The Impact of Union Chairman-Executive Duality on Employee Salary: The Case of Chinese Listed Companies

Xin-xin GENG¹,a,* , Long ZHANG¹,b and Qiu-li GE¹,c

¹College of Economics and Management, Nanjing University of Aeronautics and Astronautics, Nanjing, Jiangsu, China

agengxx@nuaa.edu.cn,b, lzhang@nuaa.edu.cn,c, nanhanggeqiu@163.com

*Corresponding author

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Abstract. This paper holds that Union chairman and executive duality reflects the willingness of management to "proactively" pay attention to employees' interests. This paper starts from the attention-based view of the firm and takes Chinese listed companies from 2010 to 2017 as the research sample to discuss the relationship between Union chairman and executive duality and employee compensation. The empirical research shows that: (1) Union chairman and executive duality helps to narrow the executive-employee pay gap; (2) The power of senior executives positively regulates the relationship between Union chairman and executive duality and the executive-employee pay gap; (3) The alliance power of the President of the trade union positively regulates the relationship between Union chairman and executive duality and the executive-employee pay gap.

1. Introduction

Since the professionalization of the cadres of the basic level trade unions has not been carried out, the part-time job of the chairman of the trade union is common in enterprises[1]. This phenomenon is closely related to the dual status of Trade unions in China[2-3]. Studies show that in terms of improving employee welfare, the performance of union president and executive duality is not as good as that of the ordinary employees[4-5]. But the existing literature does not deeply explore whether union president and executive duality can maintain employee compensation.

Union president and executive duality reflects management's willingness to "proactively" focus on employees' interests. Senior executives who also serve as the president of the union also have the possibility to influence the salary of employees due to their executive status. Combined with the basic concept of enterprise attention[6], when senior executives also serve as the president of the union, the attention of the senior management team will focus on issues related to employees' rights and interests, thus affecting the decision-making behavior of the enterprise. Moreover, according to the context principle of attention, its influence on business decisions also depends on individual and structural power. To this end, this paper will try to conduct research from a new perspective—the corporate attention perspective, and try to answer the following questions: Will senior executives who are also the president of the union pay attention to and protect employees' fair compensation rights and interests? If so, is the executive's influence on employees' compensation fairness influenced by the executive's power?

Within the organization, it is one of the requirements for the design of the salary system to ensure basic employee compensation fairness. Otherwise, a large amount of salary expenditure may lead to negative emotions and behaviors of employees due to unfairness. The executive-employee salary gap reflects the salary equity issue closely related to the majority of employees. The fundamental goal of an enterprise is to make a profit. In order to maximize their own interests, enterprises
generally adopt the practice of increasing executive compensation to improve performance. In the context of continuous growth of social economy and income, the increase of executive-employee compensation gap means that the concentration degree of resource allocation to the executive group increases, and the internal compensation of enterprises grows asymmetrical. In order to prevent employees from developing negative emotions and behaviors as a result, it is urgent to effectively narrow the excessively large executive-employee compensation gap. An important condition for the implementation of this decision is the management autonomy of the senior management team. In connection with the principle of enterprise attention context, the autonomy of management of the senior team represents the ability of senior executives and the chairman of the trade union to implement the decision of pay gap.

In view of this, based on the attention-based view of firm, this paper will focus on how the decision-making environment symbolized by union president and executive duality affects the executive-employee compensation gap. This will not only help scholars to deepen their understanding of the influence mechanism of union president and executive duality on the executive-employee salary gap and reveal the strategic value of union president and executive duality, but also provide reference for business management decision makers, and relevant government departments.

2. Theoretical Analysis and Research Hypothesis

2.1. Union Chairman and Executive Duality and Employee-Executive Salary Gap

According to the principle of attention situation, the specific decision-making situation of the management determines its focus of attention and decision-making behavior. The focus of attention of individual decision makers is triggered by the characteristics of the situation they are facing, and this situational attention determines their behavior. The concurrent chairmanship of the senior management as the trade union chairman can be regarded as a stimulus allocated by the enterprise to guide the attention of managers, which will trigger the attention of managers to focus on safeguarding the rights of employees. Furthermore, the decision-making situation represented by a senior management concurrently serving as the chairman of the labor union will determine the focus of attention and decision-making behavior of the senior management team in safeguarding the legitimate rights and interests of employees.

When the senior management team is in a decision-making situation where the senior management concurrently serves as the chairman of the labor union, the senior management team may be guided to actively pay attention to the responsibility of safeguarding employees’ rights and interests and use it as the focus of attention. At this time, the executive team has the motivation to actively narrow the pay gap and the ability to directly affect employee pay. This is because the executive who concurrently serves as the chairman of the trade union is a member of the executive team. Therefore, when a senior executive concurrently serves as the chairman of the labor union, the senior management team may focus on information related to internal salary fairness in the company, and strive to narrow the executive-employee pay gap when making decisions, and implement it in the company to achieve true pursuit of interests of employees. Therefore, this paper proposes:

Hypothesis 1: Union chairman and executive duality negatively correlated with the employee-executive compensation gap.

2.2. Employee-Executive Pay Gap and Corporate Social Responsibility and the Power of the Union Chairman and the Allies

The upper-echelon theory believes that the different demographic characteristics of senior management team members and the process of these characteristics will affect the strategic choice of the organization. Work experience is an important feature of executives, and safeguarding employee rights and improving employee well-being may be the common perception of executives with union work experience. Therefore, the senior executives in the senior management team with
union work experience can be regarded as a union of union chairmen, and the power of the union chairmen union as a whole is related to whether the compensation decision can be implemented by the enterprise. According to the theory of upper echelon, the power of upper managers will affect their role in the decision-making and results of enterprises. The greater the power of the union chairman ally in the senior management team, the greater its influence on organizational decision-making and behavior, the more likely it is that the proposed decision to improve employee pay equity will be implemented and the pay gap within the company will be narrowed. This article proposes:

Hypothesis 2: The power of the union chairman and the allies positively regulates the relationship between union president and executive duality and the executive-employee pay gap.

2.3. Union Chairman and Executive Duality, Employee-executive Compensation Gap and the Power of Senior Executives

In the process of business operation and management, power is central, especially in strategic decision-making. Power affects the formulation and implementation of strategic decisions by senior managers and is the core of organizational strategic decisions[12]. Executive power refers to the ability of the executive team and its members to exert influence on relevant subjects in the process of corporate strategic decision-making. Senior executives can use their power to influence the behavior of enterprises to varying degrees. The more power senior executives have, the wider their action space will be, and the more likely their decisions will be actually implemented by the enterprise. On the contrary, if the executive has less power, the decision made by the executive team will be vetoed or stranded to a large extent, which is difficult to influence the actual actions of the enterprise. In other words, only if the senior management team has enough power, the decision to narrow the internal pay gap made by the senior management team under the guidance of the president of the union will not become a piece of paper. Therefore, the decision made by corporate executives to narrow the executive-employee pay gap is more likely to be implemented when the executive has more power. However, when executives have less power, they are likely to be vetoed or stranded, and the effect on corporate compensation will also be reduced. Therefore, this paper proposes:

Hypothesis 3: The power of senior executives positively regulates the relationship between union president and executive duality and executive-employee salary gap.

3. Research Design Citing Previous Work

3.1. Sample Selection and Data Sources

Due to the limitation of data update and availability, this paper takes Shanghai and Shenzhen a-share listed companies from 2010 to 2017 as the research object, and selects them according to the following principles: (1) ST companies in abnormal operation state are excluded, because abnormal financial data of companies in abnormal operation state also exist; (2) Delete companies with significantly abnormal asset-liability ratios; (3) Delete the sample with a team size less than 3, in order to ensure the authenticity of the average compensation of the top three executives; (4) Delete the missing observation values of the data that cannot be supplemented by various ways to ensure the integrity of the sample data. After the above screening, we finally got 8 years of non-equilibrium panel data, a total of 19,652 observation values. The sample data of this paper are from CSMAR database.

3.2. Measurement of Variables

A dummy variable is used to measure union president and executive duality and a relative scale is used to measure the executive-employee compensation gap. This paper takes executive power as the
moderating variable of the research model design, measures it according to the comprehensive index, and divides it into five dimensions. Based on the research of Liu Fengqin et al., this paper combines the above indexes into a comprehensive index according to principal component analysis. Factor analysis was performed on the above variables, and it was found that KMO test 0.52 was greater than 0.5, so factor analysis could be performed. The result of Bartlett Sphericity test is that the null hypothesis of Bartlett Sphericity test (Sig=0.00) is rejected, and factor analysis can be considered. After that, the seven variables are extracted into three factors, and their weights are integrated into executive Power.

This study controls corporate characteristics such as enterprise age, enterprise size, asset-liability ratio, capital intensity, total asset return rate, earnings per share and equity concentration. Considering the influence of managers' power on the compensation gap, control variables such as the proportion of independent directors and the size of the executive team were introduced. The specific variables are shown in Table 1.

| The variable name                                      | symbol | measurement                                                                 |
|--------------------------------------------------------|--------|------------------------------------------------------------------------------|
| Employee-executive pay gap                             | GAP    | Average executive pay/average employee pay                                   |
| Union chairman and executive duality                   | ISUP   | If the company's senior executives also serve as the President of the union, it is 1; otherwise, it is 0 |
| The power of an ally of a trade union president         | UPP    | The percentage of senior executives with a union background in the executive team |
|                                                        | DUAL   | If the chairman of the board and the general manager are the same person, it is 1; otherwise, it is 0 |
|                                                        | MBO    | Number of shares held by senior executives/total shares                      |
| Executive power (POW)                                 | TP     | Total compensation of top three executives/total compensation of top executives |
|                                                        | TDIRE  | The proportion of directors in senior management team                        |
|                                                        | FIRS   | Shareholding ratio of the largest shareholder                                |
| Enterprise age                                         | AGE    | Years of company establishment                                              |
| The enterprise scale                                   | LEV    | The natural log of a company's total assets at the end of the period         |
| Capital intensity                                      | CI     | Total assets/operating income                                                |
| Corporate performance                                  | ROA    | Return on total assets = net profit/total assets                             |
| Enterprise performance                                 | EPS    | Earnings per share                                                           |
| Dong ratio alone                                       | RID    | The proportion of independent directors in the total number of directors      |
| Scale of board of Supervisors                          | SUP    | Number of Supervisors                                                        |
| Executive team size                                    | MAN    | Number of Senior executives                                                  |
3.3. Analysis Method

In this paper, the standard error of correlation robustness is finally obtained, which takes into account the possible heteroskedasticity, sequence correlation and cross section correlation of panel data. In terms of model selection, this paper conducts trial calculation: first, F test and Hausmann test are used; finally, in view of the existence of heteroscedasticity in the model, auxiliary regression test based on clustering robust standard error is used in this paper to further verify the correctness of model selection. According to the results of trial calculation, the fixed effect model is finally selected to analyze panel data. At the same time, this paper also tested the joint significance of all the annual dummy variables, and found that there was a time effect in the model, so this paper finally adopted the bidirectional fixed effect model. In order to avoid the influence of outliers on the empirical results, all continuous variables except the dependent variables were reduced by 1% at the beginning and the end.

In order to verify the hypothesis of this paper, the following model was established for robust clustering regression analysis, and the data processing software was Stata15. Equation (1) is established in this paper to verify hypothesis H1. Equation (2) is established to verify hypothesis H2. Equation (3) is established to verify hypothesis H3. The subscript i represents the enterprise and t represents the time; ui represents the firm effect, ηt represents the time effect, and εit represents the random perturbation term. According to the research hypothesis, α1<0 in the expected equation (1); In equation (2), α3>0; In equation (3), α5>0.

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\begin{align*}
GAP_u & = \alpha_0 + \alpha_1 \text{ISUP}_u + \gamma \text{CON}_u + \mu + \eta + \epsilon_u \\
GAP_a & = \alpha_0 + \alpha_1 \text{ISUP}_a + \alpha_3 \text{UPP}_a + \alpha_1 \text{ISUP}_a \cdot \text{UPP}_a + \gamma \text{CON}_a + \mu + \eta + \epsilon_u \\
GAP_p & = \alpha_0 + \alpha_1 \text{ISUP}_p + \alpha_5 \text{POW}_p + \alpha_1 \text{ISUP}_p \cdot \text{POW}_p + \gamma \text{CON}_a + \mu + \eta + \epsilon_u
\end{align*}
\]

4. Statistical Analysis Results

4.1. Describe Statistics and Correlation Analysis

The average number of executives union president and executive duality is 0.02, indicating that 2% of the sample companies have the phenomenon of concurrently serving as trade union chairman. From Table 5, it can be seen that there is a positive correlation between the senior management's concurrent chairmanship of the labor union and the employee-senior relative salary gap (r=.01, p<.05). The correlation coefficient between the employee-senior absolute salary gap and the employee-senior relative salary gap is relatively high (r=.60, p<.01). In addition, the correlation coefficient between the independent variable and the control variable does not exceed 0.5, so it can be considered that the research results will not be seriously affected by the multicollinearity problem.

4.2. Hypothesis Testing

Model 1 is an estimation result that only includes control variables. Model 2 examines the relationship between executives serving as the chairman of the union and the executive-employee pay gap. The results show that the coefficient of union president and executive duality is negative, which is significant at the 5% significance level (b=-0.38, p<0.05), which indicates that union president and executive duality can help narrow the executive-employee pay gap, Hypothesis 1 is supported.
In order to test hypothesis 2, this study is based on Model 3 and Model 4 for analysis. Among them, Model 3 adds the variable of the power of the union chairman ally on the basis of Model 2, and Model 4 adds the product term of the power of an executive who is also the chairman of the union and the power of the union chairman. The results show that the product term is significant at the 1% level (b=15.78, p<0.01), hypothesis 2 is supported.

In order to verify the hypothesis 3, this study is based on Model 5 and Model 6 for analysis. Among them, Model 5 adds the variable of executive power on the basis of Model 2, and Model 6 adds the product of the power of executives serving as the chairman of the trade union and the power of executives on the basis of Model 5. The results show that executive power positively regulates the relationship between executive compatible union chairman and executive-employee pay gap at the 5% significance level (b=1.15, p<0.05). Hypothesis 3 is supported.

Table 2. Hypothesis test results.

| Variable   | Model 1 | Model 2 | Model 3 | Model 4 | Model 5 | Model 6 |
|------------|---------|---------|---------|---------|---------|---------|
| ISUP       | -0.38** | -0.36*  | -1.59***| -0.42** | -0.25   |
|            | (-2.39) | (-2.23) | (-4.39) | (-2.72) | (-1.45) |
| UPP        | -2.53***| -2.97***|         |         |         |
|            | (-5.16) | (-5.50) |         |         |         |
| ISUP×UPP   |         |         | 15.78***|         |         |
|            |         |         | (-4.49) |         |         |
| POW        |         |         |         | 1.85*** | 1.84*** |
|            |         |         |         | (-16.02)| (-15.32)|
| ISUP×POW   | -0.06   | -0.06   | -0.06   | -0.07   | -0.06   | -0.06   |
|            | (-0.84) | (-0.82) | (-0.78) | (-1.04) | (-0.95) | (-0.87) |
| AGE        | 1.02*** | 1.02*** | 1.02*** | 1.02*** | 1.21*** | 1.21*** |
|            | (-7.91) | (-7.96) | (-8.07) | (-7.99) | (-9.98) | (-10.10)|
| LEV        | 0.25*** | 0.25*** | 0.25*** | 0.25*** | 0.24*** | 0.24*** |
|            | (-3.76) | (-3.74) | (-3.73) | (-3.77) | (-3.73) | (-3.72) |
| ROA        | 5.21*** | 5.19*** | 5.15*** | 5.19*** | 5.31*** | 5.32*** |
|            | (-3.59) | (-3.56) | (-3.52) | (-3.55) | (-3.59) | (-3.61) |
| EPS        | 1.06*** | 1.06*** | 1.06*** | 1.06*** | 0.91*** | 1.00*** |
5. Conclusion

This article uses the unbalanced panel data of Shanghai and Shenzhen A-share listed companies from 2015 to 2017 as the research sample. Under the framework of the basic view of corporate attention, the two-way fixed effect model is used to regress to explore the executive-employee compensation the mechanism of the gap. The empirical results show that: senior management concurrently serving as the chairman of the labor union can indeed promote the reduction of the executive-employee pay gap and improve the welfare of employees related to pay equity. The degree of influence of executives serving as union chairman on compensation decisions will also be regulated by the power of executives and union chairman allies.

The contribution of this research lies in: First, it expands the theoretical research of executives concurrently serving as union chairpersons and the antecedent research on the pay gap, and uses empirical analysis to respond to scholars’ doubts about the value of executives concurrently serving as union chairpersons, and proves that it is relevant to employee well-being. The unique value of decision-making. Secondly, from the perspective of the attention of the senior management team, it clarified the mechanism and boundary conditions of the senior management concurrently serving as the chairman of the labor union on the employee pay gap, filled the gaps in related research, and provided a decision-making basis for the matching of the attention allocation of the corporate senior management team to the employee well-being strategy.

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