EXPLORING THE IMPACT OF EMPLOYEE SALARY DISPARITIES ON ENTERPRISE PERFORMANCE

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Abstract: Salary levels directly reflect the recognition of employee value within a company. Reasonable salary disparities can motivate employees to exert greater effort in pursuing higher pay or positions, thereby contributing to enhanced corporate performance. Therefore, this study aims to explore the following research objectives. 1) to explore whether internal salary disparities within the executive team impact enterprise performance; 2) to explore whether internal salary disparities between executives and employees impact enterprise performance; 3) to explore whether cross-organizational disparities in executive salaries impact enterprise performance and 4) to explore whether cross-organizational disparities in employee salaries impact enterprise performance. This study employs quantitative methods to determine the impact of salary disparities on enterprise performance.

This study utilized the Questionnaire Star platform to distribute surveys to 300 employees of the Order Group, achieving a 100% response rate with all 300 surveys returned. The collected data was analyzed using SPSS software, the following research conclusions were drawn: 1) Internal salary disparities within the executive team have a significant positive influence on enterprise performance; 2) internal salary disparities between executives and employees have a significant positive influence on enterprise performance; 3) cross-organizational disparities in executive salaries have a significant positive influence on enterprise performance and 4) cross-organizational disparities in employee salaries have a significant positive influence on enterprise performance. By establishing a competitive and fair compensation system, companies can motivate executives and employees, enhancing their creativity, dedication, and efficiency. This positive work attitude not only aids in the professional development of individual employees but also promotes the long-term growth and success of the entire organization.

Keywords: Salary Disparities, Enterprise Corporate Performance

Introduction

In recent years, with the rapid development of the capital market, reports of "sky-high salaries" have increasingly come to the public's attention. This phenomenon has exacerbated public dissatisfaction with income inequality. To effectively curb the growing discontent, the government has introduced several policies to limit the salary levels of executives in state-owned enterprises, hoping to set an example for other companies to address and limit excessively high salaries. Essentially, addressing the issue of excessive salary disparities is about resolving the fairness and efficiency problem in economic development. Historically, national policies have closely aligned with economic development trends (Wu et al., 2022). During the planned economy era, which valued fairness, the principle of socialist equity was upheld. To enhance the overall sense of fairness in society, salary disparities among different social strata were often kept within a limited range. Undeniably, the planned economy played an irreplaceable positive role under the historical conditions of that time. However, as the market economy developed, this fairness-based salary setting approach severely hindered employees' motivation, leading to continuously low operational efficiency and slow overall value growth in enterprises (Liu & Tan, 2022).

Employees are the cornerstone of a company's growth and are a crucial source of creativity. Compensation levels directly reflect the value of employees to a company. Reasonable salary disparities can motivate lower-level employees to strive for higher pay or positions, thereby enhancing enterprise performance (Zhou & Zhang, 2021). Recognizing these issues, market participants gradually began to use efficiency as the benchmark for economic growth. To fully motivate employees' enthusiasm and initiative, orderly competition was promoted within the market economy framework, and reasonable salary disparities among employees of different ranks were introduced. This aimed to stimulate greater potential value within enterprises.

Therefore, conducting in-depth research on how salary disparities, which are of significant concern to employees, affect corporate performance, will provide a scientific basis for businesses. This research will guide them in formulating more precise and effective business management strategies and decisions, thereby enhancing overall operational efficiency and competitiveness.

Research Objective (s)

(1) To explore whether internal salary disparities within the executive team impact enterprise performance.

(2) To explore whether internal salary disparities between executives and employees impact enterprise performance.

(3) To explore whether cross-organizational disparities in executive salaries impact enterprise performance.

(4) To explore whether cross-organizational disparities in employee salaries impact enterprise performance.

Literature Review

Social Comparison Theory

This theory emphasizes that wage distribution should adhere to principles of fairness and reasonableness to effectively motivate employees. Festinger highlights that comparing oneself with others within a group is a common behavior because individuals often gauge their abilities and performance objectively through such comparisons (Huo et al., 2019). These comparisons typically manifest in four ways: parallel comparison, upward comparison, downward comparison, and constructive social comparison.

Social comparison is a universally observed phenomenon and a normal psychological behavior among individuals. However, such comparisons can also lead to the formation of informal groups and intra-group competition (Jin & Wang, 2018). The theory stresses the importance of cooperation and fairness among individuals, advocating for reducing wage disparities. This study focuses primarily on upward and parallel comparisons. Upward comparison posits that individuals tend to compare themselves with those of higher status, which can result in either a contrast effect, where individuals perceive significant gaps and experience negative emotions such as severe inferiority, or an assimilation effect, which is the opposite. Parallel comparison suggests that individuals often assess themselves by comparing with similar others in their daily lives and work environments.

Salary Disparities

Salary disparity refers to the differences in salary levels that enterprises establish based on employees' different levels of ability. The design of salary disparity aims to better motivate employees to strive for higher levels of performance and attract more talented and outstanding staff. Its ultimate goal is to bring higher operational performance to the enterprise. Salary is a primary factor influencing employee behavior and significantly impacts daily operational activities of businesses (Leana & Meuris, 2015). Salary disparity has long been a central issue in salary management. While salary level refers to the absolute amount employees receive, pay disparity reflects the differences in salary between employees and their comparison targets. Pay disparity, rather than salary level, more profoundly affects employees' internal feelings and work motivation (Jensen & Murphy, 1990), thereby yielding greater economic consequences.

Additionally, salary disparity is categorized into internal and external dimensions. Internal pay disparity pertains to differences in salary among individuals at different levels within the same organization, including gaps in executive team salary and executive-staff pay differentials. External salary disparity concerns direct salary gaps among individuals at similar levels or in comparable job fields across different organizations, encompassing gaps in executive external salary and employee external salary (Siegel & Hambrick, 2005).

Research indicated the impact of salary disparity on performance (Lazear & Rosen, 1981).

Zhang (2013) found that external salary disparity among executives is positively correlated with enterprise performance. Higher external salary disparity can enhance executives' self-assessment and motivate them to work harder to maintain this salary advantage. There is a positive correlation between external salary disparity among employees and enterprise performance, indicating that as external salary disparity among employees increases, the return on assets of the enterprise also gradually improves (Huang et al, 2020).

Li and Hu (2023) argued that internal salary disparity was significantly positively correlated with performance. They categorized performance into investment efficiency and total factor productivity, and further investigated whether internal salary disparity motivated management or employees.

Enterprise Performance

Enterprise performance refers to the outcomes or returns achieved by enterprises through effective management of resources during a specific accounting period. These management activities encompass various aspects, from production and sales to financial management and human resource utilization. The key to measuring enterprise performance is assessing operational efficiency and the performance level of enterprise operators (Xu et al., 2015).

In practical terms, the level of enterprise performance directly reflects a company's performance and capability in market competition. When a company's performance reaches a certain level, it typically signifies that its products or services have attained high standards of quality and efficiency within its industry, demonstrating the potential and opportunity for the company to become an industry benchmark. Strong enterprise performance not only enhances a company's market competitiveness but also attracts trust and support from investors and partners, facilitating sustained development and growth of the enterprise. Company performance serves as a "guiding indicator" for business management and as a "regulator" for stakeholders (Feng & Gou, 2020).

It is achieved through the interactive behaviors and efforts of internal employees and is primarily used to measure the degree of task completion and the fulfillment of economic goals within an enterprise. Enterprise performance generally encompasses four aspects: financial metrics, customer-oriented indicators, internal process metrics, and learning, innovation, and growth indicators (Burns et al., 2017).

Methodology

This study employs quantitative methods to determine the impact of salary disparities on enterprise performance. First, a salary disparity and enterprise performance scale was designed, covering internal and external salary disparities scale and enterprise performance scale. The internal salary disparity scale includes differences within the executive team and between executives and regular employees. The external salary disparity scale includes differences in executive salaries and employee salaries across different organizations. This study utilized the widely adopted Likert five-point scale as the standard for scoring each question. In this scale, 1 indicates strongly disagree, 2 indicates disagree, 3 indicates neutral, 4 indicates agree, and 5 indicates strongly agree. This rating system will assist researchers in accurately capturing respondents' attitudes and perspectives regarding the impact of internal and external salary disparities on enterprise performance, providing clear quantitative foundations for data analysis.

To ensure the scientific rigor and reliability of the scale, reliability and validity tests were conducted on the questionnaire. Reliability was primarily measured using Cronbach's Alpha coefficient, which showed that the internal salary disparity scale had a Cronbach's Alpha of 0.821, the external salary disparity scale had a Cronbach's Alpha of 0.801, and enterprise performance scale had a Cronbach's Alpha of 0.792, indicating high reliability. Validity testing was conducted using the Kaiser-Meyer-Olkin (KMO) measure, which measured questionnaire validity, were all above 0.7. Additionally, Bartlett's test of sphericity was significant at less than 0.001, confirming the good validity of the questionnaire.

This study utilized the Questionnaire Star platform to distribute surveys to 300 employees of the Order Group, achieving a 100% response rate with all 300 surveys returned. The research aims to comprehensively investigate the impact of salary disparities on corporate performance. The findings are intended to enhance organizational management and operational efficiency, thereby strengthening competitiveness and fostering sustainable development capabilities.

Results

1. Descriptive Statistical

Table 1: Descriptive Analysis

Items	Category	Number of People	Percentage (%)
Gender	Male	175	58.3
	Female	125	41.7
Educational Background	Below Bachelor's Degree	125	41.6
	Bachelor's Degree	105	35.1
	Master's Degree and above	70	23.3
Age	Under 30 years old	49	16.3
	30-40 years old	169	56.3
	40-50 years old	45	15.0
	Over 50 years old	37	12.4
Years of work experience	Under 3 years	106	35.3
	3-10 years old	179	59.7
	Over 20 years	15	5.0
Job level	Regular employee	259	86.3
	Executive	41	13.7

The statistical data in Table 1 reveals important demographic and professional characteristics of the surveyed population. The survey shows a balanced gender distribution among respondents, with a slight majority of males. Overall, a high educational attainment is noted, with 76.7% holding a Bachelor's degree or higher. The age distribution is predominantly centered around the 30-40 age bracket, comprising 56.3% of the sample, indicating a mature and experienced workforce. In terms of work experience, 59.7% of respondents have 3-10 years of experience, reflecting a stable phase in their careers. Regarding job levels, 86.3% are classified as regular employees and 13.7% as executives, highlighting the hierarchical structure within the organization.

2. Correlation Analysis

Table 2: Correlation Analysis Results

Dimension	Internal salary disparities within the executive team	Internal salary disparities between executives and employees	Cross-organizational disparities in executive salaries	Cross-organizational disparities in employee salaries	Enterprise performance
Internal salary disparities within the executive team	1				
Internal salary disparities between executives and employees	.611**	1			
Cross-organizational disparities in executive salaries	.605**	.594**	1		
Cross-organizational disparities in employee salaries	.584**	.537**	.542**	1	
Enterprise performance	.574**	.621**	.563**	.598**	1

Note: **＜ 0.01

The correlation analysis results in Table 2 indicate significant positive correlations between internal salary disparities within the executive team and Enterprise performance, with a correlation coefficient of 0.574, significance level below 0.01. Similarly, internal salary disparities between executives and employees show a significant positive correlation with enterprise performance, with a correlation coefficient of 0.621, significance level below 0.01. Cross-organizational disparities in executive salaries also demonstrate a significant positive correlation with enterprise performance, with a correlation coefficient of 0.563, significance level below 0.01. Finally, cross-organizational disparities in employee salaries exhibit a significant positive correlation with enterprise performance, with a correlation coefficient of 0.598, significance level below 0.01.

Table 3: Regression Analysis Results

	Non-Standardized Coefficient		Standardized coefficient	t	Sig.	VIF	F	DW
	B	Standard Error	Beta					
(Constant)	4.421	1.432	-	9.051	0.000		52.613**	1.877
Internal salary disparities within the executive team	0.134	0.298	0.312	5.343	0.023	1.779		
Internal salary disparities between executives and employees	0.129	0.115	0.137	2.579	0.031	1.758		
Cross-organizational disparities in executive salaries	0.065	0.103	0.136	4.607	0.013	1.772		
Cross-organizational disparities in employee salaries	0.211	0.194	0.174	3.790	0.021	1.681		
R^2	0.542							
Adjusting R^2	0.561							

Note: **< 0.05

According to Table 3, the adjusted R^2 is 0.561, indicating that these variables collectively explain 56.1% of the variance in enterprise performance. The presence of autocorrelation in the residuals in the regression analysis was tested using the Durbin-Watson (DW) statistic, yielding a value of 1.877, close to 2, indicating independence of residuals. With all Variance Inflation Factors (VIFs) below 5, the regression model is considered effective.

The regression coefficient for internal salary disparities within the executive team is 0.134 ($t = 5.343$, $p < 0.05$), suggesting a significant positive impact on enterprise performance. Similarly, the coefficient for internal salary disparities between executives and employees is 0.129 ($t = 2.579$, $p < 0.05$), indicating a significant positive effect on enterprise performance. For cross-organizational disparities in executive salaries, the coefficient is 0.065 ($t = 4.607$, $p < 0.05$), showing a significant positive influence on enterprise performance. Lastly, cross-organizational disparities in employee salaries have a coefficient of 0.211 ($t = 3.790$, $p < 0.05$), indicating a significant positive impact on enterprise performance.

Discussion

(1) Internal salary disparities within the executive team have a significant positive influence on enterprise performance.

This suggests that within organizations, the greater the disparity in salaries among executives, the better the overall performance of the enterprise. This phenomenon may reflect how salary disparities motivate executives to compete and innovate, thereby enabling them to manage resources more effectively and achieve organizational goals. Research indicates that this positive effect may stem from role differentiation and collaboration within the executive team, as well as the effectiveness of incentive mechanisms, positioning the enterprise advantageously in competitive markets (Liu & Feng, 2015).

(2) Internal salary disparities between executives and employees have a significant positive influence on enterprise performance.

Research indicates that larger salary gaps effectively stimulate executives' sense of responsibility and leadership motivation, enabling them to allocate resources more efficiently and achieve organizational strategic goals. This motivational effect not only enhances the leadership roles of executives within the organization but also positively influences employees, particularly those aiming for promotions or higher compensation through improved performance. Therefore, understanding and appropriately managing the internal salary structure between executives and employees are crucial for optimizing enterprise performance.

(3) Cross-organizational disparities in executive salaries have a significant positive influence on enterprise performance.

Cross-organizational disparities in executive salaries have a significant positive impact on enterprise performance. Larger disparities in executive salaries across organizations can motivate executives to actively drive organizational development strategies and effectively mobilize resources to achieve organizational goals. This impact partly stems from internal competitive motivations within the executive team, encouraged by competitive salary mechanisms that foster sharpness and innovation in market competition. Moreover, larger salary disparities can enhance the company's brand value and market position, attracting higher-caliber talent to join the organization and thereby enhancing overall performance. Therefore, a scientific understanding and effective management of cross-organizational executive salary structures are crucial for enterprises to achieve sustained competitive advantage and long-term growth.

(4) Cross-organizational disparities in employee salaries have a significant positive influence on enterprise performance.

The greater the disparity in external employee salaries, the greater the motivational impact on employees. When employees have the freedom to decide their effort levels, they are more inclined to exert maximum effort. This enhances the efficiency of utilizing innovative resources and investment performance within the organization. Additionally, employees' positive behaviors contribute to improving enterprise performance, helping the organization establish a positive image that attracts external resources for risk-taking behaviors.

Conclusions

Perceptions of fairness in employee compensation determine their effective labor input and strategic decision-making execution, thereby influencing corporate performance and future development potential. Designing a compensation system requires comprehensive consideration of internal and external factors. Salary disparities do not exist in isolation; they interact and mutually influence each other. Any deficiencies in these aspects can greatly diminish the motivational impact of the compensation system. Excessive internal salary disparities within an organization can lead to conflicting interests among various groups, hampering effective execution of management directives and thus reducing efficiency and competitive advantage.

Conversely, reasonable internal salary disparities can sufficiently motivate both management and employees while preventing feelings of relative exploitation among staff. This fosters unity and cooperation within the company, harnessing the collaborative value creation between managers and employees, thereby enhancing production efficiency and bolstering resilience against risks. Effective compensation management practices should emphasize the combined effects of outcome fairness, procedural fairness, interpersonal fairness, and informational fairness to elevate employee satisfaction and proactive engagement.

Innovation is the driving force behind the growth of enterprises, with employees serving as the main agents of innovation. The capabilities and work status of employees directly influence the efficiency of innovation within a company. In the face of multiple uncertainties in the market environment, many companies should increasingly recognize the crucial role of employees in fostering innovation and enhancing value. Even amid operational challenges, companies should refrain from resorting to cost-cutting measures by reducing salary expenditures. A well-designed compensation system not only enhances employee productivity and aligns their goals with those of the company but also aids in attracting and retaining high-quality talent, thereby promoting innovation and strengthening core competitiveness. Emphasizing fairness in external salary competitiveness and ensuring that employee salaries remain competitive within peer companies are new strategies to enhance corporate performance. Particularly for less profitable enterprises, it is advisable to incorporate long-term indicators such as innovative outputs and outcomes into employee incentive policies, transforming the incentive mechanism into a dynamic force for innovation and development.

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