Research Article

Research on Institutional Investors and Executive Compensation Stickiness Based on Fixed Effect Model: A Case Study of Chinese Listed Companies

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Based on the relevant data of Chinese A-share listed companies from 2014 to 2018, this paper studies the relationship between institutional investors and executive compensation stickiness by using Excel and Stata15.0 software. By fixed effect model, the results show that the sensitivity of executive compensation to performance of listed companies in China is asymmetric, which means there is a sticky characteristic of executive compensation. With the continuous development of China capital market, institutional investors will significantly inhibit the stickiness of executive compensation; in addition, according to the degree of pressure sensitivity, institutional investors can be divided into bias-pressure-resistant institutional investors and bias-pressure-sensitive institutional investors, and the former has a stronger inhibition effect on executive compensation stickiness than the latter. Therefore, the participation of institutional investors can optimize the executive compensation system, thus further promoting the implementation of contract theory and the development of enterprises.

1. Introduction

In the era of growing economy, all walks of life have made remarkable progress. With the continuous development of China's capital market, institutions' participation in corporate governance as a third party has become a hot topic for scholars, among which how to affect the executive compensation system has attracted much attention. In the early 21st century, the OECD emphasized in its public report that the core of an enterprise is its shareholders and the interests of the shareholders are fundamental. This shows that the old focus on profit maximization has been replaced. However, due to the essential difference of interests between the management and the management, the related behaviors of the management will violate the core and foundation of the enterprise, and both will suffer. Until now, the most authoritative modern theory holds that a company is a set of expectations for the relationship between each stakeholder and the enterprise (Claessens) [1]. Then, no matter whether the ultimate focus of an enterprise is value or stakeholders, it must balance the interest conflicts among the governance layer, management, and even stakeholders through a certain mechanism (Blair) [2]. Institutional investors have abundant information, resources, management, and professional advantages. They can provide guidance and advice in corporate governance, introduce relevant customers to corporate operations and play a supervisory role in the implementation of executive compensation contracts (Amin et al.,) [3]. Overall, institutional investors are likely to be helpful to corporate governance.

Therefore, this paper uses normative empirical analysis method to explore the mechanism relationship between corporate governance and executive compensation stickiness. According to the domestic and foreign mainstream articles and theories and combined with the actual macro and micro background, the research hypothesis of this paper is given. Then, supported by the data of China's A-share listed companies from 2014 to 2018, appropriate dependent variables, independent variables, and control variables are selected to establish a regression model, and the sample data

are verified by using Stata15.0; finally, the hypothesis is tested one by one and conclusions and suggestions are given accordingly.

2. Literature Review and Research Assumptions

2.1. Literature Review. Institutional investors are generated and active in capital market transactions. They must comply with local laws and regulations and be approved by the government before they can engage in investment activities. They are subject to strict restrictions. Institutional investors are a broad group with certain differences in individual preference, investment philosophy, economic wealth level, and professional level. Therefore, it is difficult to unify the definition of institutional investors. The term "stickiness" is physically used to describe the relationship between fluid stress and its rate of deformation. Then borrowing this idea, "stickiness" is also widely used and explored in management.

Graver [4] first selected the relevant data of 376 companies in 1970–1996 and found that the monetary compensation of chief executive officer is positively correlated with the net profit of the company, and the monetary compensation of chief executive officer will significantly increase when the company's profit increases, but this will not happen when the profit decreases. Heart [5] through investigation and research, it is found that the proportion of shares held by investors in an organization has a significant positive correlation with their remuneration to senior executives. On this basis, David et al. [6] first proposed the concept of heterogeneity between institutions and investors at the end of the twentieth century and found that the actual shareholding ratio of some radical institutions and investors was significantly negatively correlated with employees' salaries, while the actual shareholding ratio of some more conservative institutions and investors was not significantly correlated with employees' salaries. Subsequent Corneet et al. [7] also put forward a similar view: generally speaking, the proportion of shares held by institutional investors is significantly positively correlated with the cash flow and return rate of the enterprise throughout the operation process; in terms of breakdown, institutional investors holding shares that do not have any business relationship with listed companies are positively and closely related to cash flows and return rates in the production and operation of enterprises, while institutional investors that have a potential relationship with companies have no significant impact on cash flow returns in the operation of enterprises.

Chinese scholar Zhihong Yi et al. [8] put forward the view that the existence of institutional investors inhibits the stickiness of executive compensation, and on this basis, the author classified the sensitivity of executive compensation into two types and found that this kind of pressure-resisting type of investors can greatly improve the performance sensitivity of enterprises to compensation. After that, Xiaoshan Chen and Hongduo Liu [9] explored the depth and breadth of institutional investment shareholding on the excess compensation of senior executives and divided the institutions into boosters, supervisors, and bystanders. However, there are also some scholars, who hold opposing opinions. For example, Chao Li et al. [10] selected listed companies in China from 2004 to 2008 as samples, and used linear probability, probit, and other regression models to show that China institutional investment is not related to executive compensation; Li and Wang [11] believed that under the "one-share-one-vote" system in China, institutional investors, as holders of tradable shares, cannot directly affect corporate governance and executive compensation. Empirical evidence also shows that there is no significant relationship between institutional investors and executive compensation.

To sum up, institutional investors will optimize investment and management by integrating factors such as the scale, industry, culture, strategy, investment, and financing opportunities of the enterprise, so as to improve the internal governance of the enterprise, increase the sensitivity of executive compensation performance, comply with the performance contract system and curb the stickiness of executive compensation. In addition, different types of institutional investors have different degrees of influence on executive compensation, which also lays a foundation for subsequent empirical research.

2.2. Research Assumptions. According to the optimal contract theory and relevant contents of incentive theory, there is a contractual relationship between shareholders and senior management, which maintains and restricts the transaction cooperation between the two parties and seeks the development of the company under the premise of sharing the responsibility risk. At the same time, shareholders are required to pay certain remuneration to senior management as an incentive and warning. According to the incentive theory, executive compensation should be highly positively correlated with the performance they create. When the performance they create rises, the compensation they receive should also rise, which is the combined effect of positive reinforcement and negative reinforcement. However, according to the description of principal-agent theory and information asymmetry theory, in fact, the management is responsible for the real operation, development, and governance of the company, and there is a conflict of interests between the management and shareholders. The dynamic opportunity to pursue short-term interests results in the executive compensation contract not being effectively performed. First, senior managers are generally selected by shareholders themselves. They have professional advantages, management advantages, and information advantages. On the whole, professional managers are definitely beneficial to the long-term development of the company. When the performance of senior executives declines, shareholders will generally have a "failure tolerance" mentality and will not impose too much punishment on senior executives (Lai and Leng) [12]. If the punishment is too high, the management may lose their enthusiasm for work or start their own business with their unique advantages, which is not worth the cost to the company. From a psychological point of view, when the performance of senior executives drops, shareholders will impose a slight punishment or even no

punishment, which will cause the senior executives to feel ashamed and work harder in the next stage, which is actually a kind of reverse incentive. Secondly, shareholders, after all, as the owners of the company, delegate the management of the company to the senior management and enjoy the benefits themselves. For the senior management, there will be an imbalance in their hearts. They think that their efforts do not match the remuneration and most of the company's benefits flow to shareholders. Therefore, Zhu et al. [13] proposed that when the performance of senior executives decreased, the senior executives were dissatisfied with the penalty of salary reduction and even used their power to change their salaries. Third, as a listed company, executive compensation will be disclosed to the public in the annual report. If the executive compensation is reduced too much, it may imply poor management of the enterprise and affect the reputation of the executive. Therefore, companies generally do not significantly reduce executive compensation. Fourthly, Fang (2011) [14] believed that the salary of the company's staff is a health factor, no matter what the salary system is set, the staff should only reach a neutral satisfaction state. On the contrary, when the salary system deteriorates to below the expectations of the staff, a negative attitude will be generated, resulting in a decrease in work efficiency and a consequence of the company's poor development. The economic concept can be introduced from this, that is, salary is a kind of rigid demand. When the company's performance drops, the salary will not drop too fast, which is a gentle curve. To sum up, the company may impose "heavy rewards and light penalties" or even "heavy rewards and zero penalties" on senior executives. Based on this, this paper proposes the hypothesis H1 as follows:

Hypothesis H1: Chinese listed companies have sticky characteristics of executive compensation.

The theory of institutional shareholder activism points out that the scale of institutional investment has expanded rapidly since the 1980s. Many listed companies hold more than half of their shares in institutional investment. Like shareholders, they pay attention to the long-term development of enterprises. The purpose of investment is to return and obtain the maximum benefit with the minimum cost. How to manage the enterprise is the new target of institutional investors in the aspects of fundraising, investment, management, and withdrawal. What's more, for institutional investors, there is also pressure on customers to manage their financial interests. Therefore, it is particularly important to invest correctly and effectively. First, the organization has a very rich and comprehensive investment management team. From the perspective of corporate investment, Liang (2015) [15] pointed out that the management is overconfident. Some radical executives may increase their investment due to performance-based compensation, which will increase their chances of getting compensation and improve their status and reputation. However, in this way, the risk of corporate investment failure will increase significantly, thus infringing on the interests of shareholders and exposing the enterprise to the risk of nonsustainable development. Li and Mi [16] believed that when institutional investors enter the enterprise, their rich management

experience can formulate corresponding mechanisms according to specific conditions, so as to prevent this from happening without damaging the interests of the enterprise to seek maximum marginal revenue. Secondly, institutional investors can also play a regulatory role. Institutional investors have the right to remind or reject the radical and unreasonable investment decisions made by senior executives to safeguard the rights and interests of enterprises. Thirdly, the institutional investor team has abundant resources and information. They can bring high-quality customers to the enterprise and set up a more perfect investment system to increase the probability of successful investment and restrain the executives from making aggressive and subjective investment decisions. Finally, Li and Li [17] confirmed through the panel and cross-sectional data that due to the objectivity and completeness of institutional investors and their large shareholding, they are not easy to sell off. Therefore, they pay attention to the long-term development interests of enterprises, and their participation in corporate governance can also reduce the information asymmetry between the governance layer and the management. Compared with corporate executives, institutional investors are more in line with the interests of shareholders. Shareholders can be informed of the company's operation, management, and grasp of market conditions through voting at shareholders' meetings, private negotiations, explanatory letters, and other methods, so as to obtain a more comprehensive understanding of the information. Based on this, this paper proposes the hypothesis H2 as follows:

Hypothesis H2: Institutional investors inhibit the stickiness of executive compensation.

In the previous literature research, institutional investors are a wide range of groups, and their shareholding ratio, shareholding duration, investment philosophy, degree of risk preference, and the degree of state intervention have great differences in corporate governance and executive compensation contracts. If we only consider the impact of institutional investors on the stickiness of executive compensation, there may be certain research errors that affect the judgment of the enterprise. The major institutional investors in China include six categories: securities investment funds, social security funds, qualified foreign institutional investors, securities companies, insurance companies, and trust companies. This paper refers to the classification method of institutional investors by Brickley et al. [18]. See Table 1 for details.

For the pressure-resistant institutional investors, they pay more attention to how to prolong the company's life cycle and stand firm in the competitive industry for a long time (Zhang and Chen) [19]. Coupled with the abundant resources and information advantages of the team, the team will generally actively participate in corporate governance, promote the improvement of corporate organizational structure, enhance the degree of corporate internal governance, enhance the overall reputation of the company and increase the interests of stakeholders. At the same time, the organization will also play the role of supervisor, especially in preventing and negotiating the behaviors of senior executives that are detrimental to the interests of the company.

TABLE 1: Classification of institutional investors.

Classify	Institution name	Investment theme	Investment ratio limit	Relationship with investee
Pressure-resistant institutional investors	Securities investment funds	Risk coexists and marginal revenue is maximized.	Yes	Do not intervene in corporate governance under stringent market supervision conditions
	Social security fund	Responsible investment, safety first	Yes	Active participation in corporate governance with high independence
	Qualified foreign institutional investors	Long-term stable development and multilateral cooperation	Yes	Actively participate in corporate governance, rational investment
Pressure-sensitive institutional investors	Securities company	Capital appreciation, business interests	No	Low independence, often as a stock underwriter
	Insurance company	Seeking profit from stability	Yes	Two-way benefit
	Trust company	Value investment with high liquidity	No	Two-way benefit

They are satisfied with the sense of accomplishment brought by managing and developing the company. Yi et al. [8] found out from the companies that selected the A-shares listed in Shanghai and Shenzhen stock exchanges of China from 2004 to 2006 that this kind of pressure-resistant investors can greatly improve their performance sensitivity to compensation for enterprises, while the relationship between the investors of pressure sensitive institutions and their compensation management performance is not significant, which proves this. For companies, the addition of pressure-resistant institutional investors will make the supervision cost lower than the incremental revenue, thus forming a strategic alliance between shareholders and institutional investors to promote the long-term development of the company. For the pressure-sensitive institutional investors, they have more commercial interests in the company (Jiang and Li) [20]. For example, insurance companies, apart from capital investment to protect their value, are more concerned about insurance coverage and the probability of accidents with customers and will not actively participate in corporate governance. This will not only not be of special help to their own interests but will also increase additional management costs, which will do more harm than good. Based on this, this paper proposes the hypothesis H3 as follows:

Hypothesis H3: Bias-pressure-resistant institutional investors have stronger inhibition on executive compensation stickiness than bias-pressure-sensitive institutional investors.

3. Research Design

3.1. Sample Selection and Data Sources. This paper selects the listed companies in Shanghai and Shenzhen A-share market of China from 2014 to 2018 as the research sample, mainly studying the relationship between corporate governance and executive compensation stickiness. In order to ensure the validity of the data and the empirical results, the following measures are taken to deal with the samples:

(1) If the enterprises with ST and ∗ST are excluded, such enterprises may have losses for three consecutive years, and the relevant indicators have abnormal conditions, which may cause large errors in the empirical results, so they are excluded;

(2) Excluding financial and insurance enterprises, which have different financial statements from general enterprises and lack of universality, so they are excluded;

(3) The enterprises with incomplete data of relevant variables are excluded, because some enterprises have undisclosed or missing data, which will affect the operation of the model, so they are excluded;

(4) If the companies with abnormal indicators are excluded, the companies with negative net profit for the current year, asset-liability ratio, and institutional investors holding more than 100% or negative will be excluded. If the companies with abnormal indicators will cause deviation from the empirical results, they will be excluded.

Through the abovementioned processing, a total of 7,670 samples were selected, and the data were mainly from RESSET database. In the empirical part, this paper uses Stata15.0 to conduct comprehensive processing and statistical analysis on the model data.

3.2. Definition of Major Variables

(1) Executive compensation (*Lnpay*). In the RESSET database, the total compensation of the top three highest paid executives is selected and the natural logarithm is used to remove the dimension to measure the executive compensation.

(2) Corporate performance (*Lnperf*). Referring to the method of Fang [21], the net profit after excluding nonrecurring profit and loss is taken as a measure of the company's performance. In addition, the performance Down of the test variable is defined as: when the company's performance drops year-on-year, the value is 1, and vice versa, 0.

(3) Institutional investors (*IIS*). If there is an institutional investor holding 1 in the sample company, otherwise 0.

(4) Bias-resistant institutional investors (*PRII*). If the actual proportion of total holdings of the pressure-

TABLE 2: Definition of variables.

Variable name	Variable code	Variable definition
Executive compensation	Lnpay	The natural logarithm of the total remuneration of the top three executives
Corporate performance	Lnperf	Natural logarithm of net profit after excluding nonrecurring profit and loss
Decline in performance	Down	If the results of the company decrease year-on-year, 1 will be taken, otherwise, 0 will be taken.
Institutional investor	IIS	If the company has institutional investors holding shares, 1 will be taken; otherwise, 0 will be taken.
Bias-resistant institutional investors	PRII	Bias-resistant institutional investors take 1, otherwise, take 0
Separation of two posts	Dual	If the two positions of chairman and general manager concurrently take 1, otherwise take 0
Holding ratio	Share	Proportion of shares held by the largest shareholder
		The ultimate controllers are SASAC and finance
Central government control	CG	The ministry and other central institutions and the state-owned enterprises directly under the central government shall take 1, and the contrary shall take 0
Asset-liability ratio	Lev	Ratio of total liabilities to total assets at year-end
Board independence	Indd	Proportion of independent directors to total directors
West	West	If the place of incorporation of the company is in the west, 1 will be taken; otherwise, 0 will be taken.
Central	Central	If the place of incorporation of the company is central, 1 will be taken; otherwise, 0 will be taken.
Company size	Lnsize	Natural logarithm of total assets of a company
Rate of return on common stockholders' equity	ROE	Net profit divided by net assets
Year	Year	Virtual variables that control annual influencing factors
Industry	Industry	Virtual variables, controlling industry influencing factors

resistant institutional investors is greater than the actual proportion of total holdings of the pressure-sensitive institutional investors, it is recorded as 1, otherwise, it is taken as 0.

(5) See Table 2 for the specific definition of control variables.

3.3. Model Construction

(1) In order to verify the relevant assumptions proposed by H1, model 1 was constructed with reference to the research method of Junxiong Fang (2009) [21].

$$
\begin{aligned}
\text{Lnpay}_{i,t} = {} & \alpha_0 + \alpha_1 \text{Lnperf}_{i,t} + \alpha_2 \text{Lnperf}_{i,t} \\
& \times \text{Down}_{i,t} + \alpha_3 \text{Down}_{i,t} \\
& + \alpha_4 \text{Dual}_{i,t} + \alpha_5 \text{Share}_{i,t} + \alpha_6 CG_{i,t} \\
& + \alpha_7 \text{Lev}_{i,t} + \alpha_8 \text{Indd}_{i,t} + \alpha_9 \text{West}_{i,t} \\
& + \alpha_{10} \text{Central}_{i,t} + \alpha_{11} \text{Lnsize} + \alpha_{12} \text{ROE} \\
& + \alpha_{13} \sum \text{Industry}_{i,t} + \alpha_{14} \sum \text{Year}_{i,t} + \varepsilon_{i,t}.
\end{aligned}
\tag{1}
$$

In model 1, when the corporate performance (Lnperf) rises, Down is 0, and the sensitivity of executive compensation (Lnpay) to the corporate performance (Lnperf) is α_1; when the corporate performance (Lnperf) drops, Down is 1, and the sensitivity of executive compensation (Lnpay) to the corporate performance (Lnperf) is $(\alpha_1 + \alpha_2)$. If $\alpha_1 \rangle (\alpha_1 + \alpha_2)$, that is $\alpha_2 \langle 0$, it indicates that there is a sticky characteristic of executive compensation.

(2) In order to verify the relevant assumptions proposed by H2, model 2 is constructed with reference to the research methods of Lielan Wu and Wen Xu (2019) [22].

$$
\begin{aligned}
\text{Lnpay}_{i,t} = {} & \beta_0 + \beta_1 \text{Lnperf}_{i,t} + \beta_2 \text{Lnperf}_{i,t} \times \text{Down}_{i,t} \\
& + \beta_4 \text{Lnperf}_{i,t} \times \text{Down}_{i,t} + \beta_5 \text{Down}_{i,t} \\
& + \beta_6 \text{IIS}_{i,t} + \beta_7 \text{Dual}_{i,t} + \beta_8 \text{Share}_{i,t} + \beta_9 CG_{i,t} \\
& + \beta_{10} \text{Lev}_{i,t} + \beta_{11} \text{Indd}_{i,t} + \beta_{12} \text{West}_{i,t} \\
& + \beta_{13} \text{Central}_{i,t} + \beta_{14} \text{Lnsize} + \beta_{15} \text{ROE} \\
& + \beta_{16} \sum \text{Industry}_{i,t} + \beta_{17} \sum \text{Year}_{i,t} + \varepsilon_{i,t}.
\end{aligned}
\tag{2}
$$

In model 2, the effect of institutional investors (IIS) on the stickiness of executive compensation is studied by adding the triple interaction term (Lnperf×Down×IIS) of institutional investors (IIS) with corporate performance (Lnperf) and performance decline test variable (Down). Referring to the relevant mechanism of model 1, when the coefficient of the interaction between corporate performance (Lnperf) and performance decline test variable (Down) (Lnperf×Down) α_2 is significantly negative, the sticky characteristic of executive compensation exists; In model 2, according to the partial derivative and interaction principle, when the triple interaction (Lnperf×Down×IIS) coefficient of an institutional investor (IIS), corporate performance (Lnperf) and performance decline test variable (Down) is opposite

and significant to the interaction ($Lnperf \times Down$) coefficient of corporate performance ($Lnperf$) and performance decline test variable ($Lnperf \times Down$) in the model 1, that is, the triple interaction ($Lnperf \times Down \times IIS$) coefficient of institutional investors (IIS), corporate performance ($Lnperf$) and performance decline test variable ($Down$) β_2 is significantly positive, indicating that institutional investors inhibit the stickiness of executive compensation.

(3) Model 3 is constructed to verify the relevant assumptions proposed by H3.

$$
\begin{aligned}
\text{Lnpay}_{i,t} = {} & \gamma_0 + \gamma_1 \text{Lnperf}_{i,t} + \gamma_2 \text{Lnperf}_{i,t} \times \text{Down}_{i,t} \\
& \times \text{PRII}_{i,t} + \gamma_3 \text{Lnperf}_{i,t} \times \text{PRII}_{i,t} \\
& + \gamma_4 \text{Lnperf}_{i,t} \times \text{Down}_{i,t} + \gamma_5 \text{Down}_{i,t} \\
& + \gamma_6 \text{PRII}_{i,t} + \gamma_7 \text{Dual}_{i,t} + \gamma_8 \text{Share}_{i,t} + \gamma_9 CG_{i,t} \\
& + \gamma_{10} \text{Lev}_{i,t} + \gamma_{11} \text{Indd}_{i,t} + \gamma_{12} \text{West}_{i,t} \\
& + \gamma_{13} \text{Central}_{i,t} + \gamma_{14} \text{Lnsize} + \gamma_{15} \text{ROE} \\
& + \gamma_{16} \sum \text{Industry}_{i,t} + \gamma_{17} \sum \text{Year}_{i,t} + \varepsilon_{i,t}.
\end{aligned}
\tag{3}
$$

In model 3, similarly, when institutional investors are biased to resist ($PRII = 1$) and corporate performance rises ($Down = 0$), the sensitivity of executive compensation ($Lnpay$) to corporate performance ($Lnperf$) is ($\gamma_1 + \gamma_3$), and the sensitivity of executive compensation ($Lnpay$) to corporate performance ($Lnperf$) when corporate performance declines ($Down = 1$) is ($\gamma_1 + \gamma_2$) + ($\gamma_3 + \gamma_4$), which the stickiness of executive compensation is ($\gamma_1 + \gamma_3$)/($\gamma_1 + \gamma_2 + \gamma_3 + \gamma_4$); When institutional investors are biased pressure sensitive ($PRII = 0$) and corporate performance rises ($Down = 0$), the sensitivity of executive compensation ($Lnpay$) to corporate performance ($Lnperf$) is γ_1, the sensitivity of executive compensation ($Lnpay$) to corporate performance ($Lnperf$) when company performance declines ($Down = 1$) is ($\gamma_1 + \gamma_4$), which the stickiness of executive compensation is (γ_1)/($\gamma_1 + \gamma_4$). If (γ_1)/($\gamma_1 + \gamma_4$) ⟩ ($\gamma_1 + \gamma_3$)/($\gamma_1 + \gamma_2 + \gamma_3 + \gamma_4$), then hypothesis H3 holds.

4. Empirical Analysis

4.1. Descriptive Statistics. According to Table 3, it can be seen that the average value of executive compensation ($Lnpay$), which is an explanatory variable, is 14.5133, and the standard deviation is 0.6699, indicating that there is little change in executive compensation of listed companies from 2014 to 2018. This also makes sense. For listed companies, executive compensation needs to be disclosed. Moreover, executive compensation also represents the company's strategic planning. If the change is too large, it will have an important impact on both the enthusiasm of the executive and the reputation of the company. Therefore, executive compensation will not change much in five years. The maximum value of corporate performance ($Lnperf$) as an explanatory variable is 23.2340 and the minimum value is 15.1554. This shows that the performance of listed companies in China

varies greatly due to their different scale, industry, and strategic objectives. The average value of the performance Down variable ($Down$) is 0.3099, which indicates that about 30% of the companies in China experienced a year-on-year decline in performance in the past five years, possibly due to the government's macro control and corporate tightening strategies. The average value of $PRII$ is 0.2912, which indicates that the biased pressure-sensitive institutional investors are dominant. Among the control variables, the average value of $Dual$ is 0.2568, which indicates that about 75% of the listed companies have different governance levels from the most powerful leaders of the management. On the whole, the listed companies in China have good governance in the aspect of dual. The maximum value of the largest shareholder's controlling share is 0.7482, while the minimum value is 0.0903. This shows that the sample companies have a large difference in ownership structure, which also shows that the companies selected in this paper are universal and cover the basic situation. The average value of CG is 0.1246, which indicates that about 12% of enterprises in China are controlled by the central government, and most of them are locally controlled and private enterprises. As for the independence of the board of directors, the minimum value is above 30%, which indicates that the selected samples all meet the basic requirements of modern corporate governance theory for the proportion of independent directors.

From Table 4, it can be seen that in the year of 2014–2018, the manufacturing industry is still the leader of the industry of listed companies in China, accounting for nearly 60% of the total. Information transmission, software and information technology service industry, real estate industry, wholesale and retail industry also reached more than 5%, which is related to China's population base and national conditions of science and technology. Other industries accounted for a relatively fragmented share, thus controlling both annual and industry indicators in this study.

4.2. Correlation Analysis. Table 5 shows that executive compensation ($Lnpay$) has a significant positive correlation with corporate performance ($Lnperf$) and a significant negative correlation with performance decline variable ($Down$), which is in line with the relevant content of optimal contract theory and incentive theory. Executive compensation should be highly consistent with corporate performance. However, the difference in the absolute value of the coefficient can also roughly reflect the asymmetry of executive compensation sensitivity to performance. From the perspective of institutional governance, executive compensation ($Lnpay$) has a significant positive correlation with institutional investors (IIS) and a significant negative correlation with bias-resistance institutional investors ($PRII$), which indicates that the existence of institutional investors will increase executive compensation to a certain extent. It may be that institutional investors use resources to improve corporate performance and thus increase executive compensation. The existence of biased and resistant institutional investors will reduce executive compensation, which may be

TABLE 3: Descriptive statistics of main variables.

Variable	Observed value	Average/Mean value	Standard deviation	Minimum	Maximum
Lnpay	7670	14.5133	0.6699	13.0303	16.5161
Lnperf	7670	19.0647	1.4781	15.1554	23.2340
Down	7670	0.3099	0.4625	0	One
IIS	7670	0.8318	0.4032	0	One
PRII	6380	0.2912	0.4544	0	One
Dual	7670	0.2568	0.4370	0	One
Share	7670	0.3553	0.1478	0.0903	0.7482
CG	7670	0.1246	0.3303	0	One
Lev	7670	0.4049	0.1928	0.0593	0.8407
Indd	7670	0.3711	0.0507	0.3333	0.5714
West	7670	0.1520	0.3590	0	One
Central	7670	0.1193	0.3242	0	One
Lnsize	7670	22.4971	1.2943	20.2191	26.5472
ROE	7670	0.1042	0.0656	0.0090	0.3446

TABLE 4: Sample annual industry distribution.

Industry name	2014	2015	2016	2017	2018	Sum	Specific gravity (%)
Mining industry	21	21	21	21	21	105	1.37
Electricity, heat, gas, and water production and supply industries	57	57	57	57	57	285	3.72
Realty business	81	81	81	81	81	405	5.28
Construction industry	80	80	80	80	80	400	5.22
Transportation, warehousing, and postal services	96	96	96	96	96	480	6.26
Education	2	2	2	2	2	10	0.13
Scientific research and technology services	10	10	10	10	10	50	0.65
Agriculture, forestry, animal husbandry, and fishery	8	8	8	8	8	40	0.52
Wholesale and retail	120	120	120	120	120	600	7.82
Water, environmental, and public facilities management industry	23	23	23	23	23	115	1.50
Health and social work	6	6	6	6	6	30	0.39
Culture, sports, and entertainment	18	18	18	18	18	90	1.17
Information transmission, software, and information technology services	132	132	132	132	132	660	8.60
Manufacturing industry	852	852	852	852	852	4260	55.54
Accommodation and catering	5	5	5	5	5	25	0.33
Comprehensive	5	5	5	5	5	25	0.33
Leasing and business services	18	18	18	18	18	90	1.17
Sum	1534	1534	1534	1534	1534	7670	100.00

due to the fact that institutions such as securities investment funds pay attention to long-term returns, actively participate in corporate governance, and comprehensively supervise the rights of executives, resulting in a decrease in executive compensation. In addition, the correlation coefficients of most variables are below 0.5, which indicates that the probability of multicollinearity among variables in the regression model is very low.

4.3. Regression Analysis. According to Table 6, in model 1, the regression coefficient of corporate performance (*Lnperf*) is 0.0688 and significant at 1%, and the regression coefficient of cross term (*Lnperf×Down*) is -0.0278 and significant at 1%. From the abovementioned model construction, it can be seen that the sensitivity degree of executive compensation to performance when the corporate performance increases are 1.6780 times that when the corporate performance decreases. The sticky characteristic of executive compensation exists, assuming H1 is verified. In terms of control variables, the first largest Shareholder's controlling share, independent

director's proportion (*Indd*), and the regression coefficient of the company's place of registration (*West, Central*) are significantly negative, indicating that they are significantly negatively correlated with executive compensation, the regression coefficients of performance decline test variable (*Down*), central control (*CG*), company size (*Lnsize*), and return on equity (*ROE*) are significantly positive, indicating that they are significantly positively correlated with executive compensation; the Dual regression coefficient is positive at the significant level of 10%. The asset-liability ratio (*Lev*) regression coefficient is not significant and has no significant impact on executive compensation. From this, it can be concluded that the existence of the largest shareholder and the independent director with a high proportion will play a role in supervising the senior management to manipulate their own remuneration, which is helpful to the implementation of the senior management remuneration contract; enterprises under central control generally have a sound system with clear rewards and punishments. The larger the company is, the better its operating conditions will be, and the higher the executive compensation will be.

Table 5: Correlation coefficient matrix.

	Lnpay	Lnperf	Down	IIS	PRII	Dual	Share	CG	Lev	Indd	West	Central	Lnsize	ROE
Lnpay	1.0000													
Lnperf	0.4717***	1.0000												
Down	-0.0544***	-0.2203***	1.0000											
IIS	0.1653***	0.2170***	-0.0233*	1.0000										
PRII	-0.1404***	-0.1422***	-0.0548***	-0.3821***	1.0000									
Dual	-0.0252**	-0.0986***	-0.0178	-0.1519***	0.1180***	1.0000								
Share	-0.0169	0.1979***	0.0066	0.0271***	-0.0804***	-0.0560***	1.0000							
CG	0.1079***	0.1520***	-0.0110	0.1406***	-0.1023***	-0.1597***	0.1151***	1.0000						
Lev	0.2354***	0.2647***	-0.0148	0.1918***	-0.1302***	-0.0915***	0.1064***	0.1365***	1.0000					
Indd	-0.0012	0.0482***	-0.0150	-0.0390***	0.0366***	0.1538***	0.0791***	0.0078	0.0157	1.0000				
West	-0.1395***	-0.0017	-0.0090	0.0471***	-0.0425***	-0.0279**	-0.0111	-0.0059	-0.0094	-0.0130	1.0000			
Central	-0.0340***	-0.0207*	0.0291**	0.0435***	-0.0394***	-0.0908***	0.0022	0.0883***	0.0551***	-0.1558***	-0.1578***	1.0000		
Lnsize	0.4604***	0.7683***	-0.0373***	0.3091***	-0.2613***	-0.1527***	0.1906***	0.2211***	0.5983***	0.0080***	-0.0148	0.0128	1.000	
ROE	0.2867***	0.5668***	-0.3361***	-0.0108	0.1009***	0.0488***	0.1222***	-0.0280**	0.0699***	-0.0103	-0.0020	-0.0220*	0.1556***	1.000

Note. "*", "**", and "***" are significant at 10%, 5%, and 1%, respectively. The same is mentioned below.

TABLE 6: Regression results.

Variable	Model 1	Model 2	Model 3
	Observed value: 7670	Observed value: 7670	Observed value: 6380
Lnperf	0.0688***	0.7166***	0.0622***
	(5.25)	(3.94)	(4.97)
Lnperf × Down	−0.0278***	−0.0278***	−0.0256***
	(−2.78)	(−2.57)	(−2.94)
Down	0.6026***	0.6101***	0.5507***
	(3.19)	(3.14)	(2.88)
Lnperf × Down × IIS		0.0003***	
		(3.14)	
Lnperf × IIS		0.0037	
		(0.26)	
Lnperf × Down × PRII			0.0013***
			(2.79)
Lnperf × PRII			0.0015*
			(1.94)
PRII			−0.4557**
			(−2.15)
Dual	0.0283*	0.0328**	0.0323**
	(1.78)	(2.05)	(2.00)
Share	−0.4962***	−0.4902***	−0.5346***
	(−10.32)	(−10.19)	(−10.97)
CG	0.1327***	0.1276***	0.1369***
	(6.26)	(6.00)	(6.42)
Lev	−0.0533	−0.0545	−0.0563
	(−0.99)	(−1.02)	(−1.04)
Indd	−0.3854***	−0.3715***	−0.3287**
	(−2.87)	(−2.77)	(−2.41)
West	−0.2399***	−0.2433***	−0.2421***
	(−12.61)	(−12.78)	(−12.63)
Central	−0.0883***	−0.0910***	−0.0957***
(−4.50)			
	(−4.17)	(−4.30)	
Lnsize	0.1799***	0.1757***	0.1722***
	(13.02)	(12.64)	(12.34)
ROE	1.9663***	1.9846***	1.9214***
	(12.00)	(12.08)	(13.84)
Cons	9.0816***	9.0695***	9.3545***
	(50.58)	(29.94)	(49.13)
Year	Control	Control	Control
Industry	Control	Control	Control
Adj.R^2	0.3577	0.3585	0.3595
F	115.48***	106.04***	103.28***

Note. T value is shown in brackets. The same below.

In model 2, the regression coefficient of (Lnperf×Down ×IIS) is significantly positive, and in model 1, the regression coefficient of (Lnperf×Down) is significantly negative, indicating that institutional investors significantly inhibit the stickiness of executive compensation, assuming H2 is verified.

In model 3, similarly, when institutional investors are bias-pressure-resistant, the sticky coefficient of executive compensation is 1.6168; when institutional investors are bias-pressure-sensitive, the sticky coefficient of executive compensation is 1.6995. This shows that the former can inhibit the stickiness of executive compensation more than the latter, assuming H3 is verified.

4.4. Robustness Test. In this paper, the operating income is selected to replace the company's results, and the sample data are regressed based on the abovementioned three models. The results are shown in Table 7. It can be concluded from the table that in model 1, the regression coefficient of corporate performance (Lnperf) is significantly positive, and the regression coefficient of cross term (Lnperf×Down) is significantly negative. The sensitivity of executive compensation to performance when corporate performance increases are 1.2469 times that when corporate performance decreases. In model 2, the regression coefficient of triple cross term (Lnperf×Down×IIS) is significantly positive. In model 3, when institutional investors are bias-pressure-

TABLE 7: Results of robustness test.

Variable	Model 1	Model 2	Model 3
	Observed value: 7670	Observed value: 7670	Observed value: 6380
Lnperf	0.1505***	0.1873***	0.0255***
	(12.06)	(10.84)	(5.77)
Lnperf × Down	−0.0298***	−0.0273***	−0.0090**
	(−3.13)	(−2.65)	(−2.15)
Down	0.5652***	0.5596***	0.2587
	(3.15)	(3.03)	(1.11)
Lnperf × Down × IIS		0.0026***	
		(3.29)	
Lnperf × IIS		0.0436***	
		(3.19)	
Lnperf × Down × PRII		0.8750***	
		(3.42)	
Lnperf × PRII			0.0010***
			(2.82)
PRII			0.0261**
			(2.24)
Dual			−0.6052**
			(−2.40)
Share	0.0940***	0.0898***	0.0432***
	(6.21)	(5.91)	(2.68)
CG	0.2192***	0.2256***	−0.5576***
	(4.79)	(4.93)	(−11.49)
Lev	−1.0832***	−1.0775***	−0.2994***
	(−21.22)	(−21.12)	(−6.22)
Indd	−0.2895**	−0.2712**	−0.2898**
	(−2.26)	(−2.12)	(−2.14)
West	−0.1109***	−0.0147***	−0.2392***
	(−12.45)	(−12.81)	(−12.56)
Central	−0.1563***	−0.1616***	−0.0774***
	(−7.76)	(−8.02)	(−3.64)
Lnsize	0.7903***	0.7887***	0.1154***
	(60.08)	(59.62)	(8.27)
ROE	0.5649***	0.5632***	1.5692***
	(3.62)	(3.60)	(14.03)
Cons	8.9738***	8.3236***	9.1701***
	(49.08)	(30.48)	(47.14)
Year	Control	Control	Control
Industry	Control	Control	Control
Adj.R^2	0.3663	0.3707	0.3669
F	116.24***	108.38***	106.63***

resistant, the sticky coefficient of executive compensation is 1.1835; when institutional investors are bias-pressure-sensitive, the sticky coefficient of executive compensation is 1.5455. It can be seen that the regression results of the three models are basically consistent with the previous ones, indicating that the empirical results are robust.

5. Conclusions and Enlightenment

This paper takes Chinese A-share listed companies from 2014 to 2018 as the research sample, determines 7,670 observed values after screening, and explores the sticky relationship between corporate governance and executive compensation by establishing three regression models. The conclusions are as follows:

(1) The executive compensation of listed companies in China has sticky characteristics. Through empirical analysis, the sensitivity of executive compensation to performance when corporate performance increases are greater than that when the corporate performance decreases, so the sensitivity of executive compensation to performance is asymmetric.

(2) Institutional investors inhabit the stickiness of executive compensation. The organization plays the role of supervising the internal governance of the company and can communicate and negotiate directly with shareholders, which promotes the implementation of executive compensation contracts and increases the sensitivity of executive compensation to performance.

(3) Compared with the bias-pressure-sensitive institutional investors, the bias-pressure-resistant institutional investors can suppress the stickiness of executive compensation. The former only has a long-term strategic investment partnership with other listed companies, with a high shareholding ratio, and pays attention to the sustainable development of the company and long-term profit return; besides the capital appreciation target, the latter also has a commercial interest relationship with the company and participates in corporate governance passively.

It can be seen that institutional investment has become an indispensable part of the capital market. Then to play the role of institutional investors and optimize executive compensation requires not only internal control but also national government supervision. This paper puts forward the following suggestions:

(1) Improve relevant laws and regulations. At present, Chinese legislation imposes strict requirements on the shareholding ratio of some fund management companies, which will make institutional investors pay attention to short-term interests and have a negative impact on the capital market. In view of this situation, relevant laws can appropriately relax the policies on the shareholding ratio and duration of institutional investors and can formulate different regulations for different industries, such as putting forward an unlimited policy for some emerging countries to vigorously support industries, and putting forward a high-limit policy for some industries with strong supervision, such as medicine, "teach students in accordance with their aptitude" and "adjust measures to local conditions" to provide a relatively fair competition environment for institutional investors. In addition, regarding the nature, shareholding ratio, and duration of institutional investors, monetary and nonmonetary compensation for executive compensation, the state may require companies to disclose the information completely, which will increase the transparency of market information, be more conducive to the implementation of executive compensation contracts and the choice of institutional investors, and promote the vigorous development of China capital market.

(2) Optimizing the structure of executive compensation. For senior executives in China, performance bonuses now make up the lion's share of total compensation. To a certain extent, this can indeed motivate senior executives to work hard, but too large a proportion will often backfire. Executives may manipulate profits for performance rewards and use their power to raise salaries and other illegal and unethical behaviors, which will damage the value and image of the enterprise. In this regard, the corporate governance layer can increase the basic salary of senior executives and appropriately weaken the performance award. From a psychological point of view, this will make the senior management value the job more, and when their performance does not meet the expectations of the management or the management, holding a high basic salary will cause shame in their hearts, which can also play an incentive effect virtually. Senior executives, as senior management personnel of the company, are excellent both in social experience and work experience. Some studies also show that a high basic salary can promote the enthusiasm of senior executives and enhance the value of the company more than high-performance bonus.

(3) Improve the performance evaluation method. At present, the company basically uses financial performance as the basis of executive compensation incentives. This is not a comprehensive performance appraisal method, and senior executives can collude with each other to whitewash financial data and even falsify performance awards. The company can adopt a combination of financial and nonfinancial indicators to comprehensively evaluate the performance of senior management, such as increasing customer satisfaction, internal operation indicators, team staff satisfaction, and product performance improvement speed. It can also introduce party and government to promote team development, create a corporate culture, and enhance the company's core competitiveness. This cannot only reflect the performance of senior management more comprehensively and truly but also increase the unity of staff within the company and improve the internal governance of the company.

(4) Actively introducing institutional investors. Generally speaking, institutional investors have abundant information, resources, management, and professional advantages, and can play a regulatory role. In addition, they can also negotiate and communicate with the governance and management, which has a positive impact on the sustainable development and value maximization of the company. In this regard, the company should effectively protect the interests of institutional investors, and formulate relevant rules and regulations to attract institutional investors to join in for common development.

This paper also has certain research defects:

(1) Select the natural logarithm of net profit after excluding nonrecurring profit and loss as the explanatory variable of the company's results. Since the true number of the logarithm must be greater than zero, the implicit condition is to exclude the sample of companies with negative net profit, which will have a certain impact on the integrity of the sample;

(2) Directly taking the total remuneration of the top three executives disclosed in the database as the explained variable, without distinguishing the self-

purchase and incentive components in the shares, which will have a certain impact on the explanation strength;

(3) There are two variables in the selection of the company's place of registration: the western variable and the central variable, which are slightly repetitive;

(4) There are many classification methods for institutional investors and their heterogeneity. This paper only studies the classification basis of six narrow categories of institutional investors and pressure sensitivity, which has certain limitations.

Future research can go deep into national conditions, and classify and research institutional investors accurately; in the aspect of executive compensation, the aspect of self-purchase of shares can also be excluded, and executive compensation can be considered by adding the proportion and duration of executive shareholding; in terms of studying the stickiness of executive compensation and institutional investors, we can also research on the distraction of investors combined with behavioral finance theory.

Data Availability

This paper selects the listed companies in Shanghai and Shenzhen A-share market of China from 2014 to 2018 as the research sample, mainly studying the relationship between corporate governance and executive compensation stickiness. In order to ensure the validity of the data and the empirical results, the following measures are taken to deal with the samples: (1) if the enterprises with ST and ∗ST are excluded, such enterprises may have losses for three consecutive years, and the relevant indicators have abnormal conditions, which may cause large errors in the empirical results, so they are excluded, (2) excluding financial and insurance enterprises, which have different financial statements from general enterprises and lack of universality, so they are excluded, (3) the enterprises with incomplete data of relevant variables are excluded because some enterprises have undisclosed or missing data, which will affect the operation of the model, so they are excluded, and (4) if the companies with abnormal indicators are excluded, the companies with negative net profit for the current year, asset-liability ratio, institutional investors holding more than 100% or negative will be excluded. If the companies with abnormal indicators will cause deviation from the empirical results, they will be excluded. Through the abovementioned processing, a total of 7,670 samples were selected, and the data were mainly from the RESSET database. In the empirical part, this paper uses Stata15.0 to conduct comprehensive processing and statistical analysis of the model data.

Conflicts of Interest

The author declares that there are no conflicts of interest.

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