



# Prof Hwang Yuhchang: Making Sure Everyone Gets a Fair Deal

■ By Lei Na & Zhang Yueting

**P**rofessor of Accounting Hwang Yuhchang describes himself as a person with “nothing to show off”. His Shanghai Campus office is neat and tidy; there are no decorations, apart from a few books, and a white ceramic tea set that sits atop his desk. Getting out into nature is one of his favourite hobbies. He has already visited China’s well-known Huangshan (Yellow Mountain) twice, in the nearly two years since he began teaching at CEIBS. “I’m going there again, when there is snow on the mountain,” he says.

## FROM HEALTHCARE MANAGEMENT TO CORPORATE MANAGEMENT

Prof Hwang was born in Taiwan and earned his BA at Fu-Jen Catholic University and MA at National Cheng-Chi University. After receiving his PhD in Accounting from the University of California, Berkeley in 1987 he taught at universities in the US, until joining CEIBS in January 2014. He began his academic career with a focus on analytical modelling in accounting information; however after five years he shifted gears and moved to management accounting, which combines theory and practice.

At one point in his career he taught at the University of

Pittsburgh, which has the largest medical facility in western Pennsylvania and offers access to a large pool of hospital data and analytics. This sparked his interest in research on performance outcomes, cost containment and quality management in the healthcare industry. “Healthcare quality management is very important. Many patients die, not from doctors’ lack of skill, but from quality problems in managing their overall care during their hospital stay,” Prof Hwang explains. He dedicated himself to developing a scientific approach to healthcare quality/cost management.

Years later, while teaching at Arizona State University, he was invited to be part of a research project that was studying the level of diabetes care provided to the Gila River Indian Community.

Type 2 diabetes is always the most common chronic medical problem among the Indian population. If not treated properly it can result in costly and serious complications that often result in amputation of a patient’s foot or leg, cardiovascular diseases, kidney failure, and more.

Through his research, Prof Hwang’s research team was

able to identify a more cost-effective way to manage the level of care provided to the community’s diabetics. Unfortunately, the

local Indian tribal council could not be convinced of the genetic link to this condition among their population, and would not approve the publication of the research findings.

Seeing his two years of hard work come to nothing caused Prof Hwang to rethink his academic path. “There are numerous remarkable turning points in life which cannot be predicted,” he says. “I am still interested in healthcare management; however I ended up devoting the next 20 years of my life to performance measurements and incentive design in corporate management.”

Joining CEIBS was another turning point for him. During a trip to Shanghai with the Associate Dean of Arizona State University,

who mentioned that CEIBS was looking for managerial accounting faculty, Prof Hwang joked about sending in his résumé. Later, he did in fact apply for a position at CEIBS and head of the accounting department Prof Ding Yuan (now the school’s Dean) invited him to Shanghai for an interview. Soon afterwards Prof Hwang began a new phase of his academic



career at CEIBS. Besides the school's rigorous academic environment and the exciting opportunities for numerous research possibilities offered by Chinese companies, he is also quite happy to be closer to his family. "My parents are almost 90, and my father-in-law is already 100. They live in Taipei, and now I can fly back there six times a year to see them," he says.

## PERFORMANCE OR INCENTIVE?

Prof Hwang focuses his research mainly on performance measurement and incentive design. Like most scholars in the field of accounting, he loves working with data. "I think the Americans are right. You have to do research with a scientific spirit, even when you are in the business field," he says.

He believes that when designing a company's compensation system, one should consider both performance and incentive. Performance looks for past outcomes and is defined by realised

action, while incentive is forward-looking; it is the "carrot" that drives the manager for the future, he explains. He points to a recent case in the news that shows the importance of incentive in compensation design: Richard Liu, CEIBS alumnus and founder of Chinese e-commerce giant JD.com, decided to reduce his annual salary to 1 yuan, just as the founders of US Internet giants Facebook and Google had done. On Chinese social media, many were incredulous over someone being willing to give up a multi-million dollar salary.

Prof Hwang explains why this was a rational decision. "Companies like JD.com are putting their focus heavily on incentive, rather than past performance, in their compensation design. If Liu took tens of millions as his annual pay or year-end bonus, that would be really irrational. The CEO of Tesla, Elon Musk, is paid only the minimum annual salary of less than \$35,000; CEO of Google Larry Page receives an annual pay of one dollar – all these companies put their focus on incentive rather than on past

performance. Meanwhile companies like Baosteel, Wisco, PetroChina and Sinopec may think more of performance than of stimulus," he says. Bonus is for "performance" delivered while an equity award is the incentive that drives managers to create value for shareholders in the future, he adds.

Similarly, he notes, a daily demand for outstanding test scores only focuses on the performance of a child; while providing rich cultural stimulation and encouraging a child to receive a well-rounded education that could potentially shape his future is the "incentive". Entrepreneurs need to understand this difference when deciding how to compensate their senior executives, he stresses.

## AVOIDING MORAL HAZARD

"The fundamental concept in compensation design is to maximise shareholders' interest and to avoid the misconduct that results from asymmetric



information between the manager and the shareholders” Prof Hwang explains. “A fair system should offer proper incentive, while holding senior management accountable for their actions and decisions. A good compensation design can help avoid serious moral hazard problems; it rewards performance, not luck.” As an independent board member of Baosteel, he was a member of the compensation committee that helped shape the state-owned company’s restrict-share awards programme for its managers in 2015. In designing the equity award for Baosteel’s senior executives, the compensation committee advised the board to adopt a performance-contingent-vested rather than the typical time-vested award. More importantly, to address the issue of the extremely volatile steel market, the committee used the relative performance evaluation (RPE) as the KPI on vesting the stock. To receive the stock, Baosteel must rank among the top three, in terms of net income per tonnage of the steel produced, within a group of six most competitive steel

companies around the globe including: ArcelorMittal, Nippon Steel & Sumitomo Metal, JFE, POSCO, US steel and China Steel (Taiwan). The RPE based restrict-stock award was approved by SASAC and was probably the first among China’s SOEs.



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Now Prof Hwang is collaborating with CEIBS Associate Dean and Essilor Chair in Accounting Prof Xu Dingbo as well as Co-Director of the CEIBS Centre on China Innovation Associate Professor

of Management Han Jian on a research project that looks at Haier’s Micro-profit-centre (MPC) for Innovation Platform. “We want to know what influence Haier’s changes in organisation design and incentive system will have on China’s future SOE reforms,” he says.

According to Prof Hwang, the MPC for Innovation Platform also needs a proper incentive and reward system if it is to succeed. “In the end, in addition to organisation design, it’s always about people. It has a lot to do with incentive, and rewards plays a crucial role as the enabler for change,” he says. “People are complex, but we can still think about them rationally, in an economic context. There is a degree of rationality to people’s actions. Everyone has free will, and can always make unrestrained choices. For entrepreneurs, the key to successful compensation design is not simply how much we should reward our executives. More importantly, it is about on what bases do we reward our managers; and can we truly differentiate luck from performance!”

