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DESIGNING EXECUTIVE COMPENSATION IN CHINA: AN ANALYSIS OF GENDER DIFFERENCES IN EARNINGS AND LEADERSHIP

RELATORE:

CH.MO PROF. Paolo Gubitta

LAUREANDA: Ilaria Migliorato

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ABSTRACT

In the last years, especially after the crisis of 2008, executive compensation has become a very popular and discussed issue, since it became clear that the way in which top executives behave has a direct impact on the world's economy. This is the reason why this final assignment is dedicated to the analysis of executive compensation, which is the primary mean to align individual interests with collective ones. The main focus is on the world's biggest transitional economy: the Chinese one.

Moreover, this final assignment focuses on gender differences in terms of remuneration and leadership, since this theme has been discussed many times recently. The purpose of this work is to review different studies in order to show that the gender earnings gap in top positions is not justified by poor leadership skills of women executives.

The first chapter is dedicated to the analysis of corporate governance and compensation policies all around the world and in particular in China. The way in which compensation plans are created and the most common issues that come along with them are explained.

The second chapter consists in the literature review of different studies concerning gender earnings gap in USA, Europe and China. The phenomenon of glass ceiling is analysed and its possible causes are discussed.

The third and final chapter is dedicated to the analysis of the most common leadership styles among Chinese executives in order to explain which are the strengths of women that allow them to be excellent leaders in the Chinese transitional economy.

Negli ultimi anni il tema della executive compensation è stato molto discusso, in particolare dopo la crisi del 2008. In seguito ai fallimenti di grandi aziende, infatti, è diventato chiaro che il comportamento di coloro che le dirigono ha un impatto diretto e importante sull'economia globale. E' per questa ragione che questa prova finale è dedicata all'analisi della remunerazione dei dirigenti d'azienda, come mezzo principale per allineare i loro interessi con quelli della società. Il lavoro, che analizza il problema in una prospettiva mondiale, si focalizza principalmente sull'economia che sta diventando la più importante del mondo: quella Cinese.

Inoltre, l'analisi pone in rilevanza le differenze di genere, molto discusse negli ultimi anni, sia in termini di remunerazione sia in termini di leadership e performance. Lo scopo di questo lavoro è quello di combinare insieme diversi studi e ricerche per dimostrare come la minore retribuzione delle donne in posizioni apicali non è assolutamente giustificata da peggiori capacità di leadership.

Il primo capitolo è dedicato all'analisi della corporate governance e dei piani di remunerazione dei top managers in tutto il mondo ed in particolare in Cina. Il modo in cui tali piani vengono stabiliti e i principali problemi che nascono da essi sono analizzati in questa prima parte.

Il secondo capitolo consiste nella revisione di diversi studi riguardanti la differenza fra la remunerazione ricevuta dagli uomini e dalle donne negli Stati Uniti, in Europa ed in Cina. Il capitolo analizza in dettaglio il fenomeno del glass ceiling e le sue possibili cause.

Il terzo e ultimo capitolo è dedicato all'analisi degli stili di leadership più diffusi fra i managers Cinesi. Grazie a tale analisi questa sezione pone in evidenza le capacità ed i punti di forza che consentono alle donne di essere eccellenti leaders nell'ambiente economico Cinese.

1. EXECUTIVE COMPENSATION: STRATEGIES AND STRUCTURE

1.1. INTRODUCTION

This first chapter of the final assignment will give an overview of corporate governance and compensation policies around the world and in particular in China.

The first paragraph will start with an interesting definition of corporate governance and will then introduce compensation policies as instruments to align the interests of all the members of a corporation. Afterwards, the most common components of the executive compensation plans will be described.

The second part will be dedicated in particular to the most common issues that affect compensation plans, in particular the most common problems linked to incentives and the bad practices used by corporations in recent years.

Subsequently, the chapter will give an overview of the recent evolution of the corporate governance in China. In this first part there will also be an explanation of the most distinctive features of the Chinese corporate governance and a description of the most common corporate governance structure in the biggest firms in China, taking as a representative example the corporate governance structure of the Industrial and Commercial Bank of China.

Finally, the section will examine the structure of Chinese executive compensation plans, starting from the historical evolution and then explaining the main components of the current compensation policies, using as an explicative example the compensation plan used by Lenovo. There will also be a comparison between the Chinese components and those used in the United States, in order to better clarify the peculiarities of the Chinese system.

1.2. COMPENSATION POLICY: DEFINITION AND STRUCTURE

In the preface of the book "Corporate Governance" by Robert A.G. Monks and Nell Minow, the authors use a peculiar way to define corporate governance: "Corporate governance is about making sure that the people who will make (…) decisions have the ability and the incentives to get them right as often as possible". This definition clearly points out the most important issues related to corporate governance, which is the structure within a corporation whose aim is that of making sure that the right questions are asked and that a fair system of checks and balances is in place ensuring that the answers given are in line with the creation of long-term, sustainable and renewable value, the final purpose of every organization (Monks & Minow, 2011).

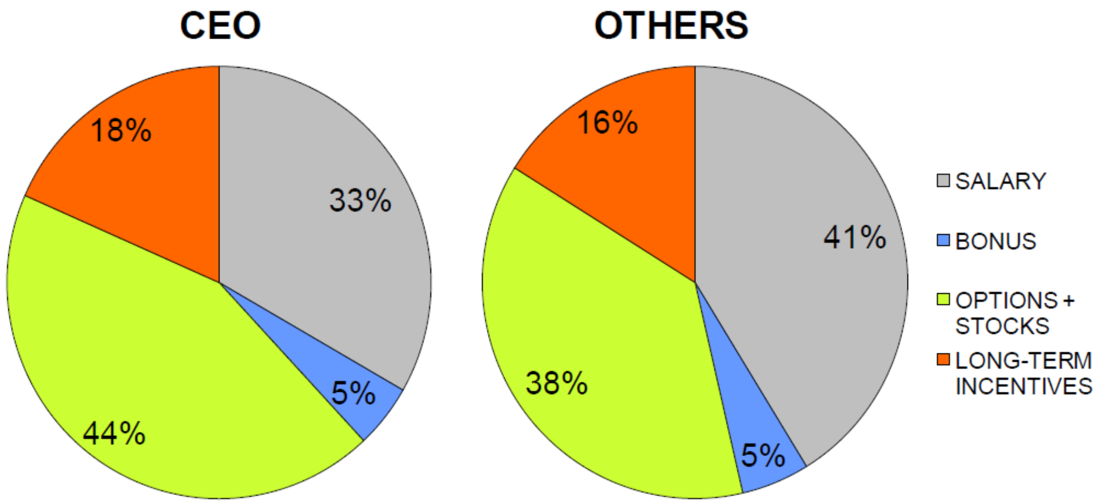
How is it possible to create such a complex system of checks and balances? Keeping the equilibrium among those who own the company, the **shareholders**, those who overview the operations, the **directors**, and those who actually run the firm, the **managers**, is not a simple task. The aim of this chapter is to focus on the alignment of the interests of the executives who take daily decisions with those of the company itself. Effective compensation policies are actually the most effective way to reach this goal. Indeed, an effective compensation plan links the executive pay to his performance and incentives him to take the right decisions for the company.

Pay practices may vary, but we can take the US system as an example to understand which are the basic components of CEOs compensation packages:

- ✓ Base salary
- ✓ Annual bonuses linked to accounting performance
- ✓ Stock options and restricted stocks
- ✓ Long-term incentive plans

As we can see in the graphs in the following page, the importance of each component varies between the remuneration of CEOs and that of other executives.

Figure 1: Composition of US executive compensation in 2009



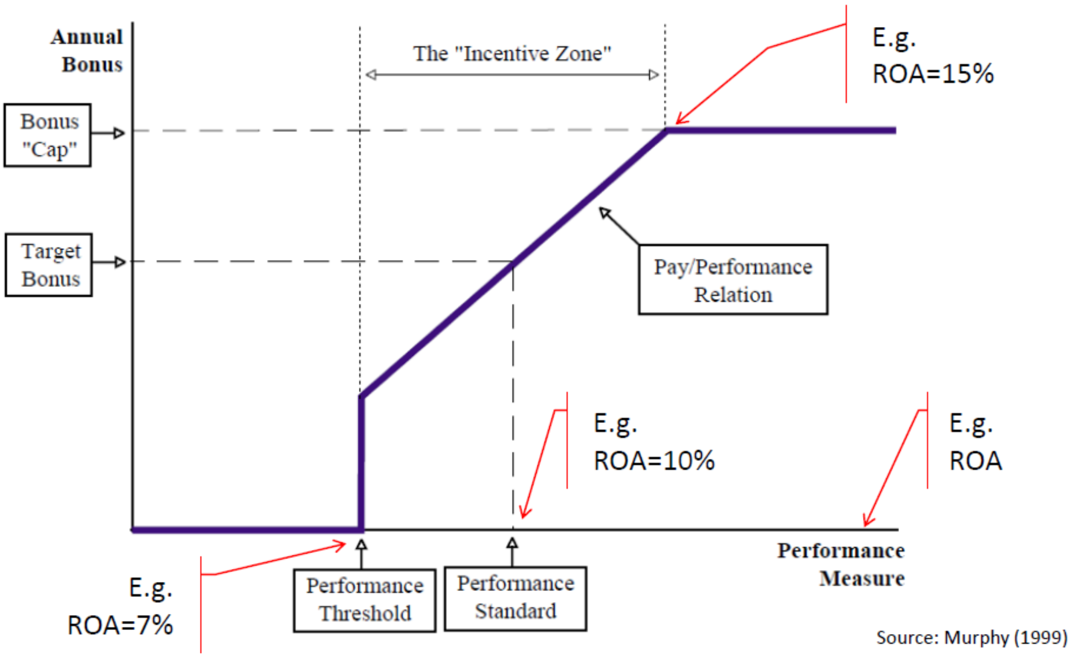
(Fabrizi, 2015)

Base salary is the most important element in the remuneration of executives, but for CEOs it follows stock options and equity grants. This part of the remuneration is very important for executives for two simple reasons. In the first place, it corresponds to the fixed component of the pay, not linked to performance and therefore not subject to risk. Secondly, often bonuses are calculated as percentages of the base salary, thus an increase in base salary corresponds to an increase in bonuses (Fabrizi, 2015).

Annual bonuses correspond to the variable part of the remuneration since they are linked to the performance of the year in question. It is important for the firm to establish an effective pay-performance relation, which explains how the bonus increases as the chosen performance measure (for example the ROA) approaches the performance standard (for instance ROA = 10%). The figure in the next page clearly shows the structure of a typical incentive plan.

The third element is made by **stock options**, which are rights "to purchase a block of company's stock at some specified point in the future at a "strike price" set at the time of award, often the current trading price" (Monks & Minow, 2011, p.374), and by **restricted stocks**, namely awards of stocks forfeited with some limits concerning the time of transferability or the obtainment of some performance goals. The granting of these elements has pros and cons: on the one hand, stock options provide a direct link between the remuneration of the manager and the market performance of the firm, aligning in this way the interests of executives and shareholders. On the other hand, share-price may depend on external factors that the executive cannot control, losing in this way the motivation to perform well.

Figure 2: Components of a "Typical" Annual Incentive Plan



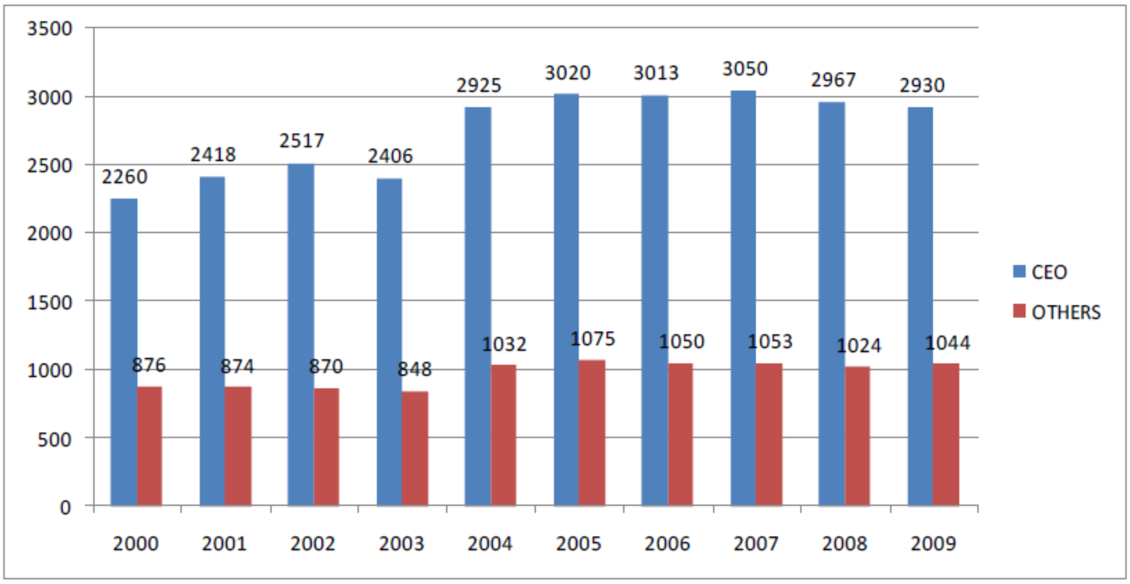
(Murphy, 1999)

Long-term incentive plans constitute the final part of the executive pay plan. Their structure is similar to the one described in the image for the annual bonuses, with the only difference that the performance measure is cumulative, namely calculated on a period of 3 to 5 years.

1.3. ISSUES AFFECTING COMPENSATION PLANS

In recent years there has been an increasing interest in executive pay in US and also all over the world. Indeed, over the 1990s and 2000s CEO compensation has increased enormously and in 2006 average CEO pay in US was over 400 times larger than the average worker pay (Fabrizi, 2015). This trend is visible in the following figure:

Figure 3: Evolution of the median executive compensation in the US



Data in 000/$ (Fabrizi, 2015)

This rise of compensation came together with the idea of the "CEO-King", the only one providing leadership and vision to the company. In the meanwhile, directors, those whose duty is that of supervising the management of the company in order to preserve shareholders' interests, did not do anything to contain executive remuneration rise, not until the scandals of early 2000s and the meltdown of 2008. Moreover, many institutional investors, who could use their power to control the management, were mainly interested in high short-term returns, without caring about the long-term outcomes. Due to this negligence, the link between executive pay and actual performance has become more and more weak and room for abuses has been left.

It is true that the pay-performance link, very important for the achievement of great results, is very hard to obtain and maintain. In the previous paragraph we saw that bonuses are a very important component of the remuneration package and an effective pay-performance structure is a very useful tool to enhance motivation. By the way, there are some common issues that must be taken into consideration (Fabrizi, 2015):

- ✓ Accounting data can be good performance measures to calculate the bonuses for executives, but they are backward-looking and short-term oriented. Moreover, they can be manipulated by the managers in their own interests instead in that of the company;
- ✓ If bonuses are calculated on the basis of the improvement of the performance from one year to the other, managers could be tempted to withhold their current efforts, since they know that, if they outperform, the performance standard of the following year will be harder to achieve;
- ✓ If year-to-date performance suggests that annual performance will exceed the one required to reach the bonus cap (the maximum level of bonus receivable), executives may withhold their efforts in order to move earnings to the following period and obtain an higher award for a longer period of time;
- ✓ On the opposite side, if expected performance is far below the incentive zone, managers may lose the motivation of trying to achieve the bonus threshold (the minimum level required to get the bonus);

The above mentioned issues are mainly linked to the agency problems that occur when ownership and control are separated. However, the lack of appropriate care about the matter of executive remuneration brought in the last years to some common bad practices that should be completely avoided by corporations (Monks & Minow, 2011):

- ✓ The "**guaranteed bonus**", which is a bonus paid to the manager in any circumstance, therefore not linked to performance at all;
- ✓ **Deliberate obfuscation**, which includes ways to make certain parts of compensation less clear to shareholders;
- ✓ The "**Christmas Tree**", namely "compensation plans packed with so many diverse pay elements that the whole package has no relation to performance" (Fabrizi, 2015);

- ✓ Compensation plans with **no downside;**
- ✓ **Loans** given to executives with no interest and sometimes not even required to be paid back;
- ✓ **Accelerated vesting of options** in order to avoid to having to comply with new regulations;
- ✓ **Manipulation of earnings** to trigger bonuses;
- ✓ **Manipulation of peer groups**, usually choosing bigger firms where executives are paid much higher in order to adjust the pay at a disproportionate level;
- ✓ **Wide gap** between CEO's remuneration and that of other executives;
- ✓ **Imputed years of service**: one year of actual service in the firm counts for more than one year for compensation purposes;
- ✓ **Excessive departure packages** that give to executives more money than those they would have earned if they had stayed in the firm;
- ✓ **Stock options back dating**: thanks to this practice managers can look back and decide ex post the date of the issue of options, picking in this way the lowest stock price in order to get the maximum gain from the price difference;
- ✓ **Phony cuts**, namely fictitious cuts to the CEO's bonuses replaced by other forms of compensation;
- ✓ **Golden hellos**, which are some sort of "joining bonuses" that compensate the opportunities lost for joining the company;
- ✓ **Transaction bonuses** based on realized transactions, such as mergers and acquisitions, independently on their actual performance;
- ✓ **Gross-ups**, which are tax payments made by the firm on behalf of its executives, and other kinds of **perquisites** with no relation to performance;
- ✓ **Retirement benefits** that go beyond the actual value the manager added to the company;

Since 2006 the Security and Exchange Commission has tried to impose stricter rules on the disclosure of executive compensation, promoting the idea that CEOs do not necessarily have to be paid less, but they surely have to be paid better.

1.4. EXECUTIVE COMPENSATION IN CHINA

An effective executive compensation policy is based on both external environment and internal managerial practices, and on the ability to combine the two.

External environment refers to the institutions which shape economy (regulation and markets) and social life (culture, values), which are visible in the corporate governance structures. Instead, the internal environment is the mirror of the combination between the firm strategy and the institutional pressure.

The paragraph is organised as follow: first, the main features of corporate governance in China will be analysed. Then, the Chinese approaches in compensation policies are explained in details. Finally, the comparison between Chinese and American compensation systems will help us to understand how and why institutional environment matters.

1.4.1. Historical Evolution of Corporate Governance in China

Chinese modern definitions of corporate governance includes the “system regulating relationships among all parties with interests in a business organization, usually spelling out shareholders as a particularly important group” (Clarke, 2003). Chinese corporate governance actually focuses on agency problems and it is limited to two kinds of companies: state owned enterprises, the so called SOEs, and listed companies.

As stated by Neng Liang and Michael Useem (2009) corporate governance in China has undergone several changes during the last decades, as the Chinese economy has been developing at a very fast rate, becoming the biggest transitional economy of the world.

We can split the history of the Chinese economy into two periods: before and after 1980. Indeed, prior to the important reforms initiated in 1978, China had a centrally planned economy, where the major part of the firms was state-owned. After the first reforms that aimed to modernize and liberalize the country, some state-owned enterprises in rural areas started to issue shares to the public. This was the first step for the creation of the Chinese capital market, that developed officially in 1990, when national stock exchanges of Shanghai and Shenzhen were established. With China’s incredible economic growth of the following years, also the shares trading volume rapidly increased and the government decided to modernize its institutions and law system: in 1993 it created the China Securities Regulatory Commission (CSRC), in 1994 it instituted the “Company Law” and in 1998 the “Securities Law” was established, in order to provide a secure environment for the operating firms and its employees.

China’s stock exchange opened to foreign investors quite recently, in 2003, and has now a modest capitalization if compared with the biggest stock exchanges of Western countries, but, at the same time, has developed all the basic institutions and governance principles promoted by the Western standard (Liang & Useem, 2009).

1.4.2. Distinctive Features of Corporate Governance in China

Even if Chinese corporate governance has developed on the basis of the Western model, it definitely has a set of peculiar features, which should be taken into consideration when analysing the executive compensation and its effect on firm performance (Liang & Useem, 2009).

The first distinctive feature is the **highly concentrated ownership**. In contrast with the highly diffuse ownership common in the major part of Western countries, in China’s listed firms usually the 50% of the shares is owned by few big shareholders who have the prevalent control over the company.

The second peculiarity is the **strong state ownership**, which has remained in the Chinese economy despite the process of privatization started form the 80s. Indeed, government agencies have maintained a strong influence over the publicly listed enterprises, owning about 51% of the listed shares. This control is not exclusively financial, but it involves the management control as well, as politicians are often appointed as directors in company boards.

In the third place, Chinese firms have **pyramid ownership structures**. Many public firms do not work independently, but they are owned or controlled by unlisted parent companies and, in turn, they control other listed companies. Due to this “tunnel” structure, room for illegal activities is provided, to the detriment of minority stakeholders.

Finally, China has a strong **weakness of the markets for corporate control.** Until 2005 the portion of shares owned by the state or by the companied themselves were not tradable, therefore the market for corporate control has been almost inexistent. After 2005, something started to change, but still many companies have less than 10% of the shares available for trading. This means that mergers and acquisitions are achieved through negotiation and state approval instead of being left to the judgement of the market. Moreover, hostile takeovers of underperforming companies, one of the most effective weapons for corporate control, cannot be successful in the majority of cases, since there are not enough available shares to win the bid. These obstacles definitely protect management entrenchment and poor performance.

1.4.3. Corporate Governance Structure in China

The above mentioned features are not the only ones that distinguish the Chinese system from the US model: also the corporate structure has its peculiarities which will be discussed in this part of the final assignment, as the premises for the analysis of the Chinese compensation plans.

The Chinese Corporate Law recognizes two types of corporations already mentioned: closely-held corporations, mainly state owned, and publicly-held corporations, listed in the stock exchanges. Both corporations must establish three corporate governance bodies, that resemble those used in the two-tier board structure of the German model (Conyon & He, 2011):

- ✓ The Shareholders
- ✓ The Board of Directors
- ✓ The Board of Supervisors

The final power is held by the Shareholders' General Meeting, that in turns delegates to the Directors the task to supervise the management and determine its compensation, while the Supervisors include shareholders representatives and company employees representatives who oversee both the directors and the management (Kato & Long, 2006).

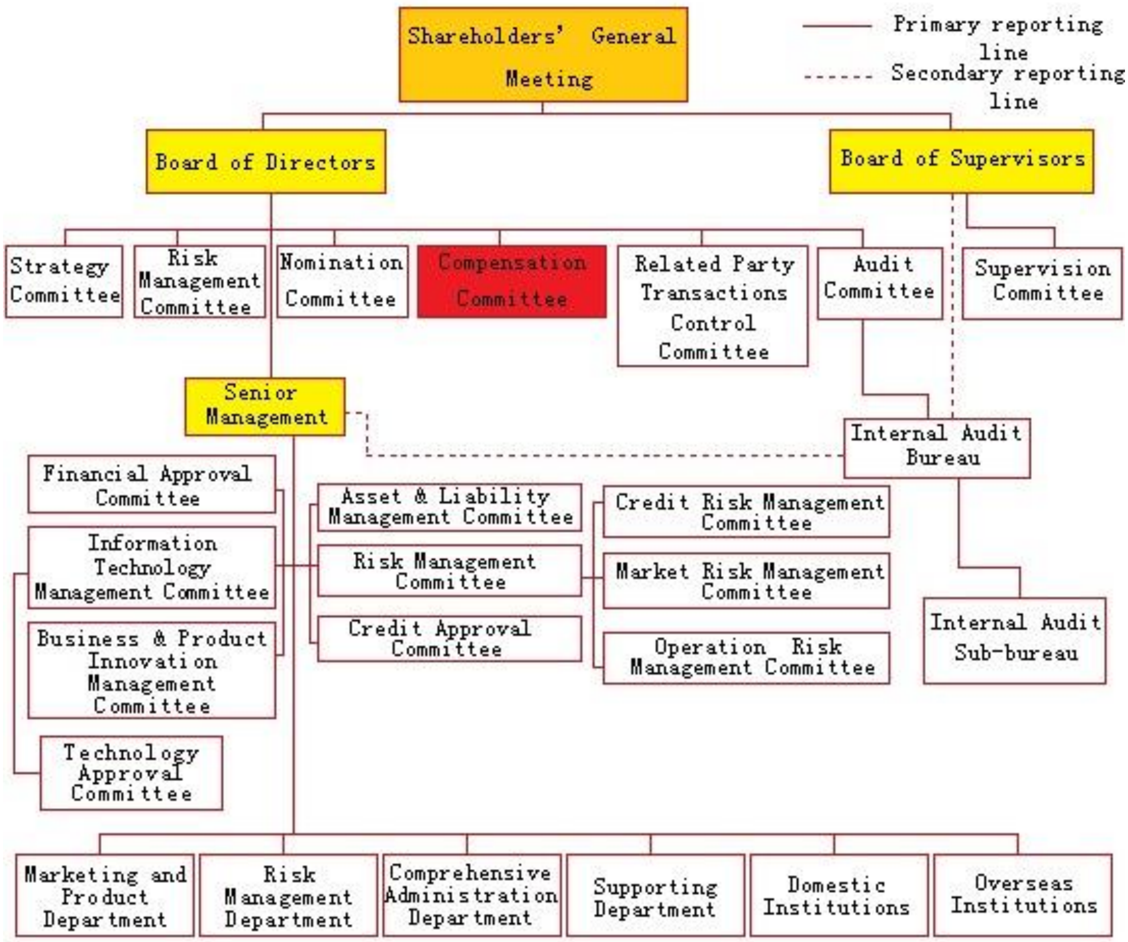
Under the control of the boards of Directors and Supervisors we can distinguish several committees with different tasks:

- ✓ Strategy committee
- ✓ Risk management committee

- ✓ Nomination committee
- ✓ **Compensation committee**
- ✓ Audit committee
- ✓ Supervision committee

For the sake of clarity, the chart in the next page represents the corporate governance structure of the Industrial and Commercial Bank of China, the largest bank in the world by total assets and market capitalization. It perfectly represents the typical structure of Chinese listed companies.

Figure 4: Industrial and Commercial Bank of China's Corporate Governance Structure



(Industrial and Commercial Bank of China Limited)

Listed companies like the Industrial and Commercial Bank of China have to respect some disclosure requirements set up by the Chinese Securities Regulatory Commission (CSRC), including the provision in the annual report of the measures they use to compensate their executives. In the following paragraph we are going to describe in details the Chinese executive compensation policies.

1.4.4. Evolution of the Compensation Plans in China: before 1980

As we split the Chinese corporate governance in two periods – before and after 1980, the same can be done with the executive compensation policies. This section of the work will therefore start with the overview of the development of these plans in the last decades and it will then continue with the description of each component.

Before 1980, most of Chinese companies were administrated and controlled by the state. In these state owned enterprises (SOEs) the components of compensation were therefore determined centrally and were not linked to performance and did not reflect at all individual contribution. These components included:

- ✓ **Cash compensation**, of which the base cash salary was paid on the basis of region, industry and employee's characteristics (seniority, education, gender, job title), while the cash bonuses were divided equally among the members of the group, being therefore similar to supplement wages and not real personalised bonuses (Bai & Xu, 2005);
- ✓ **Social wages**, that included retirement benefits, maternity benefits, medical benefits, collective benefits and several insurances (Alon, Adithipyangul & Zhang, 2009);
- ✓ **Non-material** incentives, which included recognition and honours, whose importance is deeply embedded in the Chinese culture, where collective and social acceptance is extremely valued (Jackson & Bak, 1998);

It is definitely clear that this system did not provide the right incentives to the top executives of Chinese firms, as their compensation was not linked to their performance. As sustained in the major part of motivational theories, in particular in the theory of Porter and Lawler, one fundamental requirement for the performance to be result-oriented is the provision of a clear and direct link between the obtainment of the result and the reward for it (Costa, Gubitta & Pittino, 2014). The last chapter of the paper will further analyse this point.

The first step toward a more performance-oriented compensation was taken in the 1980s, when the "profit responsibility contract" was introduced: thanks to this contract managers were allowed to reallocate part of the residual profit of their company as supplement remuneration for employees and themselves. This first reform paved the way for the system of fixed monthly salary plus bonus payment for SOE employees, adopted in the 90s. Even if this system provided bonuses, these were distributed in an egalitarian way that lacked real incentive effects. It was only in 1997, with the official introduction of the "**yearly salary system**" that a modern, profit-oriented compensation system was finally introduced in the Chinese market (Kato & Long, 2006).

Thanks to all the above reforms on executive pay, China saw the fastest growth of senior management salaries in emerging markets between 2001 and 2011, rising by 3.5 times (Lin, 2014).

1.4.5. The Components of the Current Compensation System in China

As it is widely proved, a good compensation package is one of the best incentives to align the interests of executives with those of shareholders, reducing in this way possible agency costs, that will be discussed deeper in the final part of this paper. The "yearly salary system" was created exactly for this purpose and it is therefore divided in two parts:

- ✓ The **base salary**, a fixed component paid monthly, that depends on both the average wage for ordinary employees and the size of the company;
- ✓ The **risk salary**, a variable component distributed at the end of the year, linked both to the base salary and the annual performance of the firm;

In the light of this distinction, we can further break the executives remuneration in modern Chinese corporations into three different categories (Lin, 2014):

- ✓ **Salary and benefits** that do not depend on the firm's performance and correspond to the base salary mentioned above;

- ✓ **Stock options and other incentive compensation** that is based on the performance of the firm’s stock price and forms one part of the risk salary;
- ✓ **Bonuses and other incentive compensation** that is based on the firm’s performance according to specified accounting metrics. These components complete the risk salary;

All these categories can take the form both of cash compensation and non-cash compensation.

Cash compensation, due to the Chinese socialist environment, is usually limited to a certain maximum multiple of the average worker’s pay, making the Chinese managers’ salaries consistently lower than those of managers working in international and Western companies.

Non-cash compensation can complete the base salary of top managers as well as be part of the bonuses and benefits they receive. Indeed, Chinese executives seem to enjoy several kinds of perquisites, the most common of them are company car, that is calculated to be on average the 12% of the cash compensation, and housing allowance, approximately the 6% of the annual cash salary. Other perks include travel expenses, business gifts, business apparel expenses, holiday or entertainment facilities and different allowances, that constitute the so called “on-duty consumption” (Kato & Long, 2006).

A further distinction can be made between non-equity compensation and equity compensation.

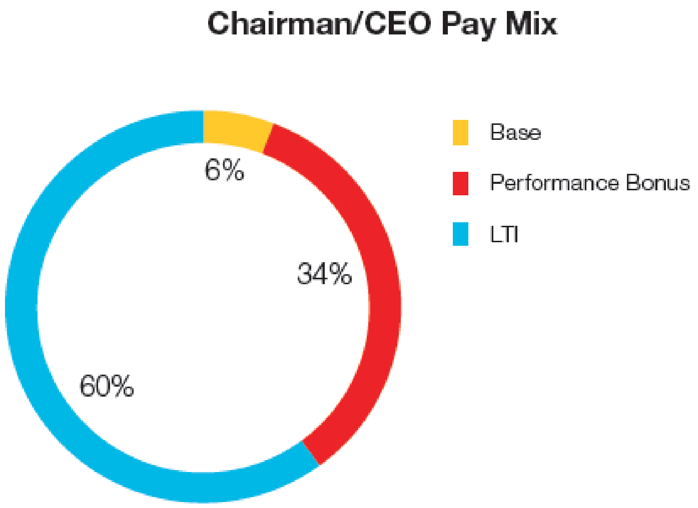
The **non-equity compensation** includes both the base salary and the bonuses linked to some specific accounting metrics, therefore not linked to the performance of the firm in the stock exchange. At present, this form is the primary source of executive remuneration used in Chinese listed companies.

The **equity compensation** is linked to the stock performance of the firm and it consists in the granting of stock options, restricted stock and stock appreciation rights. In theory, this form of compensation is considered the most effective tool to align the interests of executives and shareholders, and in effect it is not a case that it constitutes the most important element of the CEOs pay packages of the largest US companies (Monks & Minow, 2011). In contrast to its U.S. counterpart, there is much less usage of equity-based compensation in China, where among the largest 100 companies listed on the Shanghai Stock Exchange and the Shenzhen Stock Exchange, only 26 companies employee equity incentives for senior management (Lin, 2014).

An explicative example of executives remuneration used in China's firms is the one granted by Lenovo to its CEO and senior management. As reported in the Annual Report of the company "the compensation structure of Lenovo's Chairman/CEO and senior management consists of base salaries, allowances, performance-based bonuses, LTI, retirement benefits, and benefits-in-kind".

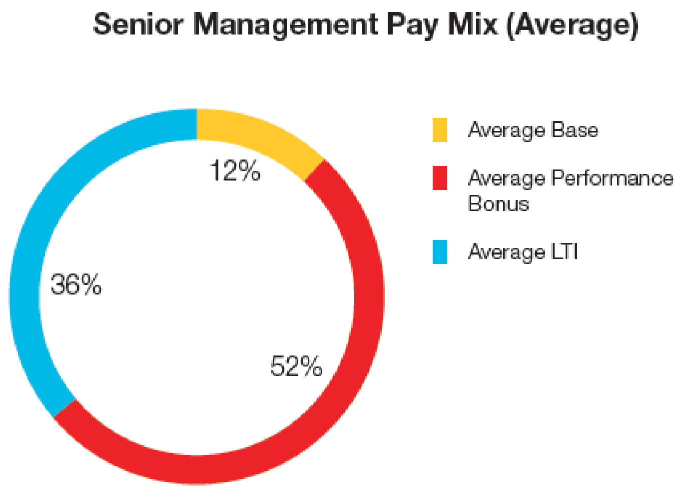
The following figures describe the mix of components:

Figure 5: Chairman/CEO Compensation Plan



(Lenovo Group Limited Annual Report 2013/14)

Figure 6: Senior Management Compensation Plan



(Lenovo Group Limited Annual Report 2013/14)

We can now associate the components of the Lenovo compensation plans and those described above.

Base salary, allowances, retirement benefits and benefits-in-kind, such as different insurances, constitute the **fixed compensation**, which is therefore split into both cash and non-cash compensation. Performance bonuses are part of the so called **risk salary** and "are based on the performance of the Company, its subsidiaries, relevant performance groups and/or geographies as appropriate, as well as individual performance" (Lenovo Annual Report 2013/14). This part of the risk salary corresponds to the **non-equity compensation**, since it is not linked to the stock performance of the firm. On the other hand, the long-term incentive program (LTI Program) is a clear example of **equity-based compensation**, as it comprehends two vehicles to reward and motivate the senior management:

- ✓ Share Appreciation Rights (SARs), that entitle the holder to receive the appreciation in value of the Company's share price above a predetermined level;
- ✓ Restricted Share Units (RSUs), which are equivalent to the value of one ordinary share of the company and which, once vested, are converted into ordinary shares or cash equivalent;

1.4.6. Comparing Executive Compensation in China and in USA

The above described compensation plan clearly represents the kind of incentives given to Chinese executives. In order to have a better overview of the Chinese system this paragraph will compare it with the most known in the world: the American one.

As described by Conyon and He (2011) the Chinese environment is starkly different from the American one, both from a political and economic point of view. As it is written in the paper:

"The Chinese State has significant influence over economic activity, whereas it is (usually) not the case in the USA. Ownership structure is highly concentrated in China and much more diffuse in the USA. The legal structure and origins in the USA is based on common-law whereas it is a variant of civil law in China. Property rights are well protected in the United States, but much less so in China. More generally, voice and accountability, the quality of government and regulation, and the control of corruption are all weaker in China. Also, the quality of accounting, auditing and earnings statements may be less in China compared to the US".

Being all these differences, it is not surprising that the drivers of executive pay in China are definitely different from those that motivate American managers. The most striking difference goes beyond the limited usage of equity compensation by Chinese firms, and it actually consists in the overall level of Chinese executives remuneration, which is 17 times lower than that of the US counterpart, and this ratio increases even till 42 if stock options and other equity bonuses are included in the US CEOs remuneration (Conyon & He, 2011). But why is this? It is relevant for our analysis to evaluate the reasons of this difference.

The first potential reason may be that all the professions are better remunerated in USA than in China. Secondly, in USA the culture of individualism prevails, while in China collectivism is the prevalent attitude, as stated by the National Culture Dimensions of Hofstede (Costa, Gubitta & Pittino, 2014). Indeed, US social norms often reward individual effort and risk bearing. Third, important differences may come from the fact that compensation is not measured in the same way in China and in US. For example Chinese executives often enjoy huge non-disclosed perquisites, that, according to Kato and Long (2006), constitute from 15% to 32% of total remuneration. Finally, CEOs in US usually face major risk of being fired for poor performance, therefore they require greater pay as remuneration for this risk.

1.5. CONCLUSIONS

This first chapter of the final assignment was dedicated to the analysis of corporate governance and executive compensation all around the world and in particular in China.

In the first paragraph we defined corporate governance as the structure whose aim is that of making sure that a fair system of checks and balances is in place ensuring that all the decisions taken are in line with the creation of long-term value. One of the best tool to make sure that the right incentives are in play is an effective compensation system that directly links pay to performance. Going on with the analysis we described the most important components of CEOs pay packages in US: base salary, annual bonuses, stock options and long-term incentive plans.

Subsequently, we focused on the main issues that affect compensation policies all over the world: some of them are linked to the agency problems that rise from the separation between ownership and control in modern corporations, some others are due to the negligence of directors, whose aim is that of controlling that the management is working in the interest of the shareholders. The main problem of these bad practices is that they provide excessive remuneration not linked to performance in any way.

After the overview of compensation policies in the world, the section explored further the corporate governance structure in China, in particular after the reforms of the 1980s whose aim was that of modernizing the country following the Western model. Even after this modernization some peculiar features of Chinese firms can still be distinguished: highly concentrated ownership, strong state ownership, pyramid ownership structures and weakness of the markets for corporate control strongly influence firm performance in China. Despite these differences, we can observe that the Chinese governance structure is very similar to the German model, with three main bodies governing the corporation: Shareholders, Board of Directors and Board of Supervisors.

At this point of the analysis, we gave a deeper look at the executive compensation plans, usually established by the compensation committee. It was only in the 90s that Chinese firms adopted modern compensation policies, made up by different components: salary and benefits, that constitute the base salary of executives, and stock options, bonuses and other incentives that are part of the so called risk salary, the variable portion of remuneration linked to the performance of the firm. In particular, stock options correspond to the equity-based compensation, while other bonuses are non-equity compensation. These components are very similar to those used in US, even though there are observable differences between compensation plans in China and in America: many studies demonstrated that the overall level of Chinese executive remuneration is much lower than that of the US counterpart.

2. GENDER EARNINGS GAP IN CHINA: LITERATURE REVIEW

2.1. INTRODUCTION

This chapter analyses in details the problem of gender earnings gap, starting from its worldwide relevance and concluding with the analysis of its presence in China.

In the first paragraph we will understand what this phenomenon is and its possible causes. Furthermore, we will see how it is collocated in the wider problem of the so called glass ceiling. Afterwards, we will give an overview of this phenomenon all over the world, in particular in USA and in Europe. The section will review some papers about the situation of women in management in USA and the possible causes of glass ceiling and wage gap. The same problems will be analysed in the European context, starting by an overview of the phenomenon of glass ceiling and gender pay gap as determined by the Eurostat statistics. The problems that gender wage gap causes in Europe and some best practices promoted by some EU countries in order to tackle them will be described.

The second part of this chapter will analyse the differences between the compensation of Chinese female and male executives, starting from an overview of the attitude toward women in China. As we will see, despite the more positive attitude toward women in recent years, the gender pay differential in China is still clearly visible and it seems to be attributable to several reasons which will be described in the final part of the chapter.

2.2. GENDER EARNINGS GAP AROUND THE WORLD: LITERATURE REVIEW

Gender pay differentials have always been observable all around the world and many studies have tried to investigate the causes of this phenomenon and its relevance in different countries. According to the OECD definition, the gender wage gap "is the difference between median earnings of men and women relative to median earnings of men". The following sections will look into the causes and the effects of this phenomenon and its relevance in different regions of the world.

2.2.1. Why Gender Wage Gap Matters

A very interesting study conducted by Clara Kulich, Michelle K. Ryan and S. Alexander Haslam (2007) summed up very interestingly different studies that tried to provide an explanation for the existence of gender gap, especially in top corporate positions. Indeed, the authors recalled the concept of the "romance of leadership" with respect to female top executives: leadership is often socially constructed on the basis of perceptions and expectations that followers have, rather than on the real qualities and abilities of the leader. Because of this, the value of a leader is often linked to the image others have of him/her and not to the objective performance he or she obtains. According to the results of the study, the evaluation of manager changes according to the gender, since female and male executives are perceived and valued as leaders in different ways: indeed, the stereotype of "male leadership" prevents women from being treated in an equal way with respect to their male counterpart and the perceived leadership ability of a women is usually less positively linked to firm performance. As a consequence of this, remuneration of women suffers, especially if we look at the performance-based component, because of the fact that female executives tend to be paid not in direct accordance with performance results.

In conclusion, it seems that gender wage gap is the tangible result of a more diffused attitude towards women in the workplace. This phenomenon is collocated in the wider framework of workplace gender discrimination, which grows from the same basis and which causes the problem of the so called glass ceiling. This concept originated in the 80s "to describe the invisible and artificial barriers that have kept women from promotion to upper management and other higher leadership positions in the business world" (Boyd, 2012). This problem gained a lot of popularity after its first introduction, such that in 1991 the American Senator Robert Dole introduced the Glass Ceiling Act as part of the Civil Rights Act. In the same year a Glass Ceiling Commission was established: a report made by the Commission revealed that female managers, at the time, earned less than 70% of their male counterparts. Starting from the beginning of the 21st century things have improved a little and the phenomenon of glass ceiling has become less and less visible with the evolution of gender equality in the workplace. But still, even if the situation for women in business improved, climbing through the corporate latter remains harder for them than for men and even for those who manage to arrive to the top, the treatment is not exactly equal.

2.2.2. Gender Earnings Gap in USA

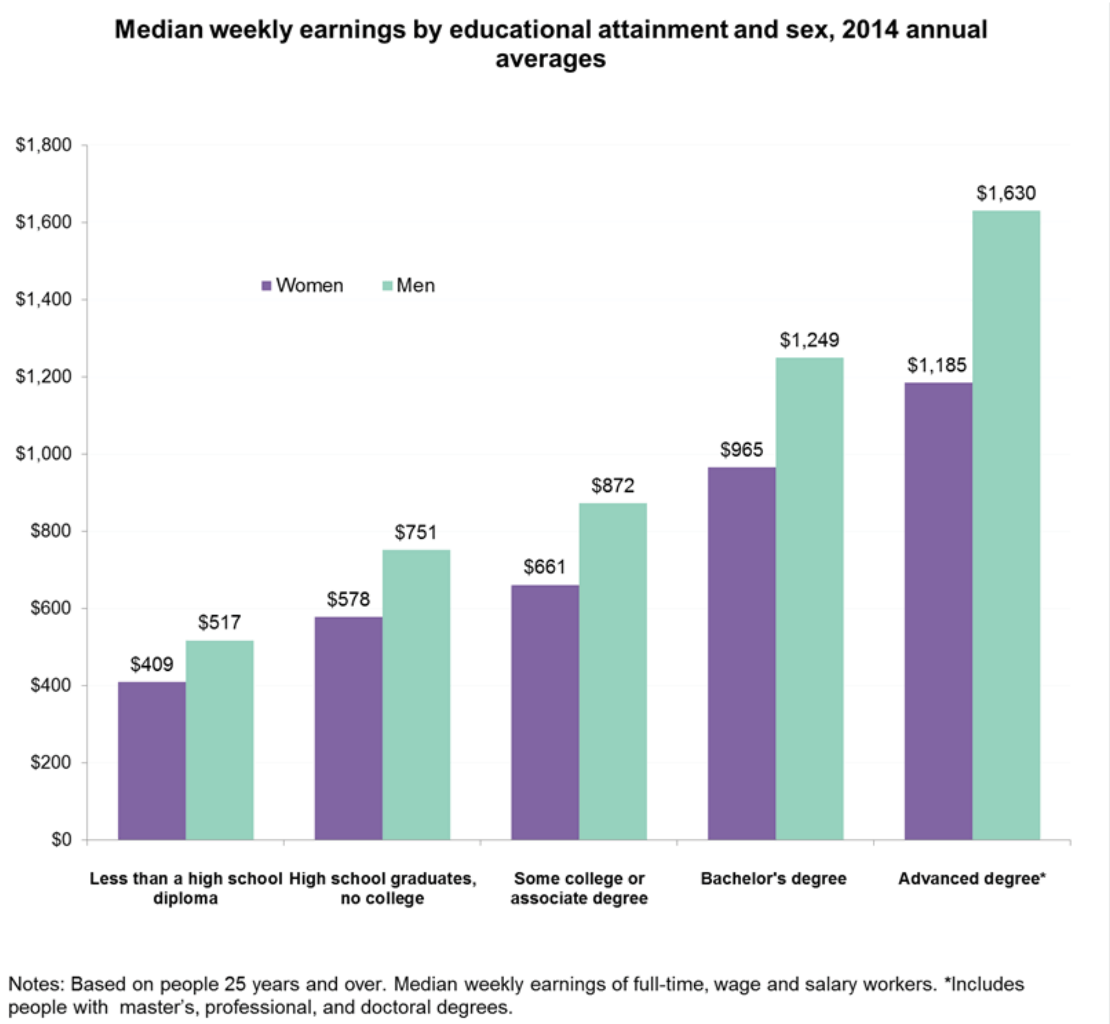
United States are usually among the most advanced countries of the world, but when it comes to women in top management positions US stays behind, as reported by the Grant Thornton Report of 2014: amongst the 45 countries analysed, US collocates in the 37th position, with only 22% of women in senior management.

The problem for women is not only restricted to the presence in top corporations, but it is also linked to their remuneration. Indeed, gender wage gap is diffused in professions of different levels, but the higher the position, the wider the gap. We can have a clear idea of this phenomenon looking at the chart of the U.S. Bureau of Labour Statistics in the next page. Moreover, this trend is confirmed by the 2013 Catalyst Census that analyses the Fortune 500 top earners: as you can see in the following image, only 8,1% of CEOs in top earner positions were women.

Figure 7: US women in top earner positions

(Catalyst Census, 2013)

Figure 8: Median weekly earnings by educational attainment and sex



(U.S. Bureau of Labour Statistics, 2014)

It is very interesting to understand which are the possible causes of this visible gap between female and male executive compensation. According to Bertrand and Hallock (2011), the gender pay gap in the United States can be decomposed in different issues.

The first variable the two authors distinguish is **firm size**. Indeed, from the study conducted it resulted that the bigger the company, the smaller the number of female managers. Moreover, it confirmed by many researches that top executives are paid more in big companies, therefore part of the compensation differential between women and men may be due to this fact. In particular, according to Bertrand and Hallock, at least 15% of the gap is attributable to the lower participation of women in large corporations.

Secondly, the research analyses **occupational segregation**, namely the share of women in different occupations. In order to do so the authors of the study took into consideration the percentage of women and men in the top categories of occupation in firms, such as Chairman, Vice-Chairman, CEO, CFO, COO, President and so on. They figured out a growing under-representation of women as long as they climbed the roles of the corporate ladder, which is accountable for almost 24% of the observed gender wage gap.

Finally, also **individual demographic characteristics** such as labour force attachment, career commitment, age and tenure, seem to determine the gender wage gap. Concerning the first two variables, women resulted very similar their male counterpart, but they differed particularly with respect to age and tenure. Since age and experience are important determinants of the remuneration of managers, it is probable that relative youth and low seniority contribute for an important part of the gender gap, but also after including these variables 33% of the gap remains unexplained.

Another study conducted by Marianne Bertrand, Claudia Goldin and Lawrence F. Katz (2007) identifies three reasons for the large and rising gender gap in earnings in the corporate and financial sector:

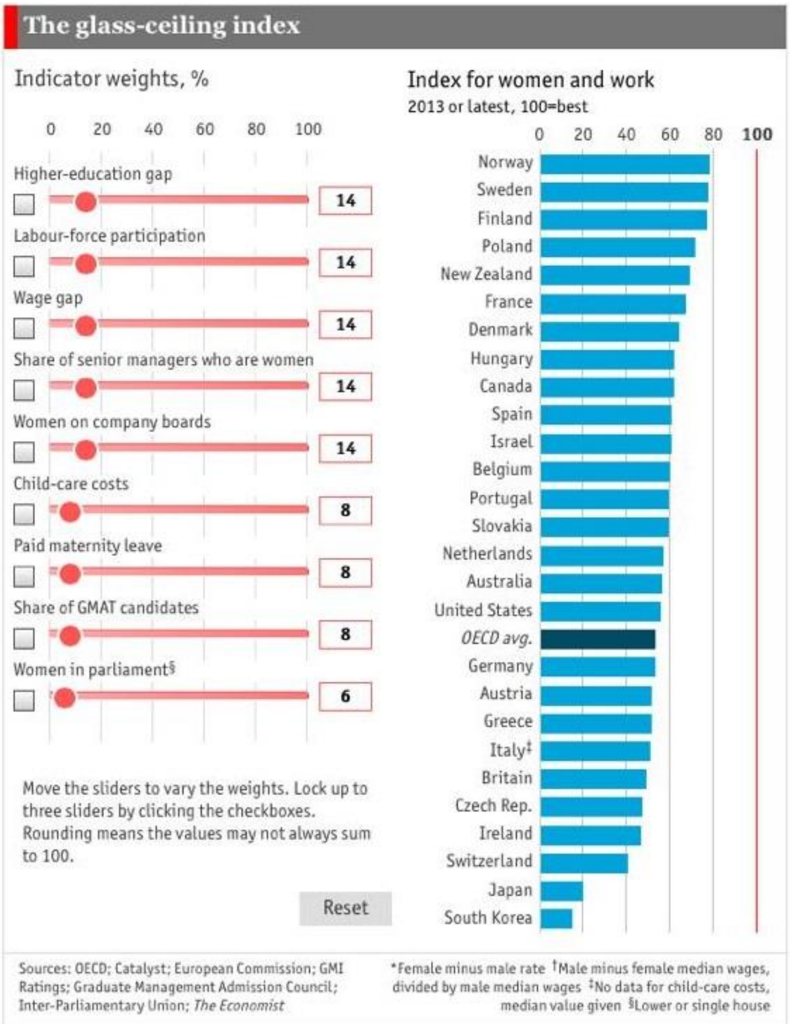
- ✓ Differences in training prior to MBA graduation;
- ✓ Differences in career interruptions;
- ✓ Differences in weekly hours;

These factors, especially the last two, are entrenched in the nature of women, who have to stop for some periods of their life for maternity and for taking care of their children. Therefore, even if some progresses have been made by women in the business world, it seems that some limitations will always prevent women from reaching the same career output than men, unless new regulations and laws are promoted by the US Government.

2.2.3. Gender Earnings Gap in Europe

The phenomenon of gender discrimination in the workplace and the following problems of glass ceiling and gender pay gap have gained a lot of attention and have become important topics also in the European political agenda. Indeed, since 2003 member states are called to reduce the causes of gender pay gap, such as “sectoral and occupational segregation, education and training, job classifications and pay systems” (Plantenga & Remery, 2006).

Figure 9: The Glass-Ceiling Index



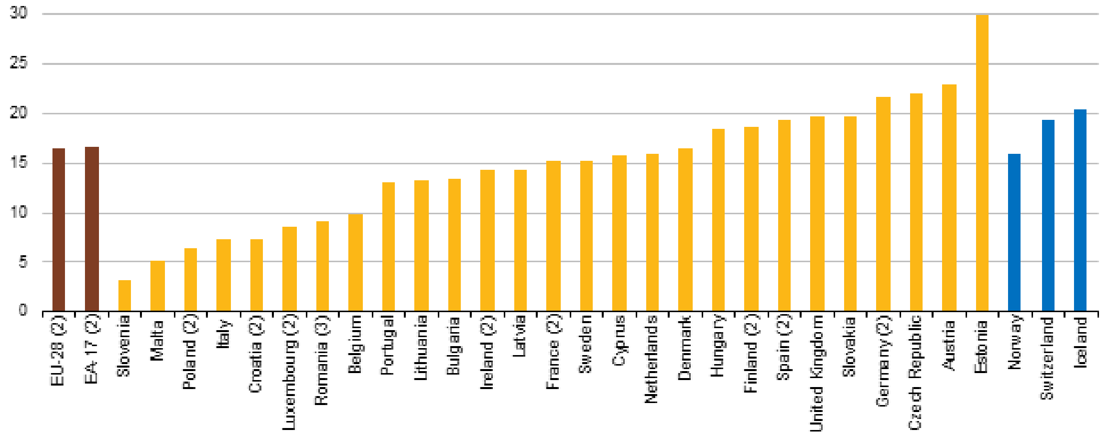
(The Economist, 2014)

In order to better understand the importance of gender inequality in Europe, the figure above reports the glass-ceiling index created by The Economist in 2014 to show were women can enjoy equal treatment at work, calculated on the basis of nine weighted indicators: higher-education gap, labour-force participation, wage gap, share of senior managers who are women, women on company boards, child-care costs, paid maternity leave, share of GMAT candidates, women in parliament. As expected, northern European countries offer the best possibilities for women in business.

We can now concentrate on the most important indicator for this analysis: wage gap. The following graph from Eurostat shows the gender earnings gap in all the countries of Europe:

Figure 10: The unadjusted gender pay gap, 2013

Difference between average gross hourly earnings of male and female employees as % of male gross earnings



(1) Enterprises employing 10 or more employees; NACE Rev. 2 B to S (-O).
(2) Provisional data; Ireland: 2012 data
(3) Estimated data
No data for Greece

(Eurostat, 2013)

As we can observe, in 2013 women's earnings were on average 16,4% below those of men in the European Union. The maximum gender gap can be found in Estonia, while the smaller one is in Slovenia.

A study conducted in 2006 found some peculiarities of the gender wage gap in Europe: first, gaps are usually bigger at the top of the wage distribution. This phenomenon, observed also in US, is consistent with the presence of glass ceiling. Secondly, and this is peculiar of the European framework, the gap is wider in the private sector wages distribution than in the public sector for each of the EU countries (Arulampalam, Booth & Bryan, 2006).

As stated in the first paragraph of this section, differences in pay between genders can be explained only in part by differences in individual characteristics, since also occupational segregation and wage structure are strongly related to the pay differential. This implies that in order to reduce this phenomenon also remuneration plans must be addressed, especially in the top positions of companies, where performance-based pay systems are heavily linked to the so called "romance of leadership" which, as we explained, penalizes women as managers. Indeed, an interesting study conducted in the UK underlines how women are "neither rewarded with carrots (when corporate performance is good) nor punished with sticks (when performance is disappointing)" (Kulich et al., 2010). This means that the performance-based portion of women's compensation is not really influenced by the outcomes that they reach, and this is an indicator of indifference, which can be considered the hardest limitation for equality to be removed.

In the light of these diffused problems, the European member states have tried to enact some policy responses. Plantenga and Remery (2006) report some innovative initiatives, promoted by some of the European countries, that can be considered best practices.

Firstly, **transparency and dissemination of information** are important instruments to raise awareness about the extent of the problem. An important step to support these initiatives is the establishment of gender specific institutions, such as offices for equal treatment or equal pay task forces.

Secondly, another direction to take is that of an **integrated system of wage setting** which avoids indirect discriminations toward women and is therefore absolutely gender-neutral.

Finally, best practices are also related to **legal measures**. For example, the principle of "equal pay for equal work" has been included in the national legislation of all EU countries, which can also take additional measures to improve equality. Even if many progresses have been made in the last 10 years, still few countries have more offensive strategies with concrete objectives and strict timetables that could really change the face of business for European women.

2.3. GENDER EARNINGS GAP IN CHINA

Until now we have analysed the problem of gender wage gap all around the world, but we did not look deeper into the differences existing between female executives and male executives in China. In order to have a comprehensive vision of the situation of Chinese women executives it is useful to provide an overview of the attitude toward women in China. Therefore, this section will start with an explanation of the disposition toward Chinese women over time and it will then look deeper into the attitude toward women as managers and their compensation compared with that of the male counterparts.

2.3.1. Women in China

On the one hand, China has always been promulgating laws and regulations to establish, increase and protect social status and rights of women. The China Constitution and the Law on the Protection of the Rights and Interests of Women are two important examples of this engagement. As described by Jones and Lin (2001), the rights of women can be summed in this way: "women enjoy equal political rights, working rights, and property rights with men and also equal rights with men with respect to culture and education, in marriage and the family, and relating to their persons". Moreover, China has also signed the Convention on the Elimination of All Forms of Discrimination against Women and ratified Convention Concerning Equal Remuneration for Men and Women Workers for Work of Equal Value released by the International Labor Organization in 1990.

Unfortunately, this positive attitude toward women has not gained practical application until recently, despite the period of fast expansion and modernization that started in the 90s. Indeed, China has remained influenced by old traditions, such as that of Confucianism, which traditionally supports the subordinate role of females in society (Xiu, 2009). Even if this belief has lost appeal during the 20th century, when the Chinese central government implemented a system of wages based on the socialist egalitarianism principle, some signs of discrimination were still observable at the beginning of the 21st century, as reported by the above mentioned study of Jones and Lin (2001). These researchers presented the ATWAM Questionnaire created by Yost and Herbert in 1985 to a set of managers and professionals in China and in US in order to determine their attitude toward women as managers. Their results are very interesting and relevant for this analysis, as we can infer looking at the following tables.

Figure 11: ATWAM of Chinese and US Managers

Table 1: Differences in ATWAM for the Chinese and U.S. Managers

Participants	N	Favorable		Neutral		Unfavorable	
		N	%	N	%	N	%
China	99	7	7.1	46	46.5	46	46.5
U.S.	288	131	46	139	48	18	6

(Jones & Lin, 2001)

Figure 12: ATWAM of Chinese Male and Female Managers

Table 2: Differences in ATWAM for Chinese Male and Female Managers

Participants	N	Favorable		Neutral		Unfavorable	
		N	%	N	%	N	%
Total	99	7	7.1	46	46.45	46	46.45
Women	24	7	29.2	15	62.5	2	8.3
Men	75	0	0	31	41.3	44	58.7

(Jones & Lin, 2001)

Table 1 clearly shows that in 2001 US managers had a much more favourable attitude toward women in management: indeed, only 7.1% of Chinese respondents were favourable towards women, while the same high percentage was neutral or even unfavourable. The results reported by Table 2 are even more worrying: no men in the Chinese sample resulted to have positive attitudes toward women and only 29% of women had positive attitudes toward their colleagues.

These percentages confirm the fact that only 14 years ago many people in China still had not changed their mentality toward women's roles in the workplace and society. Women themselves still believed in their fundamental role in the family, and this double burden, made by family and work related duties, often prevented them from aspiring to top positions.

If we look at most recent data, it seems that things are changing fast in recent years. Indeed, ten years after the above mentioned study, the 2011 Grant Thornton International Business Report evidenced that China held the second highest percentage of women in top management positions among 39 countries and regions, including Europe and United States: in China 19% of women in management positions are CEOs, while in Europe and in US the figures are respectively of 9 and 5 percent. Moreover, in 2011 the percentage of women in senior management positions was 34%, growing from the 31% figure of 2008. This important recent phenomenon may be due mostly to the following two reasons: on the one hand, more and more Chinese women have attained higher education in recent years; on the other hand, it seems that Chinese women are very ambitious and that 75% of them aspires to top positions (Yuanyuan, 2011).

This trend has been confirmed also by a study on the gender of CEOs in China conducted by CUHK Business School in 2014 According to the study the number of female top executives is increasing faster in recent years, mainly thanks to the privatization of many state-owned enterprises. Since competition for this firms is higher than before, it is essential for them to become flexible and to appreciate leadership skills aside from gender biases (Ying, Lam & McGuiness, 2014).

2.3.2. The Causes of the Gender Earnings Gap in China

Despite the growing number of female top executives in China, female managers still receive less remuneration than their male counterparts. This problem is not exclusively a Chinese one, as it is proved that women in management all over the world earn less than men, but what is most peculiar of China are the causes of this important difference.

Many studies in recent years have tried to investigate this differential and the majority of them has found some common grounds that can explain the phenomenon. It seems clear, indeed, that there are two components of the overall gender earning gap: the unexplained portion, over which only speculations are possible, and the explained portion which has been analysed in particular by a study of 2009 conducted by Lin Xiu. The author has found three possible reasons that partially explain the differential.

In the first place, according to Xiu pay differential may be due to **workplace discrimination**. This phenomenon has been demonstrated to vary from state firms to private firms, even if it is not clear what is the correct trend of the recent period of intense privatization of Chinese firms. On the one hand, private companies have more autonomy than state firms, therefore they could have more room for gender discrimination. On the other hand, privatization leads to greater competition, which, as state in the previous paragraph, leaves no space for prejudices.

Secondly, in some cases the gap may be due to the **lower education or training received by female managers**. This means that women have a less valuable "human capital" than their male counterparts, receiving therefore lower remuneration. Unfortunately, several studies confirm that this component constitutes the biggest part of the explained portion of the gap.

Finally, an organization may be taken from hiring the most productive female managers because of **institutional barriers** that impose the so called "glass ceiling" to women. In this case, not only the employee but also firm performance will suffer because the organization is not maximizing the likelihood that pay and hiring go to the most productive managers.

These three causes can explain just a part of the gender earning gap. Other components, such as job motivation or career ambition could be included in the analysis, but it would be very hard to establish a clear and conclusive correlation. However, the next chapter will take in consideration these elements in order to establish a link between motivation and leadership style of both women and men.

2.4. CONCLUSIONS

This second chapter of the final assignment was dedicated to the analysis of the gender earnings gap all around the world, with particular emphasis on the situation in USA, Europe and, of course, China.

The section starts with the OECD definition of gender pay gap and it further analyses the importance of this phenomenon and its implications. Indeed, gender differentials can be partly explained by the so-called "romance of leadership", which explains why often women are not treated as leaders in the same way as their male counterparts. Furthermore, in this first section we saw how gender pay differentials are collocated in the framework of the glass ceiling.

The second part analyses in details the situation in the United States which are among the countries of the world with the lowest number of women in senior management positions. Moreover, the higher the position a woman reaches, the wider the pay differential will be. From two different studies we individuated the possible causes of this gap: firm size, occupational segregation, individual demographic characteristics, differences in training prior to MBA graduation, differences in career interruptions and differences in weekly hours.

At this point the analysis shifted to the European framework, where gender inequality is a discussed theme for the political institutions. Thanks to the Glass-Ceiling Index this section provided an overview of the situation of women in various countries of Europe, in order to proceed deeper with the analysis of the wage gap, which results wider in the top of wage distribution and in the private sector. Probably, one of the most worrying causes of it is the indifference toward women as managers, an attitude that could constitute an important limitation for equality. Some of the best practices used by European countries to tackle the problem are the dissemination of information, an integrated system of wage setting and legal measures.

From this point onwards the chapter has been dedicated to the analysis of the situation in China, starting from the attitude toward women: the gender earning gap in China has very deep root in the Chinese culture that attributes to women a subordinate role in society. Indeed, despite the recent modernization of China, still at the beginning of the 21^{st} century only 7,1% of Chinese managers had a positive attitude toward their female colleagues.

In most recent years more and more women are reaching top positions in Chinese firms, probably because of the privatization of companies and the higher competition they have to face. Nevertheless, gender pay differential remains very high, probably because of three main reasons: workplace discrimination, lower education or training received by female managers and institutional barriers.

3. DOES WOMEN'S PERFORMANCE FILL THE GENDER EARNINGS GAP? THE CHINESE CASE

3.1. INTRODUCTION

In the last chapter of this final assignment we will analyse the leadership styles of Chinese executives in order to underline the strengths of women and their ability to outperform as leaders in the Chinese transitional economy.

The first paragraph will start with the analysis of Chinese cultural environment, using as a model the cultural dimensions developed by Hofstede. Subsequently, once underlined the peculiarities of Chinese culture, the section will analyse which are the most important drivers that must be used to incentivize top executives in Chinese firms, with particular attention to the most effective elements of compensation policies that reflect China's cultural dimensions.

In the second paragraph we will discuss the most common styles of leadership used worldwide and in particular in Chinese firms: firstly, a distinction among leadership, management and administration will be made and subsequently the focus will be on the most common approaches of Chinese leaders. After a description of different behavioural dimensions found in China, we will see which are the most diffuse approaches of Chinese executives and their corresponding styles of leadership. Subsequently, the paragraph will analyse the strengths of the attitudes of Chinese managers that distinguish them from the rest of the world and allow them to reach excellent outcomes. Finally, the last sub-paragraph will be dedicated to some women's skills and abilities that allow them to outperform as leaders in the China's transitional economy.

3.2. CHINESE CULTURAL ENVIRONMENT AND COMPENSATION

In the first section of the final assignment we discussed what corporate governance and compensation policies are and we looked deeper at their features in China. The purpose of this paragraph is that of analysing the Chinese cultural environment, its peculiarities and its influences on the motivation of executives working in Chinese companies.

3.2.1. Cultural Dimensions in China

According to Hofstede (1993) it's a huge mistake to believe that the word "management" has a universal meaning and that all the countries can actually apply the same organizational theories in order to have success. Indeed, according to the author management cannot be isolated from the other processes of society and it is actually embedded in the social and cultural traditions of the country in question. This is why Hofstede developed five dimensions that can explain the differences among countries:

- ✓ **Power distance,** which is the degree of inequality among people which is considered normal by the population of a country. As Hofstede writes: "All societies are unequal but some are more unequal than others" (Hofstede, 1993, p. 89).
- ✓ **Individualism vs. Collectivism**, which measure the degree to which people in a society prefer to act as individuals or as members of a group, where they can find continuous support and protection.
- ✓ **Masculinity vs. Femininity**, which measure the degree to which tough values, usually associated to the masculine nature, such as assertiveness and competition, prevail over more tender values, linked to the female gender, such as care and solidarity.
- ✓ **Uncertainty avoidance**, that represent the degree to which the members of a society prefer to avoid risk and to deal with structured situations where the rules are clear and flexibility is not required.
- ✓ **Long-term orientation vs. Short-term orientation**: the first orientation values long-term vision and perseverance, while the second orientation gives more importance to the present and to the past.

Each country has its own peculiarities that can help to understand the different ways of doing business and the different ways of reacting to similar situation. The figure in the next page shows the scores of different countries on the five dimensions as found out by Hofstede in his research:

Figure 13: Culture Dimensions Scores for 10 Countries

Table 1
Culture Dimension Scores for Ten Countries
PD = Power Distance; ID = Individualism; MA = Masculinity; UA = Uncertainty Avoidance; LT = Long Term Orientation)
H = top third, M = medium third, L = bottom third (among 53 countries and regions for the first four dimensions; among 23 countries for the fifth)

	PD	ID	MA	UA	LT
USA	40 L	91 H	62 H	46 L	29 L
Germany	35 L	67 H	66 H	65 M	31 M
Japan	54 M	46 M	95 H	92 H	80 H
France	68 H	71 H	43 M	86 H	30*L
Netherlands	38 L	80 H	14 L	53 M	44 M
Hong Kong	68 H	25 L	57 H	29 L	96 H
Indonesia	78 H	14 L	46 M	48 L	25*L
West Africa	77 H	20 L	46 M	54 M	16 L
Russia	95*H	50*M	40*L	90*H	10*L
China	80*H	20*L	50*M	60*M	118 H

* estimated

(Hostede, 1993)

As we can see, China has some peculiar features: it has very high power distance, very high collectivism and an incredibly high long-term orientation, despite the common belief that China is very linked to its past and its traditions. The degree of masculinity and uncertainty avoidance are quite balanced. USA collocate in the opposite side, with low power distance, low collectivism, high masculinity, low uncertainty avoidance and very low long-term orientation. Looking at the data it is very easy to understand why the organizational theories that may work in US don't perfectly fit the Chinese cultural environment.

3.2.2. How to motivate and compensate Executives

Now that we have defined the Chinese cultural environment we can see how it affects managers' motivation and, consequently, the way firms decide to remunerate them in order to get the best possible performance.

Jackson and Bak (1998) report evidences of difficulties for foreign invested enterprises to understand how to recruit and retain Chinese managers, mainly because of differences in management styles and drivers of motivation. Indeed, the misunderstanding of the peculiar features of Chinese culture has always represented troubles for foreign investors and even if some years passed from the date of the research of Jackson and Bak, it is realistic to suppose that the same cultural differences have remained in place. Therefore it is important to understand that "it may be that Western concepts of motivation are not relevant in a socialist China where people have been motivated perhaps only to do what was best for the country, with little overlap in practice to industrial productivity" (Jackson & Bak, 1998, p.283).

But how should the Western principles be adjusted in order to effectively motivate Chinese executives? The work of Jackson and Bak is dedicated to the analysis of the drivers of motivation for employees in general, but in this section of the paper we will analyse their ideas concentrating exclusively on the motivation and compensation of top managers.

Child (see Jackson & Back, 1998, p.288) believes that the ways in which Chinese executives can be motivated can be understood looking at the model elaborated by Kats and Kahn in 1978. According to this model there are four elements that must be taken into account when discussing about motivation.

The first point is **rule enforcement**, namely the acceptance of the legitimacy of the organizational directives. It seems that Chinese managers need a well-defined parameters to respect and goals to achieve in order to perform at their best. This need could be explained by the moderated level of uncertainty avoidance which characterizes Chinese culture.

Secondly, **internalised motivation**, which consists in the internalisation of organizational cultural factors, must be taken into account. Indeed, "by building on a sense of belongingness and loyalty (…), there is a good opportunity to develop internalised motivation from developing corporate identity through a strong organizational culture" (Jackson & Bak, 1998, p.289). Organizational culture plays a fundamental role in driving engagement all over the world and this is why it should be used as the first tool to align shareholders' and managers' interests, in particular in a collectivist society as the Chinese one, where loyalty to the group in a shared value.

Furthermore, also **intrinsic motivation**, which lies in the attractiveness of a job. For a manager the attractiveness of his position is represented by the remuneration, the social position and the career possibilities. Therefore, it is fundamental for firms that want to attract strongly motivated executives to give them the most clear picture of all the advantages the role offers them. In particular, social connections are embedded in China's culture, such that there is a specific term that "refers to the concept of drawing on a web of connections to secure favours in personal and organizational relations" (Park & Luo, 2001, p.1): the term is "guanxi". This concept has very old root in the Confucianism tradition of China and it is visible in all aspects of society, including business, where it allows firms to generate competitive advantage from interpersonal relations.

Last but definitely not least, **external rewards** that incentive executives to achieve excellent outcomes are extremely important. As stated in the first chapter of this paper compensation policies provide material and effective incentives to align all the interests of the members of an organization, but there are several ways in which a compensation plan can be built. The secret for success lies in finding which are the material things that executives really care about and this is definitely linked to their culture. Individual performance incentives definitely have to be included in remuneration plans, in the form of annual bonuses, but they should not completely replace incentives linked to group-focused performance, since collectivism is an important feature on Chinese culture. Moreover, the idea that belonging to a group offers support and protection has effects on the expectations of Chinese executives to receive social benefits from their corporation, such as housing allowances and insurances. These kinds of benefits retain an important element of reward and drive engagement through loyalty and "belongingness". Finally, we cannot forget the long-term orientation that characterizes the cultural and business environment in China: long-term incentive plans, such as the one used by Lenovo (see p.18), are fundamental to retain executives and to focus their performance on the future success of the company.

3.3. CHINESE EXECUTIVES LEADERSHIP STYLES

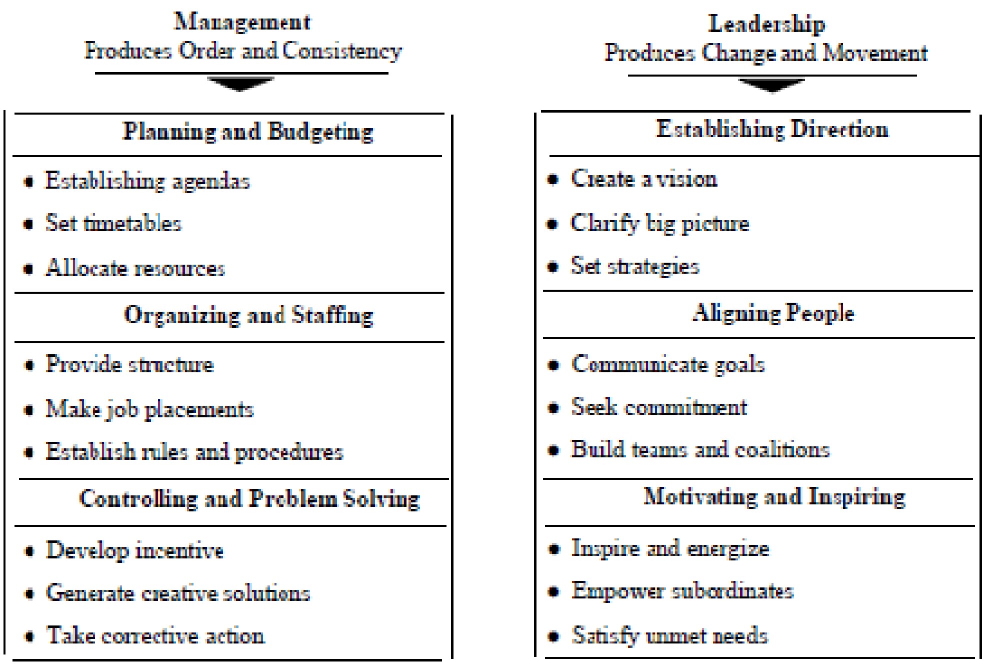
Now that we have seen which are the drivers of motivation for Chinese executives it is interesting to look at how cultural environment also influences the way in which they actually run the company and its people in order to meet their goals and to create the right business environment.

In order to proceed with our analysis it is useful to make a distinction among leadership, management, and administration. These three elements are all very important for an organization and very different one from the other (Mills, 2005):

- ✓ **Leadership** is about long-term vision and ability to empower others;
- ✓ **Management** is about getting the wanted results in an efficient way;
- ✓ **Administration** concerns rules and procedures needed to run a business;

The following figure clearly shows the distinction between being a manager and being a leader: leaders must create a vision and set strategies to reach it, align the interests of all the people involved and create commitment and motivation.

Figure 14: Functions of Management and Leadership



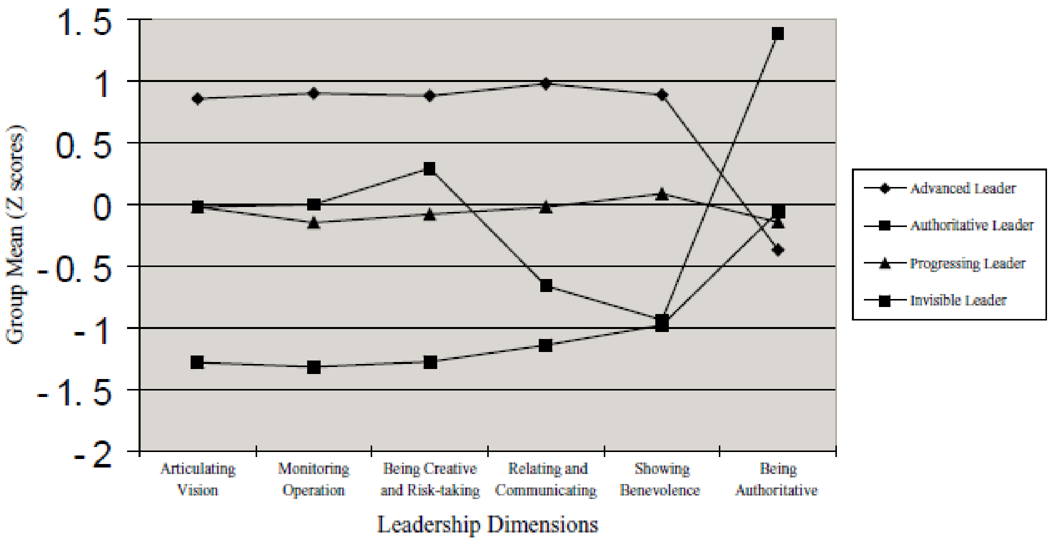
(Kotter, 1990)

Also the way in which a business is managed and administrated is very important, but due to globalization management practices are becoming more and more similar in different countries. On the other hand, leadership is the element that has remained most linked to the cultural environment that surrounds an organization, since one of its essential goals is creating motivation and engagement, which are strongly influenced by culture, as we described in the previous section. For this reason, the focus of the following paragraphs will be on the leadership in the Chinese environment.

3.2.1. Most common approaches in China

In their study on Chinese CEOs leadership styles (2004) the authors Tsui, Wang, Xin, Zhang and Fu found out six behavioural dimensions that characterize the most common styles of leadership in China. The following figure shows which are the weights of each dimension for each leadership style:

Figure 15: Leadership dimensions and styles



(Tsui et al., 2004)

In the first place, we will describe the six dimensions:

- ✓ **Articulating Vision**: it refers to the ability to clearly communicate the common vision of the organization and its long-term goals.

- ✓ **Monitoring Operations**: it concerns all the activities that a CEO must implement in order to control processes and operations.
- ✓ **Being Creative and Risk taking**: it consists in pursuing exploration and innovation with a creative attitude.
- ✓ **Relating and Communicating**: it relates to the interpersonal relations that an executive retains with the people inside and outside the organization.
- ✓ **Showing Benevolence**: it refers to the generosity and the caring for others that a manager should show in the work environment.
- ✓ **Being Authoritative**: it concerns the ability of the leader to exercise personal dominance and to make unilateral decisions.

All these behaviours are present in every kind of leadership, but it is clear that, for example, that last attitude is much more relevant for an Authoritative leader than for a Progressing one. This is explained by the diverse approaches and thoughts that support the different styles. Indeed, Dr. Sheh Seow Wah in his book "Chinese Leadership" (see Henry, 2009) describes four traditional Chinese leadership approaches particularly influenced by some elements of Chinese culture. Each approach founds its counterpart in one of the four styles of leadership described by the authors Tsui, Wang, Xin, Zhang and Fu in their study on leadership styles of Chinese CEOs (2004). Here is each approach and its corresponding leadership style:

- ✓ The **Humanistic approach**, based on the philosophy of Confucianism, gives importance to the emotional field: the emotions of the followers are of relevance for the Confucian leader who, in line with the strong collectivism of Chinese culture, wants to create a positive work environment where all the members feel part of the community, thanks to an **Advanced leadership style**.
- ✓ The **Legalistic approach** is completely different: it is influenced by the philosophy of Han Fei Zi, who believed that men are naturally "evil", therefore it bases all the relationships on the respect of strict rules and on the infliction of punishments in case of failure. This approach seems very well aligned with the so called "Theory X" elaborated by McGregor, which

promotes an **Authoritative leadership style** in order to control the natural misbehaviours of people (Costa, Gubitta & Pittino, 2014).

- ✓ The **Strategic Approach** gives extreme importance to the development of smart and well defined strategies in order to reach the performance goals. Not a lot of space is left for emotions and interpersonal relations, since all that matters is having clear which is the common objective and reach it in the most effective way. Such a strategic leader is very likely to use the **Progressing leadership style.**
- ✓ The **Naturalistic approach** is inspired by the Taoist thought: the focus is mainly on the spiritual development of the leader, who, once reached the summit of his path of growth, becomes a sort of invisible supervisor who ensures that all the people in the organization are taking the right decisions using the right methods, therefore applying the **Invisible leadership style**.

3.3.2. Strengths of Chinese Managers

Now that we have clear which are the most common approaches to leadership of Chinese executives it is interesting to underline the most relevant attitudes that characterize each leadership style and that constitute the distinctive strengths of Chinese executives in the world.

According to a research made by Hay Group in 2007, there are in particular three competencies that characterize the best Chinese CEOs that have managed to deliver excellent business results.

In the first place, it seems that sense of **social responsibility** is very frequent and strong among Chinese CEOs: the interest for the good of the business environment in which the company operates seems to be very relevant for committed executives, who prefer to limit their own profits for the sake of fair business practices. This high moral standard could find an explanation in more that one cultural dimensions of China. Firstly, collectivism could explain why it is very important in the Chinese business environment not to overrule others to pursue exclusively personal interests, and secondly, long-term orientation may provide a good reason for the sacrifice of easy profits in the present to the advantage of more consistent profit in the future that could benefit the whole industry. It also true, however, that corporate control is quite week in China, as stated in the first chapter of the paper (see p.11).

Therefore, we can state the only the moral of Chinese executives can help them to achieve great results without the use of bad or even illegal practices.

Secondly, seeking **harmony** in business relationships is a very important characteristic of Chinese managers. Indeed, in complex situations Chinese CEOs negotiate to reach a win-win solution, where all the parties can find some benefits without losing too much. Also this aspect can find an explanation in the long-term orientation that characterize Chinese culture: the assumption that supports this kind of behaviour during negotiations is that the business relation that will be created will be long-lasting, therefore it is in no one's interest to prevail over the counterpart.

Finally, Chinese leaders want to improve not only the industry where they operate and their business relations, but also themselves. The **quest for self-improvement** is another fundamental strengths of Chinese business people. This attitude is based on a very high level of self-awareness that allows managers to be aware of their limits and their weaknesses and to be able to step back and receive feedback when this is useful for themselves and for the whole organization. This attitude is very different from that of many Western CEOs, who tend to be more individualistic and not ready to accept criticisms from their peers. The Chinese culture of feedback is linked to the collectivistic nature of their society, where giving help and support to others is a fundamental value. Thanks to this attitude Chinese leaders can learn from their mistakes much better than Western executives, therefore continuously improving the performance of their organizations.

3.3.3. How can Women do better?

The concept of leadership has always been considered a male feature, as we also explained talking about the concept of "romance of leadership" (see p.23). In recent years many studies have observed women in top positions trying to schematize the most diffuse characteristics of women's style of leadership and the majority of these researches have found out that actually women have many strengths and can be excellent leaders, especially in the modern changing workplace. Indeed, all over the world new competences are required in order to be able to face with success the challenges of the transforming business environment and more than ever in China, world's largest transitional economy, flexible skills are essential.

In the light of this need, a new form of leadership has become very popular in the 21st century, the so called **transformational leadership style**: Burns (see Cheung & Halpern, 2010) defined in 1978 transformational leaders as managers who can create motivation in others, being "inspiring, optimistic, moral, and equitable" (Cheung & Halpern, 2010). These characteristics are particularly in line with the personality of women, who tend to have a more participative and collaborative style of leading and who give a lot of importance to interpersonal relations, promoting respect and communication. In the Chinese environment, where relations are fundamental for the wealth of society, the attention that female leaders give to team and consensus building is a key factor for success; moreover, women are very serious about their job and devoted to maintain high personal and organizational standards. All these features are clearly in line with the strengths of Chinese executives underlined in the previous paragraph: social responsibility, seeking of harmony and quest for self-improvement are particularly strong characteristics among Chinese female executives and allow them to deliver excellent results, maybe even beating their male counterparts.

Figure 16: Key leadership differences

People development: teaching, mentoring, listing to needs and concerns	Women apply more	
Expectations and rewards : clear expectations and responsibilities and rewards for achievements	**Women apply more**	**Rated highly effective in addressing global challenges**
Role model: relationships based on respect and regard for the ethical side of decisions	Women apply more	
Inspiration: vision for the future and inspiring optimism	**Women apply slightly more**	**Rated highly effective in addressing global challenges**
Participative decision making: creating an atmosphere where everyone joins in the decision-making	**Women apply slightly more**	**Rated highly effective in addressing global challenges**
Intellectual stimulation: challenging assumptions, risk taking, creativity	**Equal**	**Rated highly effective in addressing global challenges**
Efficient communication: convincing and with charisma	Equal	
Individualistic decision making: making decisions alone, involving others with the executions	Men apply more	
Control and corrective action: taking corrective actions when performance lacks	Men apply more	

(Patel & Buiting, 2013)

In order to sum up which are the most important characteristics of Chinese women in business we can look at a study conducted by McKinsey and Company in 2009 (see Patel & Buiting, 2013): the company pointed out the most effective leading behaviours to face the modern global challenges of business and found out that women leaders adopt these advantageous styles more often than men. The figure in the previous page sums up these behaviours.

It is very interesting to notice that there some parallelism between the most common best practices among women and the six dimensions used by Chinese leaders in their different styles, in particular those used by the Advanced and Progressing leaders (see Figure 15, p.41), who seem to be the ones who use the most modern and effective leadership styles:

- ✓ **People development**: teaching and mentoring others and giving a lot of importance to interpersonal relations is extremely important for women, who have a people-based approach (Patel & Buiting, 2013). Looking in particular at the Chinese behavioural dimensions, Relating and Communicating and Showing Benevolence, which are of great importance for a modern leader, are strongly linked to this relation-based approach typical of female executives.
- ✓ **Expectations and rewards**: according to the study women have clear expectations and responsibilities and are very good at establishing fair rewards for achievements. This means that women are particularly able to motivate their teams, communicating a clear link between performance and remuneration. This skill can definitely help communications and relations, fundamental for Chinese leaders.
- ✓ **Role model**: ethic and respect seem to be more important for women than for men. Female managers are very serious about the example that they give to their colleagues and collaborators, therefore their way of Being Authoritative could be even more effective, thanks to the good example that they give not only through words but also through behaviours.
- ✓ **Inspiration**: surprisingly the research underlines also that women are better at Articulating Vision of the future, an essential competence for the Chinese

Advanced leader. Thanks to their emotional intelligence and long-term orientation Chinese female executives seem to be better than men at inspiring optimism and engaging others.

- ✓ **Participative decision making**: women tend to create an harmonic atmosphere where every member can share his ideas and participate to the decision-making process. Not only relations benefit from this attitude, but also the control that female managers have over people and operations: therefore, also the dimension of Monitoring Operations is well developed among female leaders in China.
- ✓ **Intellectual stimulation**: finally, even if according to the McKinsey study women and men are equal on this point, according to Patel & Buiting women are actually greater risk takers. Therefore we can infer that also the behavioural dimension of Being Creative and Risk-Taking is more developed in Chinese women than in men, making women more able to face the challenges of China's modern transitional economy.

3.4. CONCLUSIONS

This final chapter was dedicated to the analysis of the leadership styles of Chinese executives in order to explain how Chinese women can outperform as leaders.

In the first section the Hofstede model was used in order to describe China's culture: it resulted that China has a very high degree of power distance, high collectivism and long-term orientation, while it is quite moderate in terms of masculinity and uncertainty avoidance.

After this description, the chapter analysed deeper how these cultural peculiarities influence executives' motivation and remuneration. We found four possible ways to motivate Chinese managers strongly linked to culture. Uncertainty avoidance explains the first motivation driver, which is rule enforcement; secondly, internalised motivation plays an essential role, in particular due to the collectivistic nature of Chinese society; furthermore, intrinsic motivation, which lies in the attractiveness of a job, is very important. Finally, external rewards, namely compensation, are the key to provide the right incentives: rewards for group performance, benefits in kinds and long-term incentive plans are in line with collectivism and long-term orientation of Chinese culture.

At this point the focus shifted to the examination of the most common leadership styles of Chinese executives and their link with Chinese culture. There are six behavioural dimensions – articulating vision, monitoring operations, being creative and risk taking, relating and communicating, showing benevolence, being authoritative – that combined in different ways make up four different styles of leadership: the Advanced leader who uses a Humanistic approach; the Authoritative leader with a Legalistic approach; the Progressing leader characterized by a Strategic approach; finally, the Invisible leader who mainly uses a Naturalistic approach.

Subsequently, in the light of the diffuse approaches among managers in China we pointed out the strengths of Chinese executives: high sense of social responsibility, seeking harmony and quest for self-improvement definitely help them to achieve excellent results with their teams.

Finally, the last paragraph is dedicated to explain why Chinese female executives could be better leaders than males. It resulted from the analysis that women are closer than men to the transitional leadership style. In particular, Chinese women as managers are better at developing people and giving clear and fair rewards through communication and benevolence; giving the good example, using a more effective way of being authoritative; inspiring, since they articulate vision with optimism and commitment; involving others in the decision-making process, being therefore able to monitor operations in an effective way; taking risks and being creative. Thanks to these skills, Chinese female executives can actually be the best leaders for China's modern firms.

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