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THE RELATIONSHIP BETWEEN EMPLOYEES AND COMPENSATION IN ENTERPRISES FROM THE PERSPECTIVE OF LABOUR INCENTIVE POLICIES

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Abstract

As a labour-intensive organisation, employee motivation and teamwork are directly related to productivity and quality, and employee incentive policy has a profound impact on their work attitude. Based on Maslow's hierarchy of needs theory, this paper analyses the impact of this policy on employee compensation using the multiplier method based on the data of A-share listed companies from 2018 to 2023. The results show that this policy significantly promotes the growth of employees' remuneration, and increases the demand for high-skilled employees by improving corporate efficiency and increasing investment in fixed assets, which in turn leads to a rise in remuneration. This study not only helps to understand the logic of the relationship between tax policy and employee compensation, provides reference for China's tax incentives to promote the transformation and upgrading of economic structure, but also provides empirical support for the application of Maslow's theory in the management of enterprises and the impact of policy from the perspective of labour incentive policy.

Keywords: labour incentive policies; employee compensation; firm performance; labour-intensive firms

INTRODUCTION

The report of the Twentieth Party Congress lists raising people's income levels as a key element in gradually achieving the goal of common prosperity for all people. In this regard, as the core component of the middle-income group, the salary increase of enterprise employees has become the key focus point for realising the goal of common prosperity. As a result of the distribution and redistribution of the total wealth of the society, the increase of the salary of the enterprise employees can not only improve the quality of life of the people and enhance the happiness of the people, but also has an unnoticeable role in promoting the cycle of social reproduction, so the construction of the enterprise salary decision and growth mechanism in line with the stage of economic development is of great importance. However, the mechanism for determining the income of workers in China is not yet perfect, and the current salary level of workers is still relatively low, resulting in a long-term imbalance between the accumulation of capital and the consumption of the population. As a crucial micro-unit in the process of China's economic development, enterprises have created the necessary conditions for the growth of employees' remuneration while providing returns to their funders by improving their profitability and optimising their development structure.

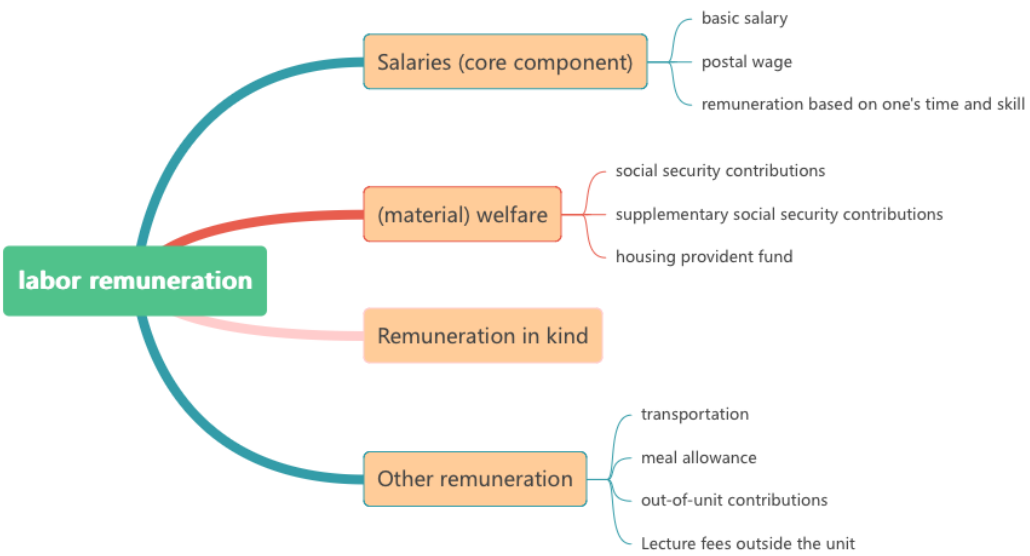

Figure 1: *Labour incentive remuneration of employees in enterprises*

Against the backdrop of slowing economic growth and increasing pressure for restructuring and upgrading, China's government is actively exploring labour incentives to activate enterprises and contribute to sound economic development. Employee motivation and teamwork are of great significance to the productivity and quality of enterprises, and effective labour incentive policies can fully stimulate the enthusiasm and creativity of employees.

Under the environment of slowing economic growth and rising pressure of transformation and upgrading, China's government has been actively exploring labour incentive policies to activate the vitality of enterprises and promote the stable and healthy development of the economy. Enterprise staff's enthusiasm and teamwork degree of productivity and product quality of the enterprise plays an extremely critical role, effective labour incentive policy can maximize the enthusiasm of employees and creative potential. Its role in the enterprise is mainly reflected in two dimensions: First, with the scientific and reasonable construction of incentive mechanisms, in-depth stimulation of the internal driving force of employees, prompting employees to take the initiative to commit to skills enhancement, which effectively lead to the improvement of the overall production efficiency of the enterprise; Second, is conducive to the creation of a good corporate atmosphere, and further strengthen the effect of teamwork for the sustained development of the enterprise to continue to inject a new source of vitality. After the implementation of the relevant labour incentive policy, the implementation of its effectiveness is certainly highly regarded by all walks of life, but unfortunately, most of the current research focuses only on the impact of the policy on the production efficiency of the enterprise and teamwork, but very few studies have explored in-depth the effect of its role in the promotion of the role of enterprise staff remuneration hidden effect.

As a key strategy to stimulate the potential of employees and promote the development of enterprises, labour incentive policy has a significant impact on the level of employee compensation. On the one hand, it improves the performance of employees by virtue of reasonable reward and recognition mechanism, promotes the growth of enterprise performance, increases the distributable profit, and directly contributes to the increase of employee remuneration; on the other hand, it reshapes the work and management structure of enterprises, optimises the human resource structure, and encourages enterprises to pay attention to and introduce highly skilled employees, which leads to the increase of remuneration. In this competitive world, optimising human resource structure is the key to enhance the competitiveness and operational efficiency of enterprises. Therefore, compared with other management strategies, the scientific labour incentive policy is more targeted and effective in promoting the upgrading of human resources and improving the operational efficiency of enterprises in order to achieve the improvement of employees' remuneration.

The study found that the policy effectively improves the level of employee compensation. The mechanism lies in the following: on the one hand, the enterprise guides employees to improve their skills through the incentive policy, the skill upgrading effect increases the demand for high-skilled employees, and the skill difference effect reduces the demand for low-skilled labour, thus upgrading human resources through optimizing the employee structure and thus improving the remuneration; on the other hand, the incentive policy stimulates employees' motivation and creativity, improves the operating efficiency of the enterprise, and pushes forward the growth of the remuneration. Further heterogeneity analysis shows that the policy has a more prominent role in promoting employee compensation in non-state-owned enterprises, labour-intensive enterprises and enterprises with tight financing constraints. Relative to the existing literature, the marginal contributions of this paper are reflected in the following: first, this paper extends the impact of labour incentive policy to the field of corporate compensation. In the existing literature, the impact of labour incentive policies is mostly focused on productivity improvement and teamwork promotion, but less on the impact on corporate compensation. Secondly, from the perspective of human resource structure optimization, this paper analyzes the internal mechanism of labour incentive policies affecting enterprise employee compensation, which has important theoretical value for a more thorough understanding of the micro-logic of the economic impact of the relevant policies, and can provide useful reference for the more accurate formulation of enterprise management and economic policies.

The remainder of the paper is organised as follows: the second section is the literature review and research hypotheses, the third section partially covers the empirical research design, the fourth section analyses the empirical results, the fifth section is the robustness test, the sixth section is the mechanism test, and the last section concludes with the conclusions and insights.

1. Literature Review

1.1 Content-based and process-based motivation theories

Maslow's hierarchy of needs theory suggests that human needs range from low to high, including physiological needs, safety needs, social needs, respect needs and self-actualisation needs [1]. Accordingly, the enterprise labour incentive policy should be based on the different levels of employee needs to implement the corresponding incentive initiatives. For example, compensation and benefits can effectively meet the physiological and safety needs of employees, team building activities can help meet the social needs, and promotion and honour recognition can help meet the respect and self-actualisation needs (Maslow, 1943). Herzberg's two-factor theory suggests that health factors such as work environment and pay can only eliminate employee dissatisfaction, but only motivational factors such as achievement, recognition, and the challenge of the work itself can actually stimulate employees' motivation [2]. This undoubtedly points out the direction for enterprises to focus on the exploitation and application of motivational factors when formulating motivational policies (Herzberg, 1959). Expectancy theory emphasises that employees' motivation or effort at work (i.e.

motivational power) is the product of potency and expectation [3]. In other words, employees determine their level of effort based on their own judgement of the value of the outcome of their work and the likelihood of achieving that outcome. Therefore, corporate incentives must ensure that employees have a clear insight into the relationship between effort and reward in order to enhance the effectiveness of incentives (Vroom, 1964). Equity theory suggests that employees are not only concerned with their absolute rewards, but also with their relative rewards compared to others [4]. When employees feel fairness and reasonableness, they will maintain a high level of motivation; on the contrary, it is very likely to breed dissatisfaction and negative behaviours. Therefore, when designing incentive policies such as compensation and benefits, enterprises must fully consider the principle of fairness (Adams, 1963).

1.2 The impact of contemporary corporate employee characteristics on incentive policies

In the field of contemporary enterprise management and economic research, there are many important features and trends. On the one hand, there are profound changes in the structure and needs of the corporate workforce. New generations of employees (e.g., Millennials and Generation Z) are gradually emerging, and compared with the older generation, they attach significantly higher importance to work-life balance, personal development opportunities, corporate culture fit, and immediate feedback, so that traditional material incentives (such as high wages) are no longer effective in stimulating their motivation, and they are more inclined to a flexible work system, opportunities for training and promotion, and incentives with strong participation (Twenge et al., 2011). policies (Twenge et al., 2010; Lyons & Kuron, 2014)[5][6]. At the same time, the proportion of knowledge-based employees in the enterprise continues to rise, this type of employees rely on their own professional knowledge and skills to create value for the enterprise, they particularly value the autonomy of the work, the challenge and the continuous improvement of knowledge and skills, which requires the enterprise to build a relaxed working environment for them to provide a wealth of learning resources, to create a project-oriented incentive mechanism, and the establishment of a knowledge-based contribution to the compensation system (Drucker, 1959; Davenport, 2015)[7][8]. In addition, employees in modern enterprises are increasingly diversified in terms of gender, cultural background, education level, etc., and this diversification directly leads to the distinctive personalised characteristics of their incentive needs. For example, highly educated employees tend to be more in pursuit of academic research support or networking opportunities in their professional fields, and female employees may be more concerned about family-friendly welfare policies (e.g., parental leave, telecommuting, etc.), and firms must adopt individualised incentive schemes to meet the needs of different employee groups [9][10] (Kossek & Lobel, 1996; Eagly & Carli, 2007).

On the other hand, in the study of the relationship between industrial policy and corporate compensation, the previous relevant literature is less to combine the two in-depth discussion, and there are different perspectives and conclusions on how industrial policy actually affects corporate compensation. Lin Yifu and Chen Binkai (2013) study the role of industrial policy on income gap from the dimension of comparative advantage [11], and the research results show that industrial policy as a national economic development strategy will have an impact on the labour market, and the industrial policy that follows the comparative advantage will help to reduce the income gap, and if the industrial policy that gives priority to the development of heavy industry is adopted, the curve of the income gap will show the inverted U-shape change trend. Li Lixing and Shen Guangjun (2015) studied the driving efficacy of industrial policy on industry performance based on the data of development zones established in 2004 - 2006 [12], and the empirical results showed that industrial policy can significantly increase sales revenue and increase employment. Wang Kemin et al. (2017) argued that the information asymmetry between the government and firms will lead to a reduction in resource allocation efficiency and over-investment in firms benefiting from industrial policy, which will not only affect the implementation of industrial policy, but will also further widen the wage gap between firms [13]. Bai Jixing and Zhou Jingkui (2018), among others, suggest that the effect of tax incentives on the wage level of state-owned enterprises and non-state-owned enterprises is not synchronised, and that state-owned enterprises, as the main beneficiaries of the policy, enjoy higher policy tilting benefits, which can increase the monopoly rents that are more considerable, and thus their employees' salary level will be higher [14].

2. Research Design

2.1 Econometric model construction

This study focuses on dissecting the effect of labour incentive policies on employee compensation in contemporary enterprises. To achieve this purpose, the following empirical model is set up:

$$\mathrm{lnwage}_{i,t} = \beta_0 + \beta_1 \mathrm{treat}_i * \mathrm{post}_t + \gamma X_{i,t} + \mu_i + \omega_t + \delta_{pt} + \varepsilon_{i,t} \quad (1)$$

In this model, i denotes a particular firm, t denotes a particular fiscal year, and p denotes the firm's region. The regression model fixes the sample firms and years, where it captures the unobserved nature of firm i that does not change over time, represents year fixed effects, and represents the interaction term between region and year. The residual term in the model is denoted by If the residuals in the model are significantly positive, it means that labour incentives significantly increase the compensation of employees in the firm. Meanwhile, this study clusters the standard errors to the firm level to ensure the robustness and reliability of the estimation results.

2.2 Data sources and processing

This study selects the relevant financial data, human resource data, and enterprise management data of enterprises above scale in China for the period of 2018 - 2023 to construct panel data. In the process of data processing, the following screening steps are executed:

(1) The samples of enterprises with abnormal operating conditions (e.g., on the verge of bankruptcy or with long-term losses and no hope of reversing them)

and special industries (e.g., industries with extremely strong monopoly and subject to strict policy control) are removed;

(2) Removing data from enterprises with serious missing key data to safeguard the integrity and validity of the data;

(3) Excluding samples with large-scale organisational changes (e.g. large-scale layoffs or drastic expansions) between 2018 - 2023, so as to avoid such special events from interfering with the research results;

(4) Excluding the data of enterprises that have received large-scale government subsidies or tax breaks (which are not part of the labour incentive policy) in a specific period of time, in order to focus on the impact of labour incentive policy precisely. The data are mainly obtained from multiple sources, such as the enterprise database of the National Bureau of Statistics, statistics of industry associations, and annual reports of enterprises, etc., and are cross-checked and integrated to ensure the accuracy and authority of the data.

2.3 Explanation of Variables and Descriptive Statistics

The explanatory variable is determined as the logarithm of the total annual salary expenditure of the enterprise divided by the total number of employees. The explanatory variable indicates that after the implementation of labour incentive policy in the enterprise, its value is 1 during the implementation of the policy, otherwise it is 0. In addition, a series of time-varying control variables are also included in this study. Enterprise operational efficiency , measured by the ratio of the enterprise's annual output to its input resources, where input resources cover fixed assets (such as plant, equipment, etc.), current assets (such as raw materials, inventory goods, etc.), labour costs (including employee wages, benefits and training costs, etc.), and R&D inputs used in the production process of the enterprise. To reflect the efficiency and effectiveness of the enterprise's resources in the production and operation process. Competition is defined by the market concentration index of the industry in which the enterprise is located; Innovation is measured by the number of annual patent applications and the proportion of R&D investment; HRQuality is weighted by the average education level of the enterprise's employees and the proportion of professional skills certificates held by the enterprise.

Table 1.

Descriptive statistics of the main variables

variant	sample size	average value	standard deviation	minimum value	maximum values
Lnwage	20235	11.4085	0.5676	4.3473	13.1077
TreatPost	20235	0.1236	0.3292	0	1
Size	20235	22.1446	13439	15.5773	28.5199
ROA	20235	6.0427	6.0715	-15.2242	25.9974
Leverage	20235	43.6817	21.2214	4.6227	89.2738
Inincome	20235	21.4550	1.5459	11.8613	28.6927
ROE	20235	6.4701	11.9057	-55.126.5	40.6477
Topl0	20235	57.5979	15.4975	22.33	90.88

3. Benchmark regression results

Table 2 presents the results of the regression analysis for model (1). In column (1), no control variables are included and only firm fixed effects, year fixed effects, and region * year interaction terms are covered. The regression results show that the coefficient of IncentivePost is 0.0856 and is significant at 1% level of significance. This result indicates that labour incentives policies lead to a significant increase in firms' employee compensation by 8.56%.

In column (2), control variables, firm fixed effects, year fixed effects, and region * year interaction terms are added. The regression results show that the coefficient of IncentivePost is 0.0725, which is also significant at the 1% level, implying that labour incentives significantly increase firms' employee compensation by 7.25%. At the same time, the control variables of enterprise operational efficiency (Efficiency), the degree of market competition (Competition), enterprise innovation (Innovation), human resource quality (HRQuality) all show significant correlation with the remuneration of employees in enterprises.

Table 2 .

Accelerated Fixed Assets Policy and Firm Employee Compensation: Base Regression

	Inwage	
	(1)	(2)
	0.0783***	0.0682***
TreatPost	(0.0178)	(0.0177)
control variable		yes
μ_i	yes	yes
ω_t	yes	yes
δ_{pt}	yes	yes
observed value	20235	20235
R^2	0.7408	0.7443

In summary, the results of the double-difference (DID) model are consistent with the expectation that labour incentive policies can drive enterprises to enhance employee compensation. Therefore, the empirical results strongly support the research hypothesis H1, which fully confirms that labour incentive policy has a positive and significant role in contemporary enterprise employee compensation improvement, and provides a solid empirical basis for a deeper understanding of the relationship between enterprise employees and labour incentive policy.

4. Conclusions and Implications

Through rigorous econometric model analysis and data processing, this study has explored in depth the impact of labour incentive policies on the remuneration of employees in contemporary enterprises and reached the following conclusions:

Labour incentive policy has a significant positive contribution to corporate employee compensation. From the results of the benchmark regression, labour incentive policies significantly increase the remuneration of corporate employees by 8.56% when the control variables are not included; after the inclusion of the control variables, they still significantly increase the remuneration by 7.25%. This fully demonstrates the effectiveness of the labour incentive policy in enhancing employees‘ remuneration, which provides strong support for the increase in the level of employees’ remuneration in enterprises, and also creates the conditions for achieving a positive interaction between the improvement of employees' personal economic situation and the development of enterprises.

The control variables included in this study, such as the operational efficiency of the enterprise, the degree of competition in the market, the innovative capacity of the enterprise and the quality of human resources, are all significantly related to employee compensation. This suggests that when enterprises formulate labour incentive policies, they need to take into account factors such as their own operation and management conditions, the competitive market environment and the characteristics of their internal human resources, so as to make them compatible with the overall strategy and operation mode of the enterprise, in order to achieve better incentive effects and promote the sustainable development of the enterprise.

From the perspective of deeper economic logic, the labour incentive policy stimulates the internal motivation of employees, encourages them to improve their skills and motivation to work, which in turn leads to the enhancement of corporate productivity, increases corporate revenue, and creates an economic basis for the growth of employees' remuneration. At the social level, this helps to improve the overall quality of life of employees, promote social consumption upgrading and stable reproduction cycle, and has a positive significance in gradually realising the common prosperity of all people.

For different types of enterprises, such as non-state-owned enterprises, which are more flexible in terms of mechanism, the labour incentive policy can focus more on incentives for innovative achievements and expansion of the space for independent development of employees, and make use of the competitive advantages of the market to respond quickly to the changes brought by the incentive policy, so as to achieve simultaneous enhancement of employees' remuneration and corporate benefits. Labour-intensive enterprises can optimize their staffing structure, strengthen incentives for high-skilled employees, and increase their remuneration levels by improving the overall staff quality, while focusing on the balance between cost control and efficiency improvement. Enterprises with tight financing constraints, on the other hand, can design precise incentive programmes with limited resources, such as performance-oriented immediate reward mechanisms, to stimulate employee potential, improve the efficiency of capital use, and achieve the dual goals of employee compensation growth and corporate financial soundness.

The results of this study help to enrich the research field of the relationship between employees and labour incentive policies in contemporary enterprises, provide a theoretical basis and decision-making reference based on empirical data for enterprise managers to formulate scientific and reasonable labour incentive policies, and lay a foundation for further in-depth research on related issues in this field, such as how to optimize the design and implementation of labour incentive policies according to different enterprise characteristics and industry environments, to Achieve more accurate and efficient employee incentives and corporate development goals, and so on.

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