

## An Explorative Study of Executives' Excessive Compensation on Their Attitude Toward Common Staff

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**Abstract.** This paper studies the question of how the executives' excessive compensation incentive in enterprises influences their attitude towards common staff. Executives' excessive compensation in enterprises can make change in their actions and self-awareness, causing them strengthening their self-awareness in economy and altering their cognitive structures. Furthermore, excessive compensation can make them believe that they have more power than before. All of these can make executives treat their staff more partially. This paper argues that those managers who are granted more compensation believe they have much more power, treat their staff more callously and fire their staff more easily than those managers who are granted less compensation.

### 1. Introduction

In the past several decades, two kinds of interesting phenomena appeared in the enterprises. On the one hand, the executives' compensation has increased by a big margin. For example, the average compensation of the CEO listed in Fortune 500 has increased by 300% during 1990 to 2005, up to 10.9 million dollars per year at present (Dovrak, 2007; Frank, 2007). Core and Guay (2010) also concluded that there exists executives' excessive compensation incentive in American enterprises by analyzing the setting procedure and comparing the CEO's compensation with some benchmark.

At the same time, the domestic executives' compensation also gained a considerable increasing. The average executives' compensation in listed companies had increased from 118,000 yuan per year in 2003 to 268 000 yuan per year in 2008, and the CAGR(compound annual growth rate) was 17.73%, far higher than the economic growth rate of the corresponding period (Realize Investment Consulting Co.,Ltd, 2010). Some Chinese scholars also found that although Chinese government promulgated the salary limit orders after the 2008 financial crisis, the executives' compensation in state-owned enterprises was not reduced, but improved greatly.

On the other hand, events that were aimed at common staff violating moral ethics also increased exponentially (National Business Ethics Surve, 2007). More worryingly, Corporate executives and the relevant regulations appeared more and more unjust to common staff(Greenhouse, 2008), which led to the outbreak of the movement "occupation of Wall Street", which swept over the major capitalist countries in 2011. In domestic, the growth rate of common staffs' payment was far less than the economic growth rate and some extreme events occurred frequently.

Recently, there are scholars beginning to pay attention to the question that the executives' excessive compensation incentive may lead to the change of their patterns of behavior. Because the executives' excessive compensation incentive makes the executives become richer than their common staff. In our opinion, the executives' excessive compensation incentive is not isolated with

the phenomenon of slow growth of common staff's payment and the unfair treatment they received. When the executives are given more compensation, they tend to treat common staff more unjust. For instance, they may formulate more stringent enterprise system, reduce their employees' benefits and dismiss middle and low-level employees more frequently. This article aims at the exploration and research of the relation between these two phenomena in enterprises.

The significance of this paper is to expand the study of the relation between executives' incentive and the unfair treatment employees received. The question of the executives' excessive compensation incentive and the unfair treatment employees received is always a hot issue. However, the study on how the executives' excessive compensation incentive influences their attitude towards common staff is rare. In this article we will undertake a few explorations and attempts in this respect, and hope to draw some meaningful conclusions.

## **2. Argument on the Relationship between Excessive Corporate Executives' Compensation Incentive and Common Employees' Unfair Treatment**

Firstly, higher compensation will activate the executives' self-awareness in economic aspect and make them treat the lower-level staff with more superiority. Past study showed that awakening of economic status consciousness would lead them to treat others more ruthless. Researches showed that the participants who made decision in economic perspective and were influenced by commercial interests would be more likely to take selfish behaviors (Reynolds, Leavitt & DeCelles, 2010; Kay, Wheeler, Bargh & Ross, 2004). We think that higher level compensation will further magnify the executives' self-awareness that has been activated in the economic aspect, thus leading it to be more likely for them to consider the relations with low-level staff from short-term economic conditions. However, this may let the executives provide the low-level staff with less opportunities and economic interests that can increase comprehensive welfare. Further, this may lead the executives to treat the low-level staff in the way that can maximize the short-term benefits for the enterprises. What is more, this way can also increase the work requirements for the staff and decrease their compensation and benefits. All this will be at the expense of the staff health and safety. Consequently, we propose that the managers who have the role of management and are paid with a higher compensation will treat the common employees' unfairly in the company with a higher probability than those managers with lower pay.

Secondly, the excessive compensation of the executives may change the top managers' cognitive and motivational structures and make these executives treat their lower employees who hold different opinions more callously. The famous social ideologist Cooley (1902) and the modern symbolic interactionists Blumer (1969) both think that personal identity is rooted in other people's perception on individual character. When the executives are given a higher compensation, they may think themselves have special value to the company, therefore be exempt from normal moral constraints. What is more, it is a zero-sum game between the distribution and the level of being exempt from normal moral constraints. Higher payment will result that the executives think the low-level staff are of less importance to the company and not worthy of winning the respect of moral. Greenhouse (2008) pointed out in his book "contemporary American working class", real timely dismissal was a type of unfair treatment to common staff. Hereafter, the managers who have the role of management and are paid with a higher compensation will fire the common staff in the company with a higher probability than those managers with lower pay.

Thirdly, higher compensation often has connections with power, which in turn will affect the senior executives' cognition and behavioral structure and make them more reluctant to pay attention to others with compassion and ignore the appeal from those low-level staff. A large number of studies show that those with higher pay executives tend to have more power (Ackerman, Goodwin, Dougherty, & Gallagher, 2000; Bebachuk & Fried, 2003). This power and self-aggrandizement perception may lead executives to treat their subordinates and staff more ruthlessly. Having more power truncating the consciousness of those they exert power on and leading them to treat other people only as means to ends (Bartky, 1990; Frederickson & Roberts, 1997; Nussbaum, 1999) and ignore other people's needs, desires and emotions (Anderson, Keltner & John 2000; Galinsky,

Magee, Inesi & Gruenfeld, 2006; Van Kleef, De Dreu, Pietroni & Mansead, 2006; Mast, Joans, & Hall, 2009). Power also leads to prejudices to other people and view other people's thinking about their behavior lack of responsibility, humanity and moral and social norm (Bandura, 1999; Bandura, Barbaranelli, Caprara, & Pastorelli, 1996; Kelman, 1973; Lammers & Stapel, 2009)).

Finally, having power will make executives think themselves superior than those lack of power and this psychological distance leads them to be accessed hardly (Kipnis, 1972). The studies on the moral exclusion shows that the classification in high-level and low-level staff leads people to think those who have too little power or no power are incompetent to talk about the issues of equity. That is to say, the groups which are formed by these people simply do not deserve to have the fair and ethical issues which have been adopted by organization (Deutsch, 2006; Opatow & Weiss, 2000; Staub, 1985). Consequently, those who have power were more easily to deal with their subordinates using a way that violate the basic human rights and traditional fair standard. At last, having power will lead people unwilling to listen to different opinions from the society. consequently, we present the third hypothesis of this paper: The managers who have the role of management and are paid with a higher compensation will believe themselves enjoy more authority and treat the common staff more unfairly in the company with a higher probability than those managers with lower pay.

### **3. Conclusion and Future Research**

In this paper, our research shows that there is a special implication between raising executive compensation and their attitudes toward lower level staff. More specifically, excessive compensation may lead to the executives gaining more power than other people in the organization, and this will be finally reflected in their indifferent attitudes toward the general staff. This study revealed that the executives with higher pay may treat their staff more unfairly.

Future studies will use the method of large sample in the database and questionnaire survey method to further demonstrate this problem. From the current research, executives' excessive compensation incentive and staff turnover rate are still two separate fields. Researchers have paid attentions to the behavior pattern of executives' excessive compensation incentives, and the salary, satisfaction, corporate culture etc. influence has on staff turnover rates, but they didn't do further research from the impact of executives' excessive compensation incentives.

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