

Research on The Relationship Between Pay Gap and Job Performance

Yutao Niu *

School of Nanjing university of science and technology, Nanjing, China

* Corresponding Author Email: nyt125537@163.com

Abstract. With the advent of the information age, the efficiency and convenience of information sharing and acquisition make employees' perception of pay gap more and more clear, which will affect employees' attitudes, behaviors and job performance. There are three representative views on the influence of pay gap on job performance, namely tournament theory, behavior theory and contingency theory. This paper reviews the related literature about the influence of pay gap on job performance at home and abroad, sorts out the different factors that affect the relationship between them in order to provide reference for formulating job pay policy.

Keywords: pay gap; job performance; tournament theory; behavioral theory; contingency theory.

1. Introduction

Efficiency and fairness are permanent problems that people face in promoting social development. Since the reform and opening up, with the rapid development of China's economy, the total social wealth has been increasing, the problem of uneven distribution has become more and more prominent, and the income gap has widened significantly. In February, 2022, the National Development and Reform Commission focused on the strategic goal of achieving common prosperity, and promoted the formulation and promulgation of the "Action Program for Promoting Common Prosperity" to narrow the income gap. At present, pay management is a hot issue in China society, and the pay gap is closely related to social fairness and stability. For jobs, the design of pay structure embodies the concept of income distribution, while for employees, the pay gap reflects the relative position of employees as a team^[1]. The acceleration of information dissemination also helps employees to obtain pay-related information more conveniently, and employees' perception of pay will have a certain impact on employees' attitude and performance^[2]. Excessive pay gap not only reduces the enthusiasm of workers, but also has a negative impact on work performance^[3]. From the job level, the pay gap directly affects whether the pay system can give full play to its incentive effect, and then affects the work efficiency and performance of jobs. From a social perspective, the excessive pay gap reflects the serious injustice of society and is not conducive to social stability. In view of this, it is particularly important to explore and analyze the influence of pay gap on job performance.

2. Research on the Relationship between Pay Gap and Job Performance

The research on the pay gap began at the end of 20th century in foreign countries and at the beginning of 21st century in China. After China introduced the system of encouraging differentiated assessment and limiting the pay of state-owned jobs, scholars are keener on exploring this issue. At present, some scholars support the championship theory in the research on the influence of pay gap on job performance, and believe that the pay gap has a positive incentive effect on job performance; There are also scholars who hold the view that the pay gap has a negative impact on the performance of jobs, that is, behavior theory. With the in-depth study of scholars, they found that the two theories are not contradictory but complementary, and put forward the contingency theory, which holds that there is an inverted "U" curve relationship between pay gap and job performance. Therefore, based on three different theories, this paper expounds and combs the relationship between pay gap and job performance respectively.

2.1. Related research based on tournament theory

American scholar Lazear and economist Rosen (1981) first put forward the tournament theory^[4]. This theory holds that the promotion of employees is a competition, and the reward of the competition is a higher pay level and position. The difference in pay can make excellent employees maintain a strong desire for victory and always be in a positive competitive state; At the same time, it can also reduce the lazy mentality of employees, thus improving the performance of jobs. Rosen (1986) explored the problem again, extended the theory from the perspective of game theory, and put forward the theory of continuous elimination competition that when executives are at different levels, their pay should increase with the increase of their positions^[5]. Irlenbusch and Harbring (2017) concluded that widening the pay gap between managers can promote them to work hard for higher pay, and then maximize corporate performance^[6].

Domestic scholars have also conducted in-depth research on this theory. When the pay gap widens, it will lead to an increase in equity concentration, a decrease in agency costs and opportunity costs related to corporate decision-making, and ultimately have a significant positive effect on the impact of the pay gap on corporate performance. Ding Shenghong and Hu Yun (2020) explored that improving the internal pay difference of senior executives can help improve the work efficiency of core personnel, which coincides with the championship theory^[7].

2.2. Related research based on behavior theory

There are differences in competition emphasized by behavior theory and tournament theory. Scholars who support behavior theory believe that a large pay gap will make employees in the same job feel treated differently, and then there will be problems such as difficulties in cooperation within the team, which will eventually adversely affect the performance of the team and the job. Behavior theory includes relative exploitation theory, fairness theory, social comparison theory, distribution preference theory and organizational politics theory. Among these theories, the most representative is the social comparison theory. Festinger (1954) put forward the theory of social comparison, thinking that individuals can measure their own situation through others^[8]. It is believed that when employees find that there is a big gap between wages and others, they will first consider others' wages rather than their contributions, which will lead to employees' dissatisfaction and lack of enthusiasm for work. Later scholars also verified this view. Firth et al. (2019) believed that there was a gap in income, and employees would have suspicion and dissatisfaction within the team, thus reducing the profitability of jobs^[9]. Tarkovska(2017) takes British non-financial companies as the research object, and thinks that the widening pay gap will hinder the improvement of corporate performance^[10].

Some scholars in our country also support the behavior theory to explain the job pay gap more powerfully, and give support from different angles. Yuan Tangmei (2020) Through empirical research, the results show that the difference in pay will also increase the selfish behavior and risk preference of management, which will further worsen the illegal behavior of the company and adversely affect the performance of the company^[11].

2.3. Related research based on contingency theory

The above two theories cannot fully explain the influence of pay gap on job performance. Fredrickson and Henderson (2001) first synthesized tournament theory and behavior theory, and found that they were complementary^[12]. Later, scholars found that the pay gap has a certain interval effect through empirical research. When the gap is less than a certain level, it will promote the performance of jobs. Exceeding this level will weaken the performance of jobs, which is caused by the contingency of behavior theory and tournament theory in different situations.

The research results of domestic scholars also prove this view. From the perspective of stakeholders' participation in corporate governance, Wang Danli (2021) examined the effect of the pay difference between managers and general employees in the company on improving the company's performance, and the results also verified the view of contingency theory^[13]. In addition to using financial

indicators to measure job performance, job innovation ability is also an important indicator to measure job performance. Ruan Ao et al. (2019) concluded that the vertical pay gap between top management teams plays a positive role in improving the innovation performance of jobs, while the horizontal pay gap between top managers who are not CEOs has a significant inverted U-shaped correlation with the innovation performance of jobs^[14].

3. Research Review

Looking at the previous research results of pay gap and job performance, when studying the relationship between vertical pay gap and performance, scholars divide the research objects into executives and employees. Executives only refer to company directors and general managers, while employees include middle managers, grass-roots managers and front-line ordinary employees. The classification of employees is vague and the reference objects are not specific, and few scholars study the impact of employees' perceived pay gap on job performance for ordinary employees. As ordinary employees account for the largest number of people at the bottom of the job pyramid, it is necessary to study the relationship between the perceived pay gap and job performance of front-line employees, which will enrich the academic research in the field of the impact of employees' perceived pay gap on performance.

In addition, the dependent variables of the existing literature research pay gap are mostly job performance, turnover rate, organizational citizenship behavior, and less consideration is given to the influence of perceived pay gap on employees' positive psychological state. Therefore, paying attention to the pay gap perceived by employees at the micro level is an important way to solve the pay gap and performance problems. The psychological effect of employees must be considered in the decision-making of pay gap to determine the influence of pay gap on work performance.

References

- [1] Liu Ning, Zhang Zhengtang. The effect of pay gap within enterprises: Research Review. *Journal of Management*, 2017, (06): 839-843.
- [2] Gupta N, Conroy S, Delery J. The many faces of pay variation. *Human Resource Management Review*, 2018, 22(2): 100-115.
- [3] Pan Xin, Li Shaolong, He Wei. Research progress on the relationship between executive team pay difference and firm performance. *China Human Resources Development*, 2014, 000 (003): 43-49.
- [4] Edward P, Lazear and Sherwin Rosen. Rank-Order Tournaments as Optimum Labor Contracts. *Journal of Political Economy*, 1981, 89(5): 841-864.
- [5] Rosen S. Prizes and Incentives in Elimination Tournaments. *The American Economic Review* Volume, 1986, (76): 701-715.
- [6] Harbring, Irlenbusch. The recognition and reward of employee performance. *Journal of Labor Economics*, 2017, (3): 47-63.
- [7] Ding Shenghong, Hu Yun. Executive pay change, executive pay difference change and firm performance: From the perspective of employee pay standard change. *Friends of Accounting*, 2020, (15): 99-104.
- [8] Leon Festinger. A Theory of Social Comparison Processes. *Human Relations*, 1954, 7(2): 117-140.
- [9] Michael Firth, Tak Yan Leung, Chaohong Na. Relative pay and its effects on firm efficiency in a transitional economy. *Journal of Economic Behavior and Organization*, 2019, (110): 59-77.
- [10] Valentina V, Tarkovska. CEO pay slice and firm value: evidence from UK panel data. *Review of Behavioral Finance*, 2017, 9(1): 43-62.
- [11] Yuan Tangmei. Executive pay gap and GDP loss. *Macroeconomic Research*, 2020, (11): 123-134.
- [12] Andrew D. Henderson, James W. Fredrickson. Top Management Team Coordination Needs and the CEO Pay Gap: A Competitive Test of Economic and Behavioral Views. *The Academy of Management Journal*, 2001, 44(1): 96-117.
- [13] Wang Danli. A study on the impact of internal pay Gap on firm added value: from the perspective of stakeholder theory. *Friends of Accounting*, 2021, (10): 117-123.

- [14] Ruan Ao, Sun Bo, Peng Biyu. Can the pay gap within the executive team promote the innovation performance of the enterprise?-- An empirical study based on vertical pay gap and horizontal pay gap. *Journal of South China Normal University (Social Science Edition)*, 2019, (4): 130-139,191.