

# The impact of female executives on the pay disparity relationship between organizational staff and executives from a diversity perspective

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**Abstract.** The pay disparity between staff and executives has always been a hot issue in corporate governance. This paper empirically analyzes the governance effect of female executives on the pay disparity between staff and executives based on principal-agent theory, social equity theory, role theory, and upper echelon theory. The study found that female executives have a significant inhibitory effect on the salary gap between executives and employees; compared with state-owned enterprises, the inhibitory effect of female executives on the salary gap between executives and employees is more significant in non-state-owned enterprises; the environment is uncertain. The more extraordinary the gender, the more influential the inhibitory effect of female executives on the pay disparity between staff and executives; the greater the power of female executives, the more significant the inhibitory effect of female executives on the pay disparity between staff and executives. The research conclusion helps to deepen the understanding of the effects of female executives' participation in corporate governance from the perspective of compensation governance. It has reference significance for the construction of corporate senior management teams.

**Keywords:** Female executive; pay disparity; diversity perspective.

## 1. Introduction

The pay disparity between staff and executives is a vital incentive mechanism under the corporate governance framework and is also the focus of public and government attention. The gap between the rich and the poor in society continues to be highlighted. Studies have shown that corporate governance mechanisms are an essential factor affecting executive pay disparity [1]. As public scrutiny of corporate governance increases, scholars have found that the composition of top management teams can significantly impact executive-employee pay disparity. As women's education levels improve, the number of female managers participating in corporate governance continues to increase. Academic circles have begun to pay attention to the critical value female executives embody in corporate governance. Existing scholars have researched the characteristics of female executives and their impact on corporate performance, information disclosure, R&D investment, and corporate social responsibility.

Current research on the relationship between female executives and the pay disparity has yet to form a systematic system in terms of research methods and research paths. This essay examines the effects of the pay disparity between staff and executives, starting from the fresh viewpoint of female executives and enriches relevant research on factors affecting the pay disparity between staff and executives. It expands the existing literature's understanding of the economic consequences of female executives. This article begins with the observation that women possess many admirable traits and behaviors, including high collective interests, fairness, supervision, and personal interests. It then goes on to show that female executives can reduce the pay disparity between themselves and their employees, contributing to pertinent literature research. Considering the different organizational structures and environments of enterprises, the situational differences in the roles of female executives in state-owned enterprises and non-state-owned enterprises are distinguished. Consider the impact of environmental changes on the governance role of female executives and examine the situational differences on the part of female executives from the perspective of ecological uncertainty.

This article studies the pay disparity between female executives and executives and employees and discusses three issues through a two-way fixed effects model. The first is how female executives affect the pay disparity between staff and executives. Construct a theoretical model of the impact of female executives on the pay disparity between staff and executives, analyze the impact mechanism of female executives on the pay disparity between staff and executives, and provide a reference for corporate governance. Secondly, there is the heterogeneity of the impact of female executives on the pay disparity between staff and executives, that is, whether there are differences in the influence of female executives on the pay disparity between staff and executives in companies with different ownership properties and companies located in environmental uncertainty. Finally, this article studies female executives, female executive power, and the pay disparity between staff and executives. Executive power is affected by a variety of factors. Explain the connotation of female executive power, analyze its influencing factors, and analyze the internal mechanism by which female executives affect the pay disparity between staff and executives—the moderating effect of female executive power. Provide a reference for current management and decision-making of female managers so that they can fully and effectively utilize their excellent personalities and unique advantages.

## 2. Literature Review

With the improvement of women's economic and political status, female executives have emerged in various fields of society in recent years, playing an increasingly important role in the industrial and commercial areas. Existing research shows that the impact of female executives is mainly reflected in board governance, financial performance, and non-financial performance. Research has found that female executives help companies achieve healthier financial performance and enhance board problem-solving and leadership skills [2]. The addition of female executives can also motivate companies to reduce overall risks and improve corporate governance structures [3]. These influencing mechanisms mainly discuss female executives' risk preferences, willingness to supervise, ethics, altruism, communication skills, and democratic leadership style.

The pay disparity between staff and executives reflects the company's internal pay structure and is the core content of the executive pay contract. In recent years, the formulation of compensation plans, as a fundamental and essential company activity, has attracted widespread attention from scholars. Scholars mainly discuss the economic consequences of the pay disparity and the influencing factors of the pay disparity.

Many scholars have studied the economic consequences of the pay disparity, mainly including corporate performance, work efficiency, employee turnover rate, and R&D innovation, but the conclusions reached have some differences. Tournament theory holds that increasing pay disparity is conducive to motivating competitors to work harder, reducing distribution costs, and raising corporate performance [4]. Behavioral theory believes that pay disparity will dampen employee motivation, weaken cohesion and cooperation among employees, increase the likelihood of employee turnover, and reduce corporate efficiency [5].

Research on the influence of the pay disparity between staff and executives is mainly analyzed from three levels. The first is external environmental factors, including regional differences, industry differences, and government intervention [6]. The second is enterprise-level factors, including the nature of property rights, corporate performance, and corporate strategy. The third is corporate governance factors, including board size, proportion of independent directors, and management power [7]. In particular, some research shows that corporate governance mechanisms are an essential factor affecting the pay disparity between staff and executives [8]. It is of great significance to alleviate agency conflicts and optimize management performance.

The above review mainly reviews the existing literature on the economic consequences and influencing factors of the pay disparity between female executives, executives, and employees. Research on the pay disparity at home and abroad is becoming increasingly complete, and many classic documents have emerged. There is a certain number of studies on the impact of corporate

mechanisms on the pay disparity between staff and executives. However, there is still no research on the effects of female executives on senior executives—a study on the impact of the pay disparity between managers and employees.

According to previous research literature, managers' expertise impacts corporate decision-making through their management style. Female executives have received widespread attention from society as an essential part of the board of directors and senior management team. The primary research shows that female executives will significantly impact corporate governance and financial decision-making and have substantial explanatory power. Currently, there are many women as managers in China's capital market. Still, due to gender discrimination and the background of the times, they are regarded as a unique group among Chinese entrepreneurs.

### **3. Research Hypothesis**

#### **3.1. The impact of female executives on the executive and pay disparity**

According to the principal-agent theory, when it is difficult or costly for the principal to supervise the agent, the agent may behave lazily, or executives may take advantage of their rights. Giving agents salary incentives can increase their enthusiasm and reduce opportunism—behavior to alleviate the principal-agent problem. To reduce agency costs, companies will tend to implement salary incentives for agents to make the interests of principals and agents consistent [9] and even give excessive salary incentives to executives to encourage them to invest more in their work and then improve job performance with good financial consequences. This has gradually widened the pay disparity between corporate executives and employees. Compared with male executives, women are more responsible in terms of work attitude and ethics, have higher supervisory efficiency, and improve the independence of the board of directors, which helps to reduce agency costs, ease the dilemma of agent supervision, and reduce the need to pay high control excessive compensation incentives. At the same time, based on the analysis of social role theory and equity theory, when the salary gap between executives and employees is too large, it will make employees feel exploited, dampen employees' enthusiasm for work, and hinder the realization of the company's long-term goals. The gender-based division of labor contributes to differences in the social behavior of men and women. Compared with male executives, female executives will be more likely to promote a fair, just, and inclusive atmosphere within the company. Restrict executives from using their rights in exchange for gains at employees' expense and focus on maximizing collective interests rather than personal interests. And will tend to develop scientific compensation plans. Reducing the pay disparity between staff and executives can lead to increased value for companies by fostering a sense of fairness among employees and boosting their work enthusiasm. This, in turn, contributes to a more productive and harmonious work environment. At the same time, women show higher social sensitivity, have stronger fairness preferences and social orientations, and value interdependence, kindness, and tolerance more. Male executives create a competitive corporate atmosphere, while female executives focus on harmonious interpersonal relationships and establish a cooperative corporate environment. The salary gap needs to be bigger and more conducive to unity and cooperation within the company. Female executives suppress the pay disparity between staff and executives to satisfy women's strong fairness preference and interpersonal needs and promote pragmatic cooperation within the enterprise.

According to the higher echelon theory, managers' cognition and values will affect corporate strategic decisions. Women generally have a more challenging time advancing in their careers and face a "glass ceiling," which means women often encounter obstacles in their career advancement due to gender discrimination. Female executives face the "glass cliff" after promotion. That is, when the company is in danger, women often gain the opportunity and advancement in the enterprise. If the encouraged women cannot reverse the company's crisis, they may face being replaced. Thomas [10] found through further research that female executives may still face discrimination after breaking the glass ceiling. These professional experiences shape the cognition and values of female executives, giving them great motivation to demonstrate their effective leadership, thereby consolidating their

leadership positions. In terms of the pay disparity between staff and executives when the pay disparity between staff and executives is too large, employees' enthusiasm and work efficiency will be affected, which will, in turn, affect corporate performance. Wang [11] confirmed the inverted U relationship between the salary gap between executives and employees and job satisfaction. Reasonable salary distribution can have a motivating effect on executives and employees. However, when the salary gap is too large, it may fail to satisfy employees' autonomy. Employee job happiness is negatively impacted by needs for belonging and sexuality. In order to inspire workers and increase the effectiveness of resource allocation, female executives are therefore more inclined to suppress the pay disparity between them and the workforce, solidifying their leadership positions in the process. Based on the above reasons, female executives have a significant inhibitory effect on the pay disparity between staff and executives.

### **3.2. The moderating effect of the nature of the enterprise**

There are significant differences in the distribution of executive compensation between state-owned enterprises and non-state-owned enterprises. The remuneration of senior managers of state-owned enterprises is generally determined by government departments based on required assessments, and the correlation between administrative remuneration levels and corporate performance is weak. In state-owned enterprises, senior executives pursue political promotion incentives such as promotions and promotions in superior departments more than salary and benefits [12], and the role of salary incentives is minimal. The market generally determines executive compensation of non-state-owned enterprises and is highly related to corporate performance. Compared with state-owned enterprises, the incentive effect of executive compensation in non-state-owned enterprises is more prominent and more closely related to corporate performance, and the pay gap between employees and executives is also more significant. The pay gap between employees and executives in non-state-owned enterprises is also more likely to be improved by improving internal corporate governance. In this context, the governance effect of strict supervision of female executives on executive pay gaps is more easily reflected in non-state-owned enterprises. Despite this, many still need to utilize this ability in state-owned enterprises fully. Based on the above reasons, compared with state-owned enterprises, the inhibitory effect of female executives on the salary gap between executives and employees is more significant in non-state-owned enterprises.

### **3.3. The moderating effect of environmental uncertainty**

The strategic management school believes that the higher the environmental uncertainty, the more difficult it is to formulate strategies, and the greater the possibility of corporate decision-making errors, which will lead to a reduction in corporate value [13]. In response to environmental changes, female executives tend to avoid risks more significantly. Behavioral theory believes that excessive executive pay disparity will lead to employees' sense of unfairness and undermine teamwork [14], which is not conducive to improving corporate performance. As the environment becomes more uncertain, female executives take measures to reduce the overall level of executive remuneration based on their low-risk appetite, high social sensitivity, and cautious traits. On the other hand, they take measures to reduce the remuneration levels of executives and employees. To maintain salary fairness and mitigate possible risks to the enterprise. Based on the above reasons, get conclusion the higher the environmental uncertainty, the more significant the inhibitory effect of female executives on the pay disparity between staff and executives.

### **3.4. The moderating role of female executive power**

The theory of control rights shows that one of the critical factors affecting corporate decision-making is the power structure, and the company has senior management, such as the board of directors. The decision-making matters of each position are different, and the power configuration is naturally different. In control rights, it believes that nominal control rights are controlled by those who hold a higher proportion of the company's shares that is shareholders. Instead, actual control is held by

managers who carry out specific decision-making matters. While differences in personality traits make female executives more motivated to fulfill their responsibilities, how they affect the pay gap between employees and executives is also affected by executive team decisions and even board resolutions. Only when female executives have executive power in the executive team can they influence corporate decisions and narrow the pay gap between employees and executives.

Nowadays, the boards of directors of most companies are dominated by men. The first recognition of female executives is that of female members, followed by independent individuals. As a result, the decisions of female executives do not attract attention, and their opinions are not equally adopted. According to group decision-making theory, when female executives have less power, other executives with more significant power will have a higher say. Even if the number of female executives increases, the inhibitory effect on the pay disparity between staff and executives will be extremely weak or even unable to manifest. Based on the above reasons, get conclusion executive power positively moderates the impact of female executives on the pay disparity between staff and executives.

## 4. Measure tools

### 4.1. Data and Method

The sample initially consists of all listed firms in China's A-share market during the period 2010-2021. Data sources include CSMAR, Genius Finance, WIND, and CNINF databases, which are major domestic financial information databases widely used in research in related fields. Specifically, exclude newly listed firms, firms in financial industries, and firms designated as being distressed (ST).

### 4.2. Variable

Independent variable. Define the ratio of female executives, *Female*, as the ratio of female board members to the number of total board members.

Dependent variable. Define the employee pay disparity—the average management team salary ratio to employee salary. The remuneration of the management team includes all senior executives, directors (excluding independent directors), and supervisors. Employee wages have all employees. Precisely, the average remuneration of the management team is calculated by dividing the "total annual salary of directors, supervisors, and senior executives" by the size of management, where the size of control is the sum of the number of directors, the number of senior executives and supervisors minus the number of independent directors and the number of unidentified directors. Number of directors, supervisors, and senior executives receiving remuneration. The calculation method of average employee salary is "total employee remuneration payable" plus "cash paid to and for employees" minus the change in "total annual salary of directors, supervisors, and senior managers" and then divided by the number of employees of the group.

Control Variable. The control variables include the firm total asset (*LnAsset*), the firm age (*LnFirmAge*), the tangible asset ratio (*PPE*), the number of board members (*LnBoard*), the ratio of independent directors (*IndRate*), whether the CEO and Chairman are the same person (*Duality*), the sales growth rate (*Growth*), equity to liabilities (*E/D*), Tobins' Q (*Tobins' Q*), return to equity (*ROE*), the shares owned by the top 10 shareholder (*Top 10*), the asset-liability ratio (*LEV*)

### 4.3. Models

The baseline empirical design is two-way with firm-fixed effects and year-fixed effects to test the relationship between female executives and firm pay disparity. The following model is:

$$PayGap_{it} = \alpha_i + \beta Female_{it} + \sum \gamma_i X_{it-1} + \mu_t + \varepsilon_{it} \quad (1)$$

Where *i* indexes firm; *t* indexes year;  $X_{it-1}$  is a set of control variables;  $\alpha_i$  are firm fixed effects; and  $\mu_t$  denote year fixed effects. What are interested in is the parameter  $\beta$ , which is the estimated

relationship between female executives and the firm pay disparity. Table 1 shows the summary descriptions of the variables. The experiment found that 22.13% of board members are women.

**Table 1.** The Summary Descriptions.

Variable	Obs	Mean	Std.	Min	Max
<i>PayGap</i>	28,446	1.693	0.617	0.155	3.344
<i>Female</i>	28,574	22.13	1.305	19.78	27.25
<i>L.LnAsset</i>	28,574	2.844	0.349	1.792	3.526
<i>L.LnFirmAge</i>	28,574	0.927	0.0882	0.454	1
<i>L.PPE</i>	28,574	2.245	0.176	1.792	2.833
<i>L.LnBoard</i>	28,574	0.375	0.0545	0.167	0.800
<i>L.IndRate</i>	28,574	0.713	0.453	0	1
<i>L.Duality</i>	28,574	0.175	0.404	-0.652	3.808
<i>L.Growth</i>	28,574	2.654	3.451	0.067	35.44
<i>L.E/D</i>	28,574	2.227	1.526	0.836	17.87
<i>L.Tobins'Q</i>	28,574	0.075	0.113	-0.617	0.374
<i>L.ROE</i>	28,574	59.40	15.26	20.840	91.630
<i>L.Top10</i>	28,574	0.414	0.207	0.027	0.937

#### 4.4. Results

Table 2 shows the results of the relationship between female executives and the firm pay disparity. Column (1) shows the result without the control variables and column (2) shows the result with all the control variables. The coefficients of Females are both significantly negative which indicates that the female executives significantly reduce the firm pay disparity within the firms. Therefore, female executives have a significant inhibitory effect on the pay disparity between staff and executives is supported.

**Table 2.** Female Executives and Firm Pay Disparity.

	(1)	(2)
	<i>PayGap</i>	<i>PayGap</i>
<i>Female</i>	-0.105** (0.048)	-0.089** (0.047)
<i>L.LnAsset</i>		0.108*** (0.015)
<i>L.LnFirmAge</i>		-0.058 (0.085)
<i>L.PPE</i>		0.445*** (0.076)
<i>L.LnBoard</i>		0.142*** (0.053)
<i>L.IndRate</i>		0.090 (0.127)
<i>L.Duality</i>		-0.031** (0.012)
<i>L.Growth</i>		0.014* (0.008)
<i>L.E/D</i>		-0.001 (0.002)
<i>L.Tobins'Q</i>		0.013*** (0.003)
<i>L.ROE</i>		0.374*** (0.037)
<i>L.Top10</i>		0.001** (0.001)
<i>L.LEV</i>		-0.138*** (0.051)
<i>Constant</i>	1.711*** (0.008)	-1.327*** (0.480)
<i>Firm fixed-effect</i>	YES	YES
<i>Year fixed-effect</i>	YES	YES
<i>Obs.</i>	26472	26472
<i>Adj_R<sup>2</sup></i>	0.674	0.685

Note: L. indicates one-year lag. Standard errors are clustered at the firm level in parentheses. \*, \*\*, and \*\*\* indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

Table 3 shows the results of the moderating effect on the relationship between female executives and corporate pay gaps. Column (1) shows the results of the moderating effect of firm ownership. Define the firms as state-owned firms if the actual controllers are the SASAC (SOE=1) and add the interaction term of Female\_ SOE in the regression. Experiment instructions that the coefficient of Female\_ SOE is significantly negative, which indicates that compared with SOEs, if the executives in the non-SOEs are females, the pay disparity is reduced more. Therefore, compared with SOEs, the inhibitory effect of female executives on the salary gap between executives and employees is more significant in non-state-owned enterprises.

The column (2) shows the result of the moderating effect of firm's uncertainty. Use the frequency of the uncertain words in the firm's financial statement to measure the firm's uncertainty (Uncertain). Add the interaction term of Female\_ Uncertain in the regression. Experiment instructions that the coefficient of Female\_ Uncertain is significantly negative, which indicates that for the firms faced with more uncertainty, the negative effect of female executives on firms pay disparity is strengthened.

The column (3) shows the result of the moderating effect of female executive power. Suppose that if the ratio of female top executives is higher, the female executive power is stronger (FemExe). Add the interaction term of Female\_ FemExe in the regression. Experiment instructions that the coefficient of Female\_ FemExe is significantly positive, which indicates that for the firms with higher female executive power, the negative effect of female executives on firms pay disparity is relieved. Therefore, the greater the power of female executives, the stronger the positive effect of female executives on the pay disparity between staff and executives.

**Table 3.** The Moderating Effect.

	(1)	(2)	(3)
	<i>PayGap</i>	<i>PayGap</i>	<i>PayGap</i>
<i>Female</i>	-0.039 (0.054)	-0.050 (0.050)	-0.175*** (0.063)
<i>SOE</i>	-0.025 (0.038)		
<i>Female_SOE</i>	-0.153* (0.095)		
<i>Uncertain</i>		-0.061 (0.053)	
<i>Female_Uncertain</i>		-0.486* (0.252)	
<i>FemExe</i>			-0.117** (0.054)
<i>Female_FemExe</i>			0.439** (0.211)
<i>L.LnAsset</i>	0.108*** (0.015)	0.102*** (0.015)	0.107*** (0.015)
<i>L.LnFirmAge</i>	-0.059 (0.085)	-0.030 (0.086)	-0.055 (0.085)
<i>L.PPE</i>	0.445*** (0.076)	0.433*** (0.075)	0.445*** (0.076)
<i>L.LnBoard</i>	0.145*** (0.053)	0.135** (0.053)	0.142*** (0.053)
<i>L.IndRate</i>	0.089 (0.127)	0.072 (0.124)	0.090 (0.127)
<i>L.Duality</i>	-0.030** (0.012)	-0.032*** (0.012)	-0.031** (0.012)
<i>L.Growth</i>	0.013* (0.008)	0.011 (0.008)	0.014* (0.008)

<i>L.E/D</i>	-0.001 (0.002)	-0.001 (0.002)	-0.001 (0.002)
<i>L.Tobins'Q</i>	0.013*** (0.003)	0.012*** (0.003)	0.013*** (0.003)
<i>L.ROE</i>	0.372*** (0.037)	0.368*** (0.037)	0.374*** (0.037)
<i>L.Top10</i>	0.001** (0.001)	0.001** (0.001)	0.001** (0.001)
<i>L.LEV</i>	-0.135*** (0.051)	-0.128** (0.051)	-0.137*** (0.051)
<i>Constant</i>	-1.331*** (0.480)	-1.257*** (0.479)	-1.312*** (0.480)
<i>Firm fixed-effect</i>	YES	YES	YES
<i>Year fixed-effect</i>	YES	YES	YES
<i>Obs</i>	26472	26028	26472
<i>Adj_R<sup>2</sup></i>	0.685	0.687	0.685

Note: L. indicates a one-year lag. Standard errors are clustered at the firm level in parentheses.

\*, \*\*, and \*\*\* indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

## 5. Conclusion

The results found that female executives significantly suppress the pay gap between employees and executives. The governance characteristics of female executives will hinder the expansion of the pay gap between employees and executives. Compared with state-owned enterprises, female executives have a more significant inhibitory effect on the salary gap between employees and executives in non-state-owned enterprises. The special salary system arrangements of state-owned enterprises inhibit the role of female executives in controlling the pay disparity between staff and executives. The higher the environmental uncertainty, the more significant the inhibitory effect of female executives on the pay disparity between staff and executives. Environmental fate will strengthen the risk aversion tendency of female executives, and their cautious characteristics will be amplified, thereby reducing the overall salary level of executives objectively narrowing the pay disparity between staff and executives. In the executive team, only female executives who truly have administrative power in the executive team can influence corporate decisions and narrow the pay gap between employees and executives. The experiment shows that to narrow the pay disparity between corporate executives and employees, and full attention should be paid to the governance role of female executives. In particular, companies with a significant pay disparity between staff and executives should pay full attention to the rationality of the composition of the top management team from a gender perspective and appropriately select talented women to join the top management team. It is important to properly consider the governance role that female leaders play in non-state-owned businesses. When the environmental uncertainty faced by the company is higher, the gender diversity of the top management team should be given full play to the governance role of the pay disparity between staff and executives. As the external environment becomes more uncertain, attention should be paid to the governance role of female executives' prudent traits to prevent the further widening the pay disparity between staff and executives. In companies where male executives dominate the power and executive power is unbalanced, they should pay attention to women's characteristics, enhance the ability of female executives, and effectively exert the inhibitory effect of female executives on the salary gap between them.

Due to the limitations of large-sample empirical data, verifying the internal mechanism of female executives affecting the pay disparity between staff and executives is difficult. In the future, questionnaire survey methods can be considered to clarify further the impact mechanism of female executives on the governance effect of the pay disparity. Also, further research can be conducted on the academic qualifications, professional titles, political outlook, and other personal characteristics of female executives.

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