

Improvement Mechanism and Suggestions on the Risk Efficiency of China's Commercial Banks from the Perspective of Executive Remuneration Stickiness

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Abstract

The financial crisis caused a shock in the world financial market and triggered the reform of global financial regulation. The current financial capital market in China is not mature enough, but the sky-high remuneration of financial executives is getting more and more serious. At present, the executive remuneration system of domestic commercial banks still needs to be improved, and the stickiness of executive remuneration in banking enterprises also has an important impact on the bank risk. How to improve the bank risk efficiency when the stickiness of executive remuneration continues to affect the risk management of commercial banks is worth pondering. This paper will put forward the mechanism and countermeasures to improve the risk efficiency of commercial banks from the perspective of the causes and influencing factors of executive remuneration stickiness.

Keywords

Risk efficiency, perspective of executive remuneration stickiness, remuneration evaluation system.

1. Cause Analysis on the Influence of Executive Remuneration Stickiness on Risk Efficiency

The treacherous and ever-changing international financial and political situation put forward higher requirements on the ability to withstand risks and achieve long-term stable development of China's financial industry, especially commercial banks. How to improve the risk management efficiency of banks from the perspective of executive remuneration stickiness is worth pondering. Stickiness of executive remuneration, that is, the inconsistency of the change of executive remuneration during the rise and fall of the bank's business performance. Generally speaking, when the bank's business performance is high, the executive remuneration will naturally increase significantly with the benefit, while the business performance is not good, the bank cannot excessively reduce the employee remuneration. Due to the existence of executive remuneration stickiness, when there is no direct connection between the bank executive remuneration and the banking performance under the condition that the financial "leverage" is widely used, executives tend to take an aggressive attitude when making project decisions and tend to high-risk and high-efficiency items for obtaining higher remuneration, which will undoubtedly increase the risk burden of banks. [1][2]The stickiness of bank executive remuneration has an important impact on bank performance and bank risks to some extent. Therefore, establishing a reasonable risk efficiency improvement mechanism and taking effective measures to improve risk management are of great significance to long-term improvement of bank operating performance and reduction of bank risks.

2. Improvement Mechanism of Risk Efficiency

2.1. Optimize the Equity Structure and Improve the Mechanism of Checks and Balances of Governance Bodies

The improvement of bank risk efficiency first depends on the perfection of the bank's internal governance system. [3]First, the transformation of the "state-owned" nature of commercial banks in China is not complete, and the government-related investors hold a larger proportion. Therefore, it can introduce reliable multiple shareholders in the society, appropriately optimize the equity structure, and eliminate the excessive control and risk bearing of "major shareholders". [4]Second, the Board of Directors with clear positions and responsibilities shall be established, the fluctuation of the size of the Board of Directors and the number of independent directors shall be controlled within an appropriate range, and the proportion of relevant experienced external independent directors in the Board of Directors shall be increased; the selection method of the Board of Directors shall be adjusted, and the market competition method shall be adopted to employ the directors and supervisors with relevant professional knowledge, and the members shall be competent. Third, the relevant organizational structure of risk management shall be established, and the special risk management department shall be formed to create effective checks and balances among the various entities in the bank, so as to ensure that the Board of Directors and independent directors have sufficient independence in risk supervision and control of the bank and can play their roles to the maximum extent.

2.2. Page Numbers Establish a Remuneration Evaluation System Considering Risk Factors

In the construction of executive remuneration evaluation system in China's commercial banks, bank risk factors shall be fully considered, especially the prudent risk of senior executives. First, banks shall incorporate executive remuneration system into the risk management system; second, in addition to the banking benefits, the performance assessment of senior executives shall also contain bank risks, including operational risks, market risks, legal, credit, reputation and other risk factors; at the same time, during the implementation of the assessment, the executive level, activity risk, adjustment and control of cost and other factors shall also be taken into consideration to achieve adequate performance measurement. Third, the proportion of executive remuneration such as cash, shares and stock options shall be reasonably controlled when designing remuneration. At the same time, the sales of stock options can be restricted within a period of time after the grant, so as to realize the risk incentive constraint.

2.3. Improve the Incentive Structure of Executive Remuneration in Commercial Banks

In terms of executive remuneration incentive, this paper suggests that the advanced experience of international banks can be learned. A combination of long-term and short-term incentive measures can be implemented in executive remuneration incentive system in China's commercial banks, the long-term incentive shall be increased, and the short-term incentive shall not be ignored, so as to reduce the probability of bank executives ignoring the long-term development risks for their own short-term interests. On the other hand, the long-term incentive system of bank executive remuneration is also suitable for the deferred payment system of executive remuneration. At present, the long-term incentive means of bank executive remuneration have been applied in China's commercial banks, but the proportion is not high, and the corresponding system still needs to be further improved. For example, strengthen the disclosure of bank financial data and executive remuneration information, and implement just, fair and objective executive incentive remuneration distribution; strengthen the incentive

supervision and the clear incentive responsibilities in the bank, that is, the executives shall fully fulfill their risk responsibilities while focusing on incentives. It is better to form a strengthened risk awareness within the bank that the senior executives are the main focus, and other employees shall keep up with the incentive and risk awareness step by step.

3. Improvement Measures of Risk Efficiency

3.1. Deepen the Financial Reform of Commercial Banks, and Establish an Effective Market for Professional Managers

This paper considers that the reduction of the stickiness of executive remuneration and improvement of internal risk management efficiency is inseparable from the deepening reform of external financial environment, that is, the proportion of national shares in commercial banks shall be reduced, and the market vitality shall be restored gradually, so that banks can upgrade their risk management and improve risk efficiency in the continuous market competition. In addition, besides integrating the banking institutions into the financial competition market, bank executives and financial employees shall also carry out public hiring and admission on merit, achieve the market talent competition as far as possible, reduce the administrative and political intervention or promotion, make full use of market forces, comprehensively position and evaluate the ability and value of the bank executives, set up reasonable remuneration and optimize the allocation of human resources, and fully realize the marketization of bank operation.

3.2. Regulators Shall Strengthen Supervision of Bank Executive Remuneration

The strict supervision of external regulators on the operation of banks and bank executive remuneration is an effective measure to improve the risk efficiency of banks. First, regulators shall regularly review bank executive remuneration, put forward suggestions to correct the executive remuneration clauses that do not meet the relevant requirements in the bank, ensure that the bank's internal remuneration system is in line with the bank risk management system, and consider the potential risks of the bank to ensure a balanced, stable and reasonable relationship between the remuneration system implemented by commercial banks and risk adjustment. Second, for some banks that do not implement the "salary ceiling", regulators shall vigorously correct and impose sanctions on banks if necessary. In addition, besides strengthening the supervision of bank risk and executive compensation remuneration by regulators, the supervision authority can also be delegated to bank shareholders. When the stickiness of executive remuneration in the bank is too large, the bank risk efficiency is reduced, which exceeds the scope of shareholders' interests, and shareholders' interests are bound to be harmed. Therefore, regulators can also require the bank to disclose the internal remuneration – risk information to the shareholders, which shall be directly supervised by the shareholders for the benefit.

3.3. Improve Relevant Policies and Regulations

The following three aspects of construction and improvement shall be carried out to the bank executive remuneration policy: (1) determine the specific clauses on the implementation of deferred payment of executive remuneration, executive remuneration assessment, executive remuneration incentives and constraints, let all the implementation and application have evidence to follow, specify the disclosure scope and implementation plan of executive remuneration information, ensure the rationality and transparency of executive remuneration, at the same time, let the bank's internal executive remuneration management and risk adjustment process are more clear and orderly, so as to improve the bank risk efficiency. (2) Control the bank executive remuneration, relevant policies and regulations shall take into account the purpose of control and market reality, implement management and control in

accordance with the basic rules of market remuneration, guarantee the feasibility and effectiveness of remuneration control method, ensure the business enthusiasm of senior executives in the full realization of remuneration control as far as possible, so as to improve the efficiency of bank management and risk management. (3) Improve the supervision and implementation of relevant policies for banks, increase the rigor of risk regulation for banks, severely punish the occurred corruption, strictly curb the appearance of corruption that has not yet occurred, and create a favorable operating atmosphere for banks.

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