriously.

B. The precious talent entrepreneurs are used with low effect.

In the system of market determining reward, the company should pay relevant high reward P to get the talent. They should be treasured and cared, being used properly. But in the present reward system, the employment cost of the talent entrepreneur is lowered. Some companies without the conditions or positions to hold the talent are able to pay the reward. For the benefit of the section and the unit, they use various methods to lock the talent, which makes the talent not flow to the position to give their best role and makes precious manpower resource waste. From the sketch, the more range of limited price, the more possibility the kind occurs.

D. Defect manager drives out excellent ones.

Since it exists rigidity of the supply and demand, The shortage of the talent entrepreneur $Q_d - Q_s$ can not be remedied for instant. Some enterprise can only retreat to use less talent and let those

who are not fit undertake the post of manager. Moreover, the more excellent talent entrepreneurs flow out, the more unqualified ones?i Scientific Technological Type Entrepreneur and the Main Propeller of Technical Improvement, writtern by Ding Gu Hu, and Recource Development of Chinese Manpower of 1998 ? Same as ?m

flow in. In the information economy, it is called the effect of "converse selection",which is similar with the phenomenon of ever occured " bad currency driving out good currency" in currency history. So we call it " bad quality manager driving out excellent manager".

The affect of converse selection leads to the low quality of the whole manager level. The Worldwide Economic Forum and Swizland International Administration Development College makes annually evaluation of the entrepreneur's status in worldwide main country. In 1997,the comprehensive quality level of newly-created manager of Chinese enterprise ranked No. 41 among the 46 main countries.Capable senior administrator and quality to develop market is listed No.46 (the last one). The international managing experience of administrator is listed No. 40. In the view of evaluation of effectiveness of administration,we are worse, such as the time when new products enter market is listed No. 46 (the last one). The price and quality of products and market competitiveness is No. 44 while the quality management level is No.30. In the view of above, the quality status of the manager in Chinese enterprise is very bad, which affect badly the normal development and enhance of Chinese international competitiveness.?N

E. The working activity of entrepreneur is not high.

Since their reward can not be paid by their work, the entrepreneur naturally work by their reward. When nowadays entrepreneur's self working value can not be remedies legally, they will realize
İ?b INTERNATIONAL EVALUATION OF STATUS OF CHINESE ENTREPRENEUR
written by Zhao Yan Yu and Ding Xiao Liang

self-make-up through various ways like reducing the quantity and quality of their labour supply, such as shorten working hours, present but not work and so on, which is called " effect of loaf on the job" in economy. For the actual work supply is less than nominal work supply,one new balance of labour and reward is

reached. In this point, the hardship of entrepreneur is far less than that under market reward system. In the figure, the quantity of qualified entrepreneur is actually Q , their ought-to-get reward is P_2 , the actual reward is only P_1 , so only when the hardship is P_1/P_2 , new balance is reached. When P_1 is relatively fixed, P_2 value is larger and hardship is less. That means the more talent entrepreneur has, the more possibility he is loaf.

F. The Corruption of Enterprise Manager

Another kind of self-remedy of entrepreneur is surpass the limitation of price, by the way of in-post consuming, illegal income and so on. At present, The in-post behaviour of enterprise manager is usually a dark box, which makes objectively the remedy way possible. This is one important reason to make entrepreneur corruptive.

The in-post consumption behaviour has effect of replacing income, and so called "eating and drinking don't violate laws", so manager "has not ten thousand RMB but a ten-thousand stomach" and "taking use of the national generosity to make his own relationship". On one hand, some state-owned company loss severely. On the other hand, the directors and managers insist on inviting guests and send gifts, indulging in dissipation, squandering and wasting, which is a good footnote of the system.

Some managers even graft and bribe and self taking national property brazenly, which lead to be hit by arrows and punished by party regulation and national laws. Even those who are red for a time, like Yu Zhuoming and Zhun Shijian, couldn't keep integrity in their later year.

But in the view of pure economy, that self remedy of qualified manager (entrepreneur) is not over P_2 is reasonable, for it reflects the actual price of entrepreneur in the market competition. When it is beyond P_2 , it is not only unreasonable but also illegal. The limit isn't easy to be controlled. For some unqualified enterprise manager, their self remedy work value maybe be made up with enough reward. Others follow the examples with the result of a large spread of corruption by groups. The reasonable income of manager comes only from illegal method or legal squandering instead of normal distribution way. This is the tragedy of our

system.

G. The Loss of the Talent in Public-owned Enterprise

The existence of dual reward structure makes large difference of managers' reward between different propriety enterprises. According to the statistics, the annual income of manager in foreign-propriety enterprise in China reaches 300,000RMB, while those in state-owned enterprise is only 16,000RMB. The difference is near thirteen times.^{2e} So some foreign-invested and private companies usually absorb the talent entrepreneur in public company with high salary (often between P_1 and P_2). Most of them only realize the maximization of individual labor reward (not the maximization of created value by work). If they work in their original unit, maybe they will create more economic benefit for the enterprise and social benefit.

Some talent entrepreneurs brought away with him the technology and business secret of enterprise to the new unit, which is illegal. Neither legal or illegal, the talent is flowing. So we name it "Dark Market of the Talent".

H. As we know, for the recent years, foreign-owned enterprise has absorbed annually near 200 talents from the scientific technology enterprises in Zhong Guan Chun. Most of them is the senior administrators, experienced backbone salesman and central technical personnel who have been trained for long time in national enterprise. They bring away the central commercial secret of company, including the old relationship of clients and the technology the company lives on, which makes a big loss of company.^{2f} Official Replacing Award Aggravates the Phenomenon of No Separation of Politics and Enterprise.

In the above, as a remedy of unequal contracting relationship between the owner and manager, the requisite of administrative raising and controlling right of enterprise are taken as the reward content of enterprise managers, which is called "official replacing award".

The "official replacing award" makes the manager lack of the encourage of pursuing economic benefit. If only they obey order and keep good relationship with their leaders, no matter how their achievements are, can they act as officials in other areas.

^{2b} Scientific Technological Type Entrepreneur and the Main Propeller of Technical

The model unsuspectedly softens and loosen largely the restriction of the managers, alluring and encouraging them to be only responsible for upper leaders and neglect the economic effect. This is also one of the important reasons why many managers in state-owned enterprise can't fit for the requirements of market economy. In the meanwhile, under this selection model, those with talent management capacity and achievement but not good at human beings relationship usually can't keep in post for long time, which forces some excellent managers to leave their working post and those in post to have to subordinate the inference of government, supplying a sufficient personnel conditions for no seperation of politics and enterprise.

- I. The Behaviour of Enterprise Managers is of short term.
Since lack of the system of connection of manager's reward and long-term business achievement in enterprise, under the condition of shor-term target and reward-realized-instantly, it is easy to lead to the short-term behaviour of enterprise, like neglect of technical advance, putting together equipments, drawing less depreciation or nothing, making fake account, hiding account and so on.
This short-term action conflict with the starget which the actual entrepreneur pursues to ensure the created profit to increase sustainably, which forms the obstacle.
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4. THE IDEA AND COUNTERMEASURE TO REFORM THE REWARD SYSTEM OF MANAGERS IN STATE-OWNED ENTERPRISE

- A. The confronting of the interest group and reformation of reward system
The reforming process of Chinese enterprise is actually that of confronting continuously in dynamic state of each interst body. The reward system of enterprise manager mainly reflects the confronting relationship between mandator (proprietor) and agent (manager). The present reward system is either a result of confronting for the

previous period of time or a condition of affecting the confront for the later time.

We should admit that during the process of establishing modern enterprise system, we supply an imperfect condition for the confronting between the interest bodies. The confront between the interest is mostly those with incomplete information, and their action style is fairly unconfirmed, to accompany too much inactive factors during confronting process and make both parties get into "prisoner's trouble". That is, it is thought it is necessary to do well in modern enterprise system, but nobody is willing to bear reformation cost, which makes to keep the original low-efficient system. To get rid of this trouble, we should be in the stand of macroscopic and microcosmic sides to change the confronting circumstances and regulation simultaneously to influence the expectation of confronting parties, making finally active action and effect. Firstly, in macroscopic, construction of socialist market economy system must be strengthened to create a sound systemic circumstances for improving confront. Secondly, in microcosmic, the contract of sharing remain among proprietors of various productive factors inside the enterprise must be perfected, say, game regulation of confront. In detail, following countermeasures may be used.

B. The Countermeasure of Reforming Reward System of Managers in Chinese Enterprises

- a. Enforce the systemic construction of the market outside enterprise, showing and disclosing the actual information of confronting parties;

The first is separation of politics and enterprise, solving the policy burden of state-owned enterprise, realizing the fair competition. The second is establishing of various market intermediary structures, stipulating relevant laws and regulation to improve the self-restricted action of non-management intermediary structures. To those of management, like registered accountant offices, asset-evaluating offices, conducts property reform and makes them the actual main body of market, ensuring market intermediary structure to supply the actual market information. The third is speeding up the improvement and spread of information technology, changing the organizational methods of market intermediary structure, raising the speed and

efficiency of information interchange, to start the bilateral and multilateral credit system of market-guiding social network to restrict the behaviour of opportunism of enterprise.

- b. Around the center of annual salary system, explore an effective reward system of manager.

The income of enterprise manager should be separated from that of ordinary staff and connected with the integrity managing achievements. Income should be in currency and in market specification. Reduce the portion of fixed income and enlarge the long-term encouraging reward content. Establish reasonable risk-taken system for manager and examination system.

- (1) In the form of reward: The basic salary is not of encouraging,

which is not in high proportion and mainly used to guarantee the basic living for manager. To keep manager hold certain property (or stock) which can't be transferred within certain time (that is restricted stock) is a good reward style, which is especially fit to the state-owned middle and small enterprise and stock venture one. The stock futures style is popular in foreign country. But in our country, since the capital market is not perfect and speculativeness is too strong, the stock price doesn't reflect the actual managing achievement, it is not proper to popularize at present. Bonus owns stronger short-term encouraging function, which is easy to initiate the short-term behaviour of manager. Consideration can be made to use the method of bonus replacing limited stock. Every kind of reward methods have their own advantage and disadvantage. The realistic selection should be the compound of them. Furthermore, since the managers' needs are various, for the reward content, material incentive should go together with spirit encourage.

- (2) In the risk mortgage: Since the manager market is not perfect, the manpower capital price of enterprise manager will not be reduced because of not good management. Consideration should be made to enhance the income risks of enterprise manager through the asset mortgage. Moreover, stock-holding of manager, stock cooperative system and registering managing system of job responsibility are ways to be used.

(3) Set up scientific examination system of manager

The executive person of examination isn't not only limited with upper section in charge, but also including experts' test and democratic staff evaluation. The index of evaluation should try to quote those reflect actual comprehensive managing status. No only is the index reflecting short-term achievement of enterprise used like sale income, market occupation, benefit and taxes, profit rate and so on, but also those which is useful to the future development for enterprise, like fee of R & D (research and development) and the portion it occupies in sale income, and so on. The examine index should take into account that of tangible assets and invisible assets. The making of examination standard should takes into consideration of the history status of enterprise and the general level of the same life in domestic. As the same, the index of stock price should be used carefully.

C. The manager-selecting style in state-owned enterprise is changed into employment system instead of designation one, realizing the professionalization of entrepreneur and encouraging flowing of talent

entrepreneur.

(1) The employment system turns the long-term once confront between the committee and agent into short-term many-time confront. Those whose managing achievements are bad maybe be removed from their posts, punished with lowering grade and even dismissed. The entrepreneur who is treated unfairly may go to other good post. The moral risks of both parties are controlled after the matter happened.

(2) The professionalize of entrepreneur may eliminate the official-post tendency of managers, making none-monetary benefit formal. The value of entrepreneur is reflected in the enlarged scale of enterprise or being employed to work in large-scale company from small-scale one. The expectation of maximization of enterprise managers' original political authority is changed into that of maximization of self-achievement in the success of market competition and managing scale enlargement. Thus, the affiliate relationship of enterprise managers to their upper sections in charge is reduced, realizing actual taking-care-

of-enterprise.

- (3) The flow of the talent is not only good to make sound distribution of social manpower capitals, but also is good to accerelate training new generation of entrepreneur level.
- D. Establish and Perfect the Market of Managing Talent and Strengthen the File Management of the Talent
- (1) A perfect market of managing talent may form pressure of "manager replacement" to the in-post managers. Through strict system of elimination by selection and punishment, those managers who make failures in their work for many times or who are immoral and offer for sale the investors' benefit will be eliminated from managing talent market in time. Those who make serious problems will be charged for legal responsibility.
 - (2) In order to strength the supervision of manager, in managing talent market, file management system of managing talent is feasible. The personal file of manager is composed of basic documents, managing achievements and those determined by the authoritative evaluation struction of the talent's qualification, which become the base of evaluating, flowing and being selected for employment of managers. The basic documents mainly includes experience, diploma, speciality, technological level and so on. The documents of managing achievements mainly refer to those of enterprise he manages, including managing lines, enterprising, managed assets, proportion of asset increased-value, added value of right and benefit of stockholder, improvement of asset quality, improvement of labor quality, added-value of invisible assets, line, social influence and so on. Board of Directors who employ him strictly according to the fact fills out the documents of managing achievements. The determination documents are the comprehensive explanation and approval of the management capability and quality of managers. The manager talent companies take responsibility for the reservation and flow of individual file of manager as well as for the price estimate and recommendation of managers. Through the actual statement of manager's file, the price of good manager is rising and rising while that of bad manager is distressing. And those who violet regulations and laws and bad actions lose the qualification to

enter manager market. The individual file of managers is an information store of managers' quality. Through the market selection, the value of manager and his use value get unified.

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