

The Influence Mechanism of Compensation Incentive in State-Owned Enterprises on the Realization of Enterprise Strategic Goal: A Case Study of a Petroleum Company in Guangzhou

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ABSTRACT. The report to the 19th National Congress of the Communist Party of China pointed out: "Socialism with Chinese characteristics has entered a new era, which is a new historical juncture in China's development. State-owned enterprises are the pillar of socialism with Chinese characteristics and a powerful driving force for China to enter this new era of history. Meanwhile, Employee compensation incentive is an indispensable part of state-owned enterprises to realize their strategic goals and leapfrog development, and to attract and retain critical talent. In order to research the influence mechanism of compensation incentive on the realization of strategic goals of state-owned enterprises, this paper select a state-owned enterprise in the petroleum industry in Guangdong Province as a case, and analyze its employee background, compensation structure, income change and the comprehensive development of the enterprise from 2012 to 2020. The research shows that: If state-owned enterprises want to keep their own compensation system competitive advantage in the market competition and effectively help state-owned enterprises attract and retain talents, they need to pay attention to the internal fairness and external competitiveness of the compensation system. At the same time, this paper proposes to adhere to the policy of maintaining and increasing the value of state-owned assets as the premise, and the next stage can continue to explore inefficient assets, loss assets of a variety of innovative business models, such as managerial responsibility system of contracting or entrusted management.

KEYWORDS: State-Owned Petroleum Enterprise, Enterprise Strategy, Compensation Incentive

1. Research Background

The report of the 19th CPC National Congress put forward a series of important expositions, such as the new era, new ideas, new contradictions and new journey, which will inevitably bring great influence and cause profound changes to the reform and development of state-owned enterprises. If the state-owned enterprises are strong, the country will be strong. China's state-owned enterprises are the pillar of socialism with Chinese characteristics and a strong driving force for China to enter this new era of history. Only by adapting to the changes and development of the era can we better practice the original intention and mission of making contributions to the Communist Party of China in the economic field.

While the great responsibility of history falls on the shoulders of state-owned enterprises, there is also a historical problem left for state-owned enterprises to solve. Since China joined the World Trade Organization (WTO), it has been more deeply involved in economic globalization and integration. Many foreign-funded enterprises enter China. They not only play a positive role in China's economic development, but also have made considerable development and great success in the process of globalization development. Similarly, there are some private enterprises in China, such as Alibaba, Tencent, Baidu, NetEase, Didi and so on. They also contribute to China's economic development, but also the enterprise itself has made great development. Obviously, they all have some similar reasons for success, such as strong economic strength, advanced management level and methods, and the most important is enterprise talent strategy. It is precisely because the above-mentioned foreign-funded enterprises and private enterprises in emerging industries regard talent strategy as an important strategy of enterprise development and human resources as the competitive advantage of enterprise organization

that they can guarantee their competitive advantage over state-owned enterprises. However, due to various historical reasons, the compensation system of most state-owned enterprises is not in line with the market. Divorced from the reality of the market, the compensation setting is not reasonable, and does not fully follow the principle of fair competition. At the same time, the compensation incentive methods of state-owned enterprises are relatively single, with only a few forms such as basic salary, cash welfare, royalties, year-end bonus, etc. These traditional incentive mechanisms may not well meet the needs of employees, and fail to form a competitive advantage and competitiveness. Therefore, it is of great practical significance and academic value to research the influence mechanism of compensation incentive and the realization of strategic goals in state-owned enterprises.

2. Research Basis

This research takes a petroleum company in Guangzhou as a case.

2.1 *Employee Characteristics and Company Performance*

The dimensions of a company's performance evaluation and measurement can be diversified. Company performance is the outward manifestation to measure whether a company succeeds or not and whether its strategic objectives are realized. In this research, the pre-tax profit of the company during 2012-2020 will be selected as the accounting index to measure the performance of the company, and the ratio of the employee income, corporate tax and other welfare expenditure to the GDP of the company will be used as the social index to measure the social contribution of the company.

(1) Employee age

The age distribution of employees, especially the age distribution of the management team, has a significant impact on enterprise performance and is negatively correlated. When employees, especially those in the management team, are younger on average, they are more willing to accept new things and abandon the conformist practices and keep pace with the times, which is more conducive to the company to seize the development opportunities.

(2) Tenure of the management team

Generally speaking, the tenure of management team has a significant impact on corporate performance and is positively correlated. If the management team has a short term tenure, it is more likely to make short-sighted decisions and pay attention to short-term gains and losses, which will affect the long-term development and medium and long term performance of the company.

(3) Educational background and education level

Researches have shown that the degree of education of employees has a significant and positive correlation with enterprise performance. In the face of difficulties and problems, highly educated teams can screen and sort out effective information to assist operational decisions, so as to improve the quality of the company's operation, and thus improve company performance and the ability to grasp the strategic goals of the enterprise will be stronger. There are also empirical researches show that the higher the education level and average education level of team members, the better the business growth will be.

2.2 *Incentive Theory*

With the development of the western economics, many economists and researchers in the history put forward many incentive theories, such as the American psychologist Abraham H. Maslow proposed " Hierarchical theory of needs". It was divided into five kinds of human demand from low to high respectively physiological need, safety need, esteem need, social need and self-actualization need. Lazear and Rosen's Tournament theory suggests that the size of a salary increase associated with a given promotion affects the motivation of employees below that rank. As long as the outcome of a promotion is not clear, employees are motivated to work hard for that promotion. Therefore, the theory advocates that the company should have a clear position system and talent development path, so as to motivate employees through promotion.

2.3 Employee Compensation and Company Performance

(1) Post rank and base salary

Scholars at home and abroad have done a lot of research on fixed salary and corporate performance. The research finds that the higher the employee's post salary, the more substantially the company's performance will be improved, especially the salary of the management team and the general manager. In addition, some researches have shown that the compensation level of corporate management team has a positive correlation with company performance, which is positively moderated by long-term incentives.

(2) Incentive mechanism

Many economists and researchers have shown that the more flexible the incentive mechanism is, the more likely it is for the company to improve its performance. Among them, compensation incentive and equity incentive are commonly used as incentive means in companies. Emotional need, value identity and corporate vision building can also meet the high-level needs of employees, especially the management team, to a certain extent.

2.4 Entrustment Management Theory

The theory of entrusted management, which was put forward by American economists Berle and Means, is a basic theory of modern western economics. This theory points out that the owner and operator of a company are separated, and its core is the "Hypothesis of economic man". Economic man refers to the subject who carries out economic activities for the purpose of completely pursuing material interests and his own enjoyment, hoping to obtain the maximum benefits at the least possible cost. This mode can improve operators' sense of ownership, make business decisions from the perspective of maximizing economic benefits, and improve the performance of the company.

3. Research Hypothesis and Model Design

Based on the strategic compensation management, this research puts forward the strategic compensation management framework, including the strategic level: decomposition of corporate strategic objectives, development strategy and corporate culture; institutional level: the evolution of post and rank system, compensation and welfare system, salary management, etc ; technical level: post analysis, post evaluation, salary research, etc. Then the theoretical analysis model of this study is put forward.

A company's compensation management framework, strategic level, system level and technical level are an inseparable, which is the framework and context of a company's compensation system.



Figure 1 Strategic compensation management framework for a petroleum company in Guangzhou

As shown in Figure 2, this research selects the reform of the company's compensation and post rank system, optimization of the incentive mechanism of terminal distribution business and optimization of the retail incentive mechanism of gas station as independent variables, and takes the pre-tax profit of the company from 2012 to 2020 as dependent variable. At the same time, the population characteristics of the management team of the company are taken as the control variable to select three aspects: age, tenure and education level.

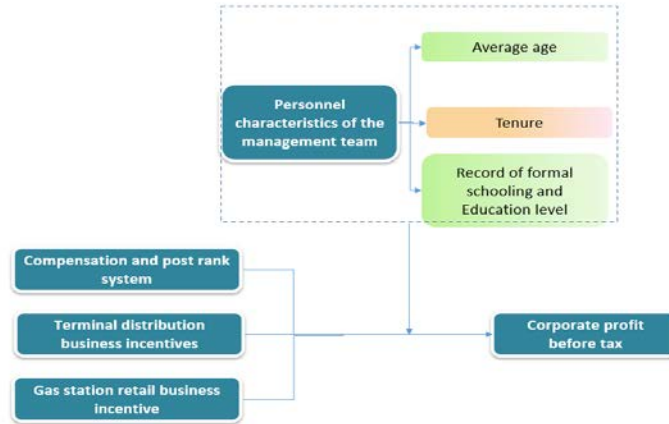


Figure 2 Theoretical analysis model

4. The Empirical Analysis

4.1 Overall Descriptive Statistics

(1) Average age of the management team and corporate profits

Since 2012, the average age of the management team has fluctuated slightly between 36 and 38 years old, and the overall trend is positively correlated with the trend of company profits. The above results further verify that the average age of the management team members is lower, open-minded and advancing with the times, which is more conducive to the company to seize the opportunities in the development process to create performance and gain benefits.



Figure 3 Average age of the management team and corporate profits

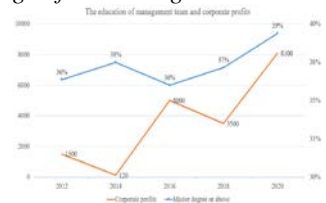


Figure 4 The education of management and corporate profits

(2) Tenure of the management team and corporate profits

The core of the company's management team (senior managers) changed once around 2015, while the rest of the changes were mainly due to the normal transfer of the middle management team.

(3) The education of management team and corporate profits

The proportion of members with master's degree or above in the management team is between 36% and 39%, and it is steadily increasing year by year. The education level of the management team affects the decision-making of the company, and the choices of these employees will have a significant effect on the long-term development of the company.

4.2 Correlation Test

(1) Changes in the company's compensation and post rank system in recent years

Table 1 Compensation and rank system

Post classification and level			Post sort								
Post Classification (code)	Post Level	Sort(M)	Technical level sort(T)	Operation sort(W)					Oil depot		
				Gas station			Regional manager				
Senior manager level(V)	3	General manager	/	/					/		
	2	vice-general manager									
	1	Majordomo									
Manager level(IV)	4	Senior department manager	Technical manager	/					/		
	3	Department manager									
	2	Department vice-manager								5	
	1	Department manager assistant								4	
Director level(III)	4	/	Technical director	Gas station posts	5	Gas station manager/Operation consultant	3	1.2	Oil depot director	4.5	
	3				4					3	3
	2				3					2	2
	1				1-2					1	1
Commissioner level(II)	3	/	Technical commissioner	Gas station commissioner/teller	5	1			Oil depot monitor	2-3	
	2				3-4					1	
	1				1-2						3
Assistant level(I)	3	/	Technical assistant	Cashier/Saleclerk					Oil depot staff	2	
	2									1	
	1										1

With the continuous development of the company, the needs of employees' personal development are becoming more and more obvious, and the needs of promotion and spiritual motivation are also more urgent. In order to solve the demands of employees' personal development and further achieve the goal of collective and individual win-win, the company carries out innovation and reform in the development of compensation and post rank system.

The compensation and rank system before 2019 was divided into "Post Classification" and "Post Level", as shown below. In this system, the rank and compensation are matched, that is, the higher the post level, the higher the compensation. Such a system design is conducive to encouraging employees to pursue promotion so as to gain both fame and wealth, but at the same time, it also brings some problems. For example, due to the limited management positions, it is impossible to meet the needs of employees' promotion and salary adjustment without restrictions.

In order to solve the above problems, two dimensions of "post level" and "position level" are introduced to set up the compensation and rank system, and the development need of employees are refined into the need of post change, rank promotion and compensation adjustment.

(2) Terminal distribution business incentives and realization of strategic objectives

The company has established the strategic transformation plan of three programs: refined oil distribution, terminal direct sales and gas station retail.

Since the rapid expansion of the company's terminal distribution business of petroleum product, the company has timely formulated a salary incentive plan for sales personnel, adjusting the salary structure into basic salary + quarterly commission bonus + cash benefits. Reward for sales staff every

quarter reflect the timeliness of incentive cash, improve the sense of gain and work enthusiasm of sales staff. In addition, the basic salary of sales staff is linked to the personal annual sales target.

The company's latest sales incentive plan divides sales customers into social end customers, institutional customers, trading customers, bloc customers and strategic customers. The company's customer classification is related to the sales commission coefficient.

Table 2 The petroleum company's Incentive scheme

	Incentive scheme (2017)					
Royalty calculation formula	Sales volume * Commission coefficient *Difficulty coefficient*Product coefficient					
Name of the post	Terminal gas station	Institutional customers / Trading customers	Bloc customers / Strategic customers	Product coefficient		
				98#	95#	92#
Business manager	2	0.9	0.5	8	4	2.4
Business supervisor	1.6	0.9	0.5	8	4	2.4
Business commissioner	1	0.5	0.3	8	4	2.4

Effective incentive mechanism is an important guarantee for the realization of the company's strategic goals. Since 2012, the company has realized the harmonious development of enterprise value and employee value.

(3)Gas station retail business incentive and realization of strategic objective

At present, the company has 200 gas stations in Guangdong Province, forming the initial brand influence. The company's gas station business development is closely related to the performance assessment of the gas station management team and the attractive salary incentive mechanism.

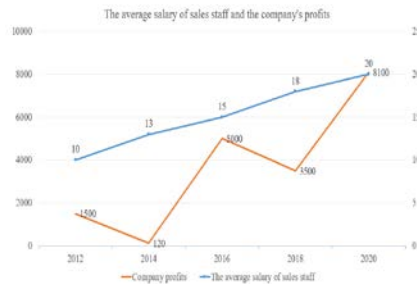


Figure 5 The average salary of sales staff and the company's profits

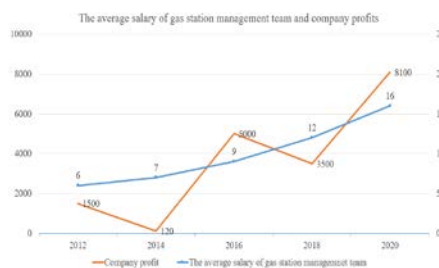


Figure 6 The average salary of gas station management team and company's profits

Table 3 Salary assessment standards for gas station

Category	Coefficient	Monthly assessment		Annual assessment
	Project bonus	Performance bonus for oil sales	Non-oil bonuses	Annual bonus
	Bonus standard	Sales performance coefficient 1. 0# 0.017yuan/ Litres 2. 92# 0.024yuan/ Litres 3. 95# 0.04yuan/ Litres	Non-oil bonuses coefficient: ((N-Gross Profit Margin) 1. N<20% 4.5% 2. 20%≤N≤24% 5.5% 3. 24%≤N≤28% 7% 4. N≥28% 8%	/
Influencing factor 1	Performance coefficient	A: 1.2; B:1.0; C: 0.8; D: 0	-	A: 2, B:-1.2, B: 1; C/D: 0
Influencing factor 2	Post coefficient	-	Gas station commissioner/teller: 1.6 Convenience store director: 1.5 Laboral staff:1.0	-
Influencing factor 3	MMP customer service	MMP score less than 80 points, gas station manager monthly efficiency bonus is 0		-
Influencing factor 4	Management reserve	1. Safety :50% of the monthly bonus is deducted from the secondary accident ,100% of the major accident is deducted 2. Internal control: non-regional self-inspection of the occurrence of medium internal control accident deduction of the month bonus 50%, major liability accident deduction of 100%		

Performance bonus for oil sales:

Calculation Formula of Performance Bonus for Oil Sales :

$$\begin{aligned}
 \text{Monthly bonus} &= \text{Bonus base} * \text{Sales performance coefficient} \\
 &* (\text{Surrender part of the profits coefficient} * 40\% \\
 &+ \text{Year_on_year sales coefficient of month} * 60\%) \\
 &* \text{Customer coefficient} * \text{Monthly performance} - \text{Management reserve}
 \end{aligned}$$

In 2018, the company built a flexible and efficient innovation platform and a technology-driven investment platform on the basis of consolidating the achievements of management innovation and following the guidelines of "streamling administration,delegating more powers to lower-level governments and society,improving regulation and optimizing services".

On the basis of established operating standards, the company implements "one development strategy for each gas station", and gives contractors of gas stations partial autonomy in employment recruitment, oil price management, marketing planning and cost control. The company encourages contractors, commissioned managers and gas station staff to develop strategies according to market demand, in order to achieve the purpose of "increasing sales volume, optimizing cost structure, reducing cost burden and increasing benefits".

After the reform of the management mode, the profits of gas stations have been significantly improved, and the average income of staff in gas stations has also increased by 33% year-on-year.

5. Research Conclusions and Recommendations

5.1 Research Conclusion

With the development of China's economy, the mobility of talents is becoming more frequent. For state-owned enterprises, it is of great significance to attract talents and enhance enterprise competitiveness through salary incentive. At present, there are not many studies on the influence of compensation incentive on corporate strategic objectives by scholars. Through the study on the change of compensation incentive mechanism and the growth of business performance of an petroleum company in Guangzhou since its strategic transformation and development in 2012, the following conclusions are drawn:

- (1)The average age of the management team is negatively correlated with company profits
- (2)Proper stability of the tenure of the management team is conducive to achieving the planned goals in the development process.
- (3)Employee's education level is positively correlated with company's profit.

(4) Accurate incentive mechanism is conducive to the realization of the company's strategic objectives

5.2 The Shortage of Research

(1) Due to the limitation of the length of the article, this paper only takes an oil company in Guangzhou as a case, and the research conclusion cannot reflect the development situation of the whole industry. In the follow-up, state-owned enterprises in different industries will be selected to study the influence and change relationship between their compensation incentives and the realization of corporate strategic goals.

(2) This paper mainly analyzes the impact of single factors, and does not explain or make in-depth analysis of the superposition and cross-influence of factors. In the follow-up, cross-association tests of multiple impact factors will be designed to analyze the correlation between compensation incentives and the realization of corporate strategic goals.

5.3 Recommendation

(1) State-owned enterprises should pay attention to talents, who are the source and power of company development and market competition. Through policy formulation and adjustment, we should find and retain talents, establish a set of reasonable incentive mechanism to stimulate the enthusiasm of employees, give play to the role of talents, rely on talents to revitalize state-owned enterprises, and fulfill the original intention and mission of making greater contributions to the Communist Party of China and the country in the economic field.

(2) The establishment of reasonable incentive mechanism is helpful to give full play to the effect of incentive. Ensure that incentive methods are consistent with corporate strategic objectives and corporate performance. Let the incentive mechanism become the action guide for everyone, and really mobilize the enthusiasm of all the staff.

(3) The company should create a multi-channel and multi-form incentive mechanism. Innovative business model and management model need to be supported by multi-channel and multi-form incentive mechanism. The incentive plan should be tailored according to the needs of the company's strategic promotion and reform, and the company should not only use a single incentive mechanism.

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