

Stock Risk Structure and Equity-based Compensation in China

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Abstract

This study examines the influence of stock risk structure on equity-based compensation (EBC) in China from 2006 to 2023. While agency theory proposes that firms utilize executive options to align systematic risk between managers and shareholders, accounting theory suggests that EBC is most effective for rewarding managers when stock values are influenced by more idiosyncratic risk. First, our empirical analysis examines the practical impact of these two theories on Chinese firm executive compensation over time. Second, we investigate the performance of firms after the adoption of EBC, considering their varying risk structures.

Keywords: Executive Compensation, Employee Options, Agency Cost