Do foreign experienced managers influence employee compensation?

Evidence from labor investment in China

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Abstract

We investigate the impact of managerial foreign experience on corporate employee compensation. We show that foreign experienced managers pay higher wages to employees. Further, efficiency wage theory and personal experience channel serve as underlying economic channels to increase employee compensation. The effect of managerial foreign experience on employee compensation is more pronounced in firms with excess cash holdings and lower operating leverage. Further analyses indicate that government intervention differentiates the purpose and incentive for foreign experienced managers increasing labor costs between state-owned enterprises (SOEs) and private firms. The positive relationship between managerial foreign experience and employee compensation benefits shareholders of private firms through increasing firm value. However, it also generates greater labor stickiness costs.

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1. Introduction

Foreign experience is a type of human asset which is valuable and difficult to imitate by others, and such experiences help managers think globally and act locally (Carpenter, Sander and Gregersen, 2000; Coff, 1997). It has been documented that managerial foreign experience positively influences a wide range of firm behaviors, including corporate governance, innovation and firm performance (e.g. Giannetti, Liao and Yu, 2015; Yuan and Wen, 2018). However, there is little attention on their influence on labor markets, which is surprising given that labor is a critical driver of both economic growth (Aghion et al., 1998) and firm value (Merz and Yashiv, 2007). We help fill this gap by examining the influence of managerial foreign experience on labor investment. Managers with foreign experience could increase labor investment to drive a value-added strategy by attracting and retaining high skilled employees, or alternatively could decrease labor investment in pursuit of a cost-saving strategy.

In China, foreign experienced managers are treated as "super stars" who are handsomely rewarded to encourage them to transfer their superior knowledge and skills to Chinese firms (Yuan and Wen, 2018). However, the "super star" status attracts greater scrutiny and monitoring (i.e. the eye-ball effect) from board directors, employees, investors, government, as well as traditional and social media in China. Based on Yuan and Wen's (2018) argument that the eyeball effect focuses foreign experienced managers on firm performance, we argue they could use labor investment enhance performance. On one hand, foreign experienced managers could drive performance by implementing a product or service value-added strategy through hiring and retaining high skilled employees for enhancing firm growth and innovation (Glaeser and Berry, 2006; Yuan and Wen, 2018). On the other hand, the extra attention and scrutiny from other parties may tilt foreign experienced managers to adopt a cost-saving strategy to enhance short-term performance (Sheaffer, Carmeli, Steiner-Revivo and Zionit, 2009), as paying high employee compensation may reduce firms' profitability, and weaken

firms' internal capital availability (Klasa, Maxwell and Ortiz-Molina, 2009; Matsa, 2010; Kong et al., 2020).Thus, the effect of managerial foreign experience on employee compensation is an open question that requires further investigation.

We focus on the Chinese market for several reasons. First, traditionally, labor protection and average wages are comparatively lower in China than those of more developed markets. Although the Chinese government implemented the labor contract reform to strengthen labor protection in 2008 (Kong et al., 2020), harmful employee welfare practices remain. For example, "996" was a common Chinese working norm where employees must work from 9am to 9pm, 6 days a week. This practice was only banned by the Chinese Government in 2021. If managers with foreign experience could bring and implement positive employee treatment practices from high employee protection countries, this spillover effect may impact labor protection practices in China (Dai, Kong and Liu, 2018). Second, endogenous growth theory suggests that human capital contributes significantly to economic growth (Aghion et al., 1998). However, a lack of high skilled employees constrains productivity and innovation within firms (Dollar, 2019), and this constraint is particularly problematic in Chinese firms. For example, in a survey of enterprises, the lack of skilled employees is the second biggest problem constraining Chinese enterprises' innovative activity (Peking University Open Research Data [1]). Therefore, studies on human capital intensity may help Chinese firms produce strategic plans to retain and attract skilled workers. Third, while data to study firm-level rank and file employees is difficult to obtain, the Chinese Accounting Standard for Business Enterprises-Basic Standard has required firms to report employees' compensation information (e.g. salaries and allowance) since 2007. Moreover, the China Securities Regulatory Commission (CSRC)

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[1] For more details, please see https://opendata.pku.edu.cn/dataverse/esiec

requires firms to disclose the descriptive statistics of their employee structures, including employee count, education and position.

Using the average wage expense per employee after excluding top executives' compensation and the industry adjusted average wage expense, we find evidence that managerial foreign experience increases employee compensation. This result is confirmed after endogeneity checks including instrumental variable (IV) analysis, difference-in-difference (DID) test and multiple fixed effects tests.

We argue that both the efficiency wage theory (e.g. firms having more high skilled employees) and upper echelon theory (e.g. countries where managers gained their experience from) are the potential mechanisms through which foreign experienced managers increase employee compensation. Consistent with the efficiency wage channel, we find that firms with foreign experienced managers are associated with a high percentage of skilled employees and they are more likely to increase employee compensation in firms located in high labor market competition areas. Moreover, managers who gain their experience in high labor protection countries have a stronger impact on employee compensation compared to those with experience in high investor protection countries. Additionally, the positive effect of managerial foreign experience on employee compensation is more pronounced in low employee protection Chinese provinces.

Next, we provide evidence on how firm characteristics influence the relationship between managerial foreign experience and employee compensation. We find it is more pronounced in firms with excess cash holdings and lower operating leverage. These results are consistent with He (2018) who argues that firms require flexible and healthy financial conditions to attract and retain high skilled employees.

We then investigate whether and how government influence in firms affects the inducement effect of managerial foreign experience. First, we find the relationship between managerial foreign experience and employee compensation is significant in both SOEs and private firms. However, the reasons why the relationship exists in SOEs and private firms may differ due to the differing goals managers are tasked with. For example, in addition to wealth maximization, foreign experienced managers in SOEs are tasked with political and social objectives (e.g. employees' wellbeing and safety) set by government, and fulfilment of these objectives may help their future political promotion opportunities (Jiang and Kim, 2019). In contrast, private firms focus on shareholder wealth maximization. We find evidence supporting this conjecture. For example, in SOEs, managers with foreign experience improve employee treatment, but we do not find similar evidence in private firms. However, we find evidence that private firms with foreign experienced managers improve total factor productivity and consequently enhance firm value through increasing employee compensation to benefit shareholders' wealth. Overall, we find that government influence through ownership structure affects the incentives for foreign experienced managers to increase employee compensation.

Finally, this relationship also results in greater labor adjustment costs leading to labor cost stickiness, indicating a potential structural cost for firms appointing foreign experienced managers.

Our study makes several important contributions. To our best knowledge, this is the first paper to investigate the relationship between managerial foreign experience and employee compensation. Our study builds on the work of Kong et al. (2020) and others who highlight the importance of endogenous growth theory and efficiency wage theory that human capital is important to economic growth (Pfeffer and Villeneuve, 1994; Zingales, 2000), and attracting and retaining high skilled employees can facilitate firm performance significantly (Kong et al., 2020). Previous studies show foreign experienced executives transmit their superior knowledge

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and skills to their Chinese firms (e.g. Giannetti et al., 2015; Yuan and Wen, 2018; Dai, Kong and Liu, 2018), and how managerial foreign experience benefits their own compensation (Yuan and Wen, 2018; Conyon, Haß, Vergauwe and Zhang, 2019). In contrast, our study illustrates their impact on rank-and-file employees' compensation and the teams they build, which also drives firm performance. We show foreign experienced managers also transfer and implement favourable labor conditions (e.g. human capital building) to firms they manage.

Moreover, we extend the literature on managerial foreign experience. Previous literature indicates positive effects of foreign experienced executives on corporate investment decision-making including, innovation (Yuan and Wen, 2018), investment efficiency (Dai et al., 2018), and corporate social responsibility (Zhang et al., 2018). We add to this by examining labor investment as another important corporate investment decision. Unlike the capital investment which is financed through debt or equity, labor investment is primarily funded from firms' operating cash flows (Taylor, Al-Hadi, Richardson, Alfarhan and Al-Yahyaee, 2019). Further, in addition to increasing employee compensation to attract and retain high skilled employees for enhancing firm value, we also highlight a potential cost of appointing foreign experienced managers, as they are associated with increased labor costs stickiness.

Last, we contribute to the labor investment literature. Previous literature mainly focuses on the influence of macro factors on employee compensation, such as labor policy reform, government connections and the bargaining power from unionization (Cui et al., 2018; Li et al., 2020; Kong et al., 2020; Wei, Hu and Chen, 2020; Klasa et al., 2009). We argue that micro factors, such as managerial foreign experience may also influence employee compensation.

The remainder of the paper is organised as follows. Section 2 provides relevant literature and hypothesis development. Section 3 discusses data and methodology. Section 4 reports empirical results. Section 5 concludes the paper.

2. Literature review and hypothesis development

2.1 Literature review

Our study incorporates two streams of literature. The first stream is on employee compensation. In comparison with developed countries, China's employee compensation was relatively low before 2003, which was mismatched with the high growth in China's economy. Since 2003, employee compensation has increased substantially, with an average growth rate above 12% from 2003 to 2015, and this is particularly evident in urban areas due to the shortage of migrant workers (Li et al., 2020). In 2008, the Chinese government formally enacted the Labor Contract Law which strengthens employees' legal rights and increases employees' compensation and wellbeing including social insurance, minimum wage and maximum working hours (Cui et al., 2018). Moreover, human-capital-intensive firms may face high labor costs as human-capital-intensive sectors (e.g. high-tech industries) involve 'talent war', which induces firms to pay high wages to their employees to attract and retain high skilled workers (Cao and Rees, 2020). Increased employee compensation can increase firms' precautionary cash holdings, as well as improving firms' productivity and innovation (Ni and Zhu, 2018; Cui et al., 2018; Kong et al., 2020; Li et al., 2020).

The second stream of literature refers to managerial foreign experience. The upper echelon theory argues that individual's characteristics can influence corporate performance significantly (Hambrick and Mason, 1984). Previous studies define foreign experienced executives as high skilled talents whose superior knowledge and skills enables them to improve corporate performance, investment efficiency, innovation, and corporate social responsibility (Giannetti, et al., 2015; Dai et al., 2018; Yuan et al., 2018; Zhang et al., 2018). Moreover, prior studies find foreign experienced executives reduce stock price crash risk and corporate tax avoidance (Cao, Sun and Yuan, 2019; Wen, Cui and Ke, 2020).

2.2 Hypothesis development

As mentioned, foreign experienced managers are treated as super stars who receive higher compensation, but are burdened with greater expectations of improving corporate performance and behaviours (Yuan and Wen, 2018). However, enhancing firm performance and value is a process of team work rather than an individual's effort (Hall, Jaffe and Trajtenberg, 2005). Thus, the improved organizational behaviours are not only subject to managerial ability, but also an outcome from other parties' efforts such as employees. The efficiency wage theory argues that the excess payment to employees increases firm performance by strengthening employees' loyalty (Stiglitz, 1974; Salop, 1979), attracting high skilled employees (Weiss, 1980; Malcomson, 1981) and retaining talented employees (Albinger and Freeman, 2000). Given skilled managers are more likely to hire high skilled workers for facilitating firm performance (Glaeser and Berry, 2006), foreign experienced managers may implement value-added strategies through hiring and retaining a high proportion of skilled employees to improve firm behaviours for the expectations from other parties.

Moreover, previous studies indicate that where executives obtain their foreign experience, influences the advanced knowledge and skills they bring to their firm's decision-making (e.g. Dai e al., 2018; Zhang et al., 2018). For example, Yuan et al. (2018) find that managers who gained experience in the US have more influence on innovation. Likewise, the employee treatment may be better for firms whose top managers gained their experience from countries with high employee protection. As high employee protection is positively linked to employee compensation (Cui, John, Pang and Wu, 2018), managers who gain their experience from high employee protection countries may treat their employees better.

On the other hand, it is also possible that foreign experienced managers may be associated with lower corporate employee compensation. Studies show high employee compensation may reduce corporate profitability and burden internal capital liquidity (Klasa et al., 2009; Matsa,

2010; Kong et al., 2020). The greater scrutiny and monitoring from directors, investors and media (Yuan et al., 2018) may drive foreign experienced managers to enhance short-run performance through cost-saving strategies such as reducing employee compensation (Sheaffer et al., 2009).

Given such reasons, we hypothesis that:

H1a. Managerial foreign experience is positively associated with employee compensation.

H1b. Managerial foreign experience is negatively associated with employee compensation.

3. Data and methodology

Our sample consists of all firms listed on the Shanghai Stock Exchange (SSE) and the Shenzhen Stock Exchange (SZSE) from 2008 to 2016. The data is from the China Stock Market & Accounting Research database (CSMAR). We start the sample from 2008 as CSMAR provides executives' profiles and background from that year. The data of corporate employees' structure is retrieved from Resset database. We exclude financial firms and observations with missing value, which results in 16,026 firm-year observations.

Unlike western markets, the chairman in Chinese listed firms takes the most powerful managerial position and is concerned with daily operational matters ((Kato and Long, 2006)). As such, we define foreign experienced managers as CEO, or chairman, who have worked or studied outside the mainland of China. We manually collect information on managers' academic backgrounds and countries where they gained their foreign experience from their resumes which are available in the CSMAR database. We cross-check the sample with Baidu (http://baike.baidu.com), Sina (http://finance.sina.com.cn) and annual reports retrieved from the firms' websites. Following Yuan et al. (2018), we then exclude individuals who gained their experience from foreign branches of Chinese firms (an office of a Chinese firm overseas etc.) or worked for Chinese branches of foreign firms (an office of a foreign firm in China etc.)

to rule out non-pure managerial foreign experience. Therefore, managerial foreign experience (*FE dummy*) is a dummy variable which equals to one if a firm's chairman, or CEO has foreign experience, and zero otherwise. According to the chart in Appendix B, the number of foreign experienced managers is increased across the sample period, from 4.3% in 2008 to 20.46% in 2016.

3.1 Employee compensation measures

Following (Li et al., 2020), we define our dependent variable employee compensation (*emp compensation*) as the natural logarithm of the amount of "paid for and on behalf of employees" reported in cash flow statements plus changes in "wages payable" in the balance sheet in a given year minus top executives' compensation in the previous year, divided by the total number of employees in a firm. We also use the industry adjusted employee compensation (*Adj compensation*) as the second measure of employee compensation. The variable *Adj_compensation* is the natural logarithm of one plus the ratio of average labor compensation for a firm to the median compensation of a given industry and year.

3.2 Methodology

To test our hypothesis, Equation (1) is applied for the regression models[2]:

$$emp\ comepnsation\ or\ Adj\ compensation_t = \alpha + \beta_1 FE\ dummy_t + \beta_2 quick\ ratio_{t-1} +$$
$$\beta_3 leverage_{t-1} + \beta_3 firm\ size_{t-1} + \beta_4 roa_{t-1} + \beta_5 top1_{t-1} + \beta_6 labor\ intensity_{t-1} +$$
$$\beta_7 indep_{t-1} + \beta_8 bsize_{t-1} + \beta_9 insti_{t-1} + \beta_{10} tangible_{t-1} + \beta_{11} Std\ cfo_{t-1} + \beta_{12} Std\ nethire_{t-1} +$$
$$\beta_{13} otherinvestment_{t-1} + \beta_{14} div_{t-1} + \beta_{15} big4_{t-1} + \beta_{16} soe_{t-1} + \beta_{17} duality_{t-1} +$$
$$\beta_{18} GDP\ Growth_{t-1} + \beta_{19} inflation_{t-1} + \beta_{20} Money\ supply\ growth_{t-1} + \varepsilon \qquad (1)$$

where *emp compensation* and *Adj compensation* are the measures of employee compensation, and the *FE dummy* is defined as the measure of managerial foreign experience. Following Ben-

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[2] All continuous variables are winsorized at the 1% and 99%.

Nasr and Alshwer (2016), Khedmati, Sualiu and Yawson (2020) and Kong et al. (2020), we also add a set of control variables including quick ratio (*quick ratio*), financial leverage (*leverage*), firm size (*firm size*), return on assets (*roa*), the largest shareholdings (*top1*), labor intensity (*labor intensity*), ratio of independent directors (*indep*), board size (*bsize*), institutional ownership (*insti*), percentage of tangible assets (*tangible*), volatility of operating cash flow (*Std cfo*), volatility of net hiring (*Std nethire*), other non-labor investment (*otherinvestment*), dividend payout (*div*), audit quality (*big4*), ultimate controller (*soe*), CEO and chairperson duality (*duality*), growth of provincial GDP (*GDP growth*), inflation rate (*inflation*) and the growth of money supply (*Money supply growth*). We use industry-year fixed effect to examine the relationship between managerial foreign experience and employee compensation in China, and the standard errors are clustered by firm level. All the variable definitions are reported in Appendix A.

Table 1 reports the summary statistics. The employee compensation has a mean of RMB80,789, which are close to Li et al (2020) and Wei et al. (2020). On average, 10.9% of our observations have foreign experienced managers. In our sample, about half of the firms are state controlled. Firms' largest shareholders on average own 35.4% of issued equity, while firms' average quick ratio is 1.129, and on average firms have 48.1% financial leverage and 24.9% tangible assets, while their boards comprise 36.9% independent directors. With regard to the macro-economic variables, GDP growth throughout all provinces is 12.3% on average, the inflation rate is 2.8% and the growth rate of money supply from central bank is 16%.

[Insert Table 1 here]

4. Empirical results

Table 2 reports the estimated result of Equation (1), which examines the effect of managerial foreign experience on employee compensation. Both coefficients for *FE dummy* are positively

and significantly related to the employee compensation measures at the 1% level. Economically, firms who have foreign experienced managers (90th percentile of *FE dummy*), on average, pay higher employee compensation than firms without foreign experienced managers, with a difference of RMB6.522k (8% more), holding all other explanatory variables constant at their mean values[3]. We also report the result of propensity score matching (PSM) test to check the robustness and address self-selection bias of our baseline result. To execute the PSM analysis, we estimate the propensity scores by considering a set of control variables in Equation (1) and match the sample with the nearest neighbour between the treatment group and control group[4]. According to Table 2, the significance of *FE dummy* remains qualitatively the same.

Taken together, our results suggest that foreign experienced managers are associated with high employee compensation and this relationship is not influenced by self-selection bias.

[Insert Table 2 here]

4.1 Endogeneity checks

Although we find a positive relationship between managerial foreign experience and employee compensation, it is possible that our relationship is driven by endogeneity bias. For example, reverse causality can be a potential concern as firms with greater employee compensation might be able to afford to hire managers with foreign experiences, who usually demand higher wages and could be competitive in the job market. In addition, some omitted variables, such as managers other characteristics may also drive our results. In this section, we apply a set of

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[3]Given our dependent variable is scaled by the natural logarithm, we follow Boubaker, Derouiche and Lasfer (2015) to calculate the economic significance. Let *emp compensation$_1$* be the employee compensation of firms from the 90th percentile as *FE dummy* starts equal to 1 at the 90th percentile. Using the average value of employee compensation in yuan of RMB80,789, the 90th percentile value of *FE dummy* of 1 in Table 1 and the coefficient of *FE dummy* of 0.112 in Table 2, we obtain ln (*emp compensation$_1$* / RMB80,789) = 0.112*[ln (1+1)-ln (1+0)]. Thus, *emp compensation$_1$* = 87,311 (= 80,789*$e^{[0.112*(\ln(1+1)-0)]}$). Therefore, on average, foreign experienced managers increase employee compensation by RMB6.522k (87,311-80,789) for.

[4] In an untabulated result, the differences of control variables between the treatment and control group are insignificant in PSM sample, indicating that our selected sample is well matched.

tests to address potential endogeneity concerns, including instrumental variable (IV) test, difference-in-difference (DID) test and multiple fixed effects.

4.1.1 Instrumental variables test

We first adopt the two-stage least square (2SLS) IV test to address the endogeneity concerns. Our first instrument variable is *christian*, following Dai et al. (2018) and Tao, Wei, Xiang and Yi (2022), it is defined as the number of colleges for each province that were built by Christian missionaries up to 1920. Dai et al. (2018) argue that the Christian colleges import western culture and values which may impact local culture, and such influences may increase the opportunities for local residents to go abroad or increase the possibility for foreign experienced talents to come and work in these areas. In addition, the Chinese government enacted a series of policies to attract foreign experienced talents to live and work in China. Therefore, following Giannetti et al. (2015), we employ *policy* as our second instrument variable which is equal to one in years of the allowance policy implementation for each province, and zero otherwise. Both of our instrumental variables do not have direct influence on employee compensation.

Table 3 reports the IV test results. In the first stage result, the coefficients on *christian* and *policy* are positive and significant at the 10% and 1% level, respectively, indicating that our instrumental variables are highly correlated with appointing foreign experienced managers. The value of F-statistics and the p-value of Hansen J-statistic indicate that our instrumental variables are valid and not weak. In the second stage analysis, both of the coefficients of *FE dummy* are positively and significantly related to employee compensation measures at the 1% level, suggesting that our results are not influenced by potential endogeneity concerns such as reverse causality and omitted variables.

[Insert Table 3 here]

4.1.2 Difference-in-difference analysis

Second, we employ a DID analysis based on CEO turnover to address the endogeneity issues which may affect the relationship between managerial foreign experience and employee compensation[5]. In detail, we follow Huang and Kisgen (2013) to first identify firms that experience a transition from non-foreign experienced CEO to foreign experienced CEO (treatment group). Next, we identify firms that transition from having a non-foreign experienced CEO to another non-foreign experienced CEO (control group). We then build our DID sample as firm-year observations 2 years before and 2 years after a CEO turnover[6], excluding the transition year *t*. Our DID model is as follows[7]:

$$emp\ compensation_{i,t}\ or\ Adj\ compensation_{i,t}$$

$$= \beta_0 + \beta_1\ post_t * transition_i + \beta_2\ post_t + \beta_3\ transition_i$$

$$+ \sum_k \beta_k Controls_{k,i,t} + \varepsilon_{i,t} \tag{2}$$

where *post_t* is a dummy variable which equals one if firm-year observations are after the CEO transition and zero otherwise; *transition_i* is a dummy variable equal to one if a firm *i*'s transition in year *t* is from a non-foreign experienced to foreign experienced CEO transition and zero if a firm *i*'s transition in year *t* does not involve any foreign experienced CEOs. In addition, we run our DID test by excluding the CEO turnover caused by dismissal, resignation and position transfer, as these turnovers might be endogenous (e.g. firms might change CEOs for specific purposes).

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[5] Following Yao, Wang, Sun, Liao and Cheng (2020), we select CEO turnover as benchmark in DID test as the CEO transition is more frequent than that of chairman, which allows us to incorporate more observations in the test.

[6] We contain 2 years before and after transition to obtain more firms in our sample selection.

[7] Similar with Huang et al. (2013), we control for year fixed effects instead of parallel trend check in our DID analysis as the CEO turnovers occur in different dates for different companies.

If H_{1a} that managerial foreign experience increases employee compensation holds, the coefficient of the interaction term $post_t*transition_i$, will be significantly positive. Table 4 presents the results of our DID test. In line with our conjecture, the estimated coefficients on $post_t*transition_i$ are positive and significant across the measures of employee compensation, indicating that managerial foreign experience can significantly increase employee compensation, ruling out the possibility that our results are affected by reverse causality and omitted variables.

[Insert Table 4 here]

4.1.3 Other fixed effects

We further apply multiple fixed effects in this section. First, we use firm-year fixed effects to rule out the potential problems generated by time-invariant firm-specific characteristics. According to Panel A of Table 5, both the coefficients on *FE dummy* are significantly positive at the 10% level, indicating that our results are not driven by time-invariant firm-specific characteristics.

Second, to address the endogeneity issues caused by omitted individual's characteristics, we follow Gormley and Matsa (2014, p.644), Hedge and Mishra (2019) and Mishra (2021) in using the 2SLS strategy within the CEO fixed effects framework as managers' foreign experience is practically orthogonal to other individual's characteristics. Specifically, we first retrieve residuals by regressing both of our employee compensation measures on all control variables in Equation (1) with CEO, industry and year fixed effects, respectively. We then regress both group-average residuals (*Resid_comp* and *Resid_Adjcomp*) estimated in the first step with *FE dummy* and all control variables in the second step, including industry and year fixed effects, respectively. The results are reported in Table 5. In the second step results, *FE dummy* is

positively and significantly associated with *Resid_comp* and *Resid_Adjcomp* at the 1% level, ruling out the potential bias that our results are affected by omitted individuals' characteristics[8].

[Insert Table 5 here]

4.2 Potential mechanisms

Next we investigate the potential mechanisms for managers with foreign experience to increase employee compensation. According to efficiency wages theory, firms pay excess wages to employees to enhance employees' loyalty and improve productivity (Kong et al., 2020). Apart from the superior knowledge that foreign experienced managers gained from other countries, based on the efficiency wage theory, they may also seek to improve their firm's human capital to improve firm performance. Thus, in the context of the efficiency wage theory, we expect foreign experienced managers increase employee compensation by hiring high proportion of high skilled employees.

4.2.1 High skilled employees

There is a positive relationship between talented managers and the recruitment of high skilled employees (Glaeser and Berry, 2006) and therefore foreign experienced managers who are regarded as talented managers may hire a high proportion of skilled employees. Employee-friendly treatment improves recruitment and retention of high skilled employees in firms, as well as reducing labor market friction and adjustment costs (Cao and Rees, 2020). Thus, we expect firms with foreign experienced managers to be associated with a high proportion of high skilled employees, and this association will increase employee compensation.

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[8] In untabulated results, we repeat the same process using chairman fixed effects and the results are qualitatively similar.

Following Kong et al. (2020) and Can and Rees (2020), we define high skilled employees based on their educational background (*High_edu*) and their job levels (*High_expert*). The variable *High_edu* is the proportion of employees who hold a bachelor's degree or above, while *High_expert* captures the proportion of employees whose jobs are located at zone 4 or 5[9] using JobZone data from Occupational Information Network. To design the test, we follow Ferreira and Laux (2007) and Cosset, Somé and Valéry (2016) by running two-stage regressions. In the first step, we separate the *High_edu* and *High_expert* that is explained by managerial foreign experience, and the rest which is irrelevant to managerial foreign experience, respectively. The results in Panel A of Table 6 indicate that managers with foreign experience are positively associated with the proportion of high skilled employee measures. In the second step, we replace *FE dummy* in Equation 1 with both the fitted values and residuals of our high skilled employees' proxies. In Panel B of Table 6, the coefficients of *fv_High_edu* and *fv_High_expert* are all positively and significantly associated with our employee compensation measures at the 1% level. The results indicate that managerial foreign experience increases employee compensation through improving the proportion of high skilled employees, which is consistent with efficiency wage channel. However, it is possible that firms with a high proportion of high skilled employees are more likely to hire foreign experienced managers. To address this concern, in an unreported table, we run the test in Panel A of Table 6 based on our DID sample, the coefficients on $post_t$ *$transition_i$ are positive and significant, ruling out the potential endogeneity problems.

[Insert Table 6]

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[9] Job zones rank occupations into five zones from low to high level, based on the requirements of educational background, experience and training to perform the occupation.

4.2.2 Labor market competition

We further investigate the underlying mechanisms through local labor market competition[10]. The Chinese labor market varies geographically because of the family commitments and the unique hukou system (Meng and Zhang, 2001; Fleisher and Wang, 2004). As a result, competitiveness of labor markets differs across provinces. Firms with foreign experienced managers may have high demand of talented employees in competitive labor markets which results in high excess wages to retain and attract skilled workers. Based on the competitive wages mechanism, we conjecture that the effect of managerial foreign experience on employee compensation are stronger in provinces with competitive local labor markets.

Following Kedia and Rajgopal (2009) and Kong et al. (2020), we measure the level of local labor market competition as the ratio of the number of firms in the same industry and province to the total number of firms in the province. We partition the sample into two subsamples based on the median value of labor market competition proxy. The result in Panel C of Table 6 indicates that our findings only hold in provinces with a high level of labor market competition, which is also in line with efficiency wage theory.

Overall, our results are consistent with the efficiency wage channel, which argues that foreign experienced managers pay excess wages to attract and retain high skilled employees to improve human capital for firms.

4.2.3 Personal experience channel

In addition to efficiency wage theory, the country where a manager gains their foreign experience from may influence their labor investment decisions, as foreign norms may affect executives' decision-making (e.g. Zhang et al., 2018). In countries with high employee protection, employee benefits are likely to be more important in terms of firm objectives than

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[10] Given we are focusing on the provincial characteristics, we add province fixed effects in this section.

in countries with high investor protection (Atanassov and Kim, 2009). Thus, managers who gained experience from countries with high employee protection may have more pronounced effect on employee compensation than those from countries with high investor protection. We use the index created by Atanassov and Kim (2009) to capture countries with high employee protection and high investor protection. Specifically, *High employee protection* is a dummy variable which equals to one if the manager gained experience from countries[11] with top5 labor protection index, otherwise zero, while *High investor protection* is a dummy variable which equals to one if the manager gained experience from countries or regions[12] with top5 investor protection index, otherwise zero.

The results are shown in Table 7. The coefficients of *High employee protection* are positive and significant on employee compensation measures at the 1% level, whereas the coefficients of *High investor protection* are insignificant on employee compensation measures, suggesting that managers gaining their experience from countries with high labor protection have a more pronounced effect on increasing employee compensation than those from countries with high investor protection.

[Insert Table 7]

4.3 Additional tests

4.3.1 Excess cash holding

Previous literature indicates the importance of maintaining stable employment levels, especially for firms who are heavily reliant on high skilled employees due to the high replacement costs associated with firing, hiring and training new employees (Oi, 1962; Dolfin, 2006; Blatter, Muehlemann, and Schenker, 2012; Ghaly, Anh Dang and Stathopoulos, 2017). However, maintaining stable employment levels may weaken firms' ability to survive future

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[11] These countries include France, Italy, Norway, Portugal and Spain.
[12] These countries and regions include Australia, Hong Kong, New Zealand, Singapore and United Kingdom.

cash flow shocks (Ghaly et al., 2017). Moreover, He (2018) argues that firms hold more cash to strengthen their financial ability for aggressive hiring strategies (e.g. raiding rivals), as well as retaining and attracting talented employees. Likewise, firms with foreign experienced managers may hold excess precautionary cash for increased probability of financial distress, stemmed from high employee compensation. Therefore, if foreign experienced managers increase in employee compensation is a rational decision, then we would expect the relationship between managerial foreign experience and employee compensation to be more pronounced in firms with high excess cash holdings than those with low cash holdings. A firm is defined as high excess cash holdings[13] if their excess cash holdings are above median value of our sample, and low excess cash holding otherwise.

According to Panel A of Table 8, the coefficients of *FE dummy* are only positive and significant at the 1% level in the subsample of firms with high excess cash holding, which is in line with our expectation. This result also supports the motivation of holding precautionary cash suggested by Keynes (1936).

4.3.2 Operating leverage

Cui et al. (2018) indicate that increased employee compensation will increase corporate operating leverage, which may lead to high financial distress and bankruptcy risk. Therefore, foreign experienced managers of high operating leverage firms might be less likely to increase employee compensation in order to reduce financial distress and bankruptcy risk. Thus, we expect operating leverage will moderate the relationship between managerial foreign experience and employee compensation. Following Serfling (2014), we calculate operating

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[13] Following Xu, Chen, Xu and Chan (2016), we measure excess cash holding as the residuals of a regression between firms' actual cash holding and a set of variables, including firm size, net income, net working capital, the standard deviation of operating cash flow over total assets, the market to book ratio and financial leverage with firm and year fixed effects.

leverage[14] as the percentage change in operating income for a percentage change in sales. The result reported in Panel B of Table 8 shows the coefficients of *FE dummy* are only positive and significant at the 1% level in the subsample of firms with low level of operating leverage, which is consistent with our conjecture.

[Insert Table 8 here]

4.4 The effect of government intervention

We further test whether the relationship between managerial foreign experience and employee compensation will alter due to government intervention. The effect of managerial foreign experience may be less pronounced in SOEs due to government intervention. We partition our sample between SOEs and private firms. Panel A of Table 9 indicates that the coefficients of *FE dummy* are positive and significant at the 1% and 5% level in the SOE and private firm subsamples, suggesting that managerial foreign experience has a positive and significant influence on employee compensation in both SOEs and private firms.

However, while the effect of managerial foreign experience on employee compensation is consistent for both SOEs and private firms, the motivation for foreign experienced managers to increase employee compensation may be differ in SOEs and private firms due to different goals. SOEs are prioritized to complete political goals such as focusing on employees' responsibility, whereas private firms are more likely to maximize shareholders' interests through enhancing firm value (Jiang and Kim, 2015). To investigate our conjecture, we further run regressions based on employees' responsibility and total factor of productivity.

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[14] We use quarterly non-missing data over a three-year window from year t to year t + 2. We then run the regression of operating income on sales, for each firm over the three-year window. $Operating\ income_i = \alpha + \beta Sales_i + \varepsilon_i$. The operating leverage is computed as $\beta_i(\frac{\overline{Sales_i}}{\overline{Operating\ income_i}})$, where $\overline{Sales_i}$ and $\overline{Operating\ income_i}$ indicates the average values of sales and operating income for firm i over three years, respectively.

4.4.1 Do foreign experienced managers improve employees' wellbeing?

We first test whether foreign experienced managers affect employees' wellbeing. SOEs focus on the economy-based stability of social development (e.g. the local government officials may reduce labor employment layoffs after sales decline (Gu, Tang and Wu, 2020)), whereas private firms focus on value maximization (Jiang and Kim, 2015). Managers in SOEs have more concerns on completing political goals such as improving employees' wellbeing (Bai, Lu and Tao, 2006; Kong et al., 2020), which makes and strengthens valuable government connections to secure government subsidies and personal nonpecuniary benefits such as further political promotion. Building these government connections is even more critical for foreign experienced managers who typically have fewer prior political ties compared to non-foreign experienced managers (Giannetti et al., 2015).

To design the test, we obtain the employee responsibility index (*Employee index*) from Hexun CSR scores[15]. The index incorporates employees' performance, employees' safety, and the care of employees (stock.hexun.com)[16]. The results are reported in Panel B of Table 9. The coefficients on *FE dummy* are positive and significant at the 10% level in full sample and SOEs subsample, whereas it is positive but insignificant in the subsample of private firms. Our results indicate that SOE managers with foreign experience increase employee compensation to achieve friendly employee treatment. This is consistent with foreign experienced managers focusing on the additional political and social goals in SOEs which may also enhance their future political promotion opportunities through enhancing CSR performance (Jiang and Kim, 2020).

[Insert Table 9 here]

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[15] We lose some observations as Hexun started reporting CSR score from 2010.
[16] The details of Hexun CSR scores are available at http://stock.hexun.com/2013-09-10/157898839.html.

4.4.2 Does managerial foreign experience increase total factor productivity?

We then investigate the influence of foreign experienced managers on firm performance. Managers in private firms have priority to optimize firm performance such as increasing total factor productivity (Jiang and Kim, 2015). However, the aggregate total factor productivity may be low in SOEs, as firms with heavy government intervention and political goals are associated with high resource misallocation in China (Cull, Li, Sun and Xu, 2015; Wei et al., 2020). Thus, we expect that increasing total factor productivity will be more of a motivation for foreign experienced managers to increase labor cost in private firms rather than SOEs.

Following Giannetti et al. (2015), we estimate total factor productivity (*TFP*) as the residuals from the regressions of the logarithm of firm sales on the logarithm of the number of employees, the logarithm of total assets, and the logarithm of the expenses for materials and other inputs by each industry and year. According to Panel C of Table 9, the coefficient of *FE dummy* is positive and significant at the 5% level in explaining *TFP* in the subsample of private firms. However, the *FE dummy* is not statistically different from zero in explaining *TFP* in our full sample and SOEs subsample. This is consistent with our conjecture that the presence of foreign experienced managers is positively associated with total factor productivity in private firms, although not in SOEs.

4.5 Employee compensation and shareholder value

So far, we provide evidence that foreign experienced managers increase employee compensation. We further focus on economic implication of whether increased employee compensation through managerial foreign experience affects shareholder value. We use Tobin's Q (*Tobin's Q*) as the measure of market valuation. According to Panel A of Table 10, the interaction term between *FE dummy* and employee compensation measures are positively related to *Tobin's Q* at the 1% and 5% level, respectively, suggesting that the increased employee compensation through managerial foreign experience benefits shareholders by

increasing corporate market valuation. This suggests that foreign experienced managers do not simply increase employee compensation for their own interests such as empire-building activities (Chen, Lu and Sougiannis, 2012; Hall, 2016; Prabowo, Hooghiemstra and Veen-Dirks, 2018). In Panel B of Table 10, we further test whether the value-enhancing result is different between SOEs and private firms. We find that the interaction term between *FE dummy* and labor cost measures are only positive and significant to *Tobin's Q* in subsample of private firms. This result is consistent with our previous argument that foreign experienced managers in SOEs may prioritize political goals to enhance their future political promotions.

[Insert Table 10]

Overall, our results indicate that the increased employee compensation through foreign experienced managers are associated with enhanced firm value, particularly in private firms. The findings are consistent with our results in Section 4.4, where foreign experienced managers in SOEs are prioritized to complete political goals such as employee responsibility which in turn help future political promotion opportunities, whereas foreign experienced managers in private firms are more likely to be primarily focused on enhancing firm performance. Although the increased employee compensation in SOEs does not enhance firm value, neither does it harm them, suggesting that the completion of political goals is compensated with favors returned from the government (Gu et al., 2020).

4.6 Managerial foreign experience and labor cost stickiness

Given foreign experienced managers are associated with a high proportion of high skilled employees, employee turnover may be costly as it entails incurring labor adjustment costs such as the costs of firing and hiring staff (Anderson, Banker and Janakiraman, 2003). The labor cost stickiness is generated when the employee compensation is more sensitive to an increase rather than a decrease to an event (Anderson et al., 2003). An example of labor cost stickiness

would be where labor costs increase by say 0.6% when the sales increase by 1% but decreases by only 0.3% when the sales decline by 1%. As foreign experienced managers prefer to hire high skilled employees, it is unlikely for them to decrease wages or retrench high skilled employees when sales decline due to the 'talent war' and high labor adjustment costs. Thus, we anticipate higher labor cost stickiness in firms with foreign experienced managers.

Following Anderson et al. (2003), Ben-Nasr et al. (2016), and Khedmati et al. (2020), we use the Equation (3) below for our empirical test:

$$
\begin{aligned}
Log\left(\frac{LabCost_t}{LabCost_{t-1}}\right) \\
&= \beta_0 + \beta_1 Log\left(\frac{Rev_t}{Rev_{t-1}}\right) + \beta_2 Decr_t * Log\left(\frac{Rev_t}{Rev_{t-1}}\right) + \beta_3 * Decr_t \\
&\quad * Log\left(\frac{Rev_t}{Rev_{t-1}}\right) * FE\ dummy_t + \beta_4 Decr_t * Log\left(\frac{Rev_t}{Rev_{t-1}}\right) * Controls_t \\
&\quad + \beta_5 FE\ dummy + \beta_6 Controls_t + Year\ FE + IndustryFE + Province\ FE \\
&\quad + \varepsilon_t
\end{aligned} \tag{3}
$$

where *LabCost* is the total employee compensation; *Rev* is the total revenue; *Decr* is an indicator equal to one if the total revenue decreased from the previous year, otherwise zero; *FE dummy* is our key explanatory variable for managerial foreign experience; *Controls* include the following variables: asset intensity (*AI*) is defined as the ratio of total assets to total revenue; *Suc_Decr* is a dummy variable equal to one if the firm had a decrease in revenue in both the current and the previous years, otherwise zero; whether the firm reported a loss in the previous year using a dummy variable *(Loss)* equal to one if *ROA* is negative, otherwise zero; institutional ownership (*insti*); provincial GDP growth[17] (*GDP Growth*) and a set of fixed

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[17] Ben-Nasr et al. (2016) and Khedmati et al. (2020) control for labor union rather than GDP growth. Given the effect of labor unions are less prevalent in Chinese listed firms (Cui et al., 2018), we control for local GDP growth as the local economy has significant influence on labor cost stickiness in China (Xu and Sim, 2017).

effects including industry, province[18] and year. The standard errors are clustered at the firm level. According to Table 11, β_1 is positive and β_2 is negative, indicating that labor cost is sticky (Ben-Nasr et al., 2016). The coefficient for $Decr_t * Log\left(\frac{Rev_t}{Rev_{t-1}}\right) * FE\ dummy_t$ is negative and significant at the 5% level, suggesting that foreign experienced managers increase labor cost stickiness.

Overall, our findings indicate that although foreign experienced managers increase employee compensation through hiring high skilled employees, it is also associated with greater labor cost stickiness due to the 'talent war' and high labor adjustment costs.

[Insert Table 11 here]

4.7 Robustness test

For robustness we first use an alternative measure of employee compensation. Following Wei et al. (2020), we use the firm level aggregate employee pay to measure employee compensation. The variable *aggr_comp* is measured as the natural logarithm of aggregate employee compensation minus executives' compensation. According to Panel A of Table 12, the coefficient on *FE dummy* is positive and significant at the 5% level. Second, given our measure of managerial foreign experience is an aggregate measure including both chairman and CEO, we separate the *FE dummy* between chairman and CEO to test whether both positions significantly effect employee compensation. The variable *FE Chair* is a dummy variable equals one if the chairman of the firm has foreign experience, otherwise zero, while *FE CEO* is a dummy variable equals one if the CEO of the firm has foreign experience, otherwise zero. The results are reported in Panel B of Table 12, both *FE Chair* and *FE CEO* are positively and

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[18] We include province fixed effect as the labor sticky costs vary across regions in China (Xu and Sim, 2017).

significantly related to our employee compensation measures and therefore both the chairman and CEO have significant influence on employee compensation.

Overall, our results indicate that the relationship between managerial foreign experience and employee compensation is robust using alternative measures of employee compensation and managerial foreign experience.

[Insert Table 12]

5. Conclusion

Foreign experienced managers are important to firms' strategic decision-making. While prior research focuses on how foreign experienced executives improve firm performance, research on their impact on employee compensation, an investment that is related to an important corporate stakeholder (Kang and Kim, 2020), is unstudied. Studying labor investment is important as it can be a sunk cost for investors if managers hire employees to build their own empire. Our study of foreign experienced managers in China helps fills this gap.

We find that in China, firms with foreign experienced managers are associated with significantly higher employee compensation. We argue that hiring a higher proportion of skilled employees and the countries they gained experience from are potential channels through which foreign experienced managers increase employee compensation. We document that the relationship between managerial foreign experience and employee compensation is more pronounced in firms with flexible financial policies (e.g. excess cash holdings and low operating).

Further, the drivers increasing employee compensation differ due to the different firm goals and incentives foreign experience managers face in SOEs and private firms. To seek future political promotion, foreign experienced managers in SOEs are more likely to focus on the additional political and social goals, such as social stability (e.g. employee treatment). We find

a positive relationship between managerial foreign experience and employee responsibility in SOEs. Further, we do not find any evidence that the improved employee treatment in SOEs negatively impacts firm performance. However, foreign experienced managers association with higher employee compensation in private firms should be driven by a desire to improve firm performance for the goal of shareholders' wealth maximization. Consistent with this, we find managerial foreign experience is significantly related to total factor productivity in private firms.

Moreover, the increased employee compensation will increase firm value for shareholders, particularly in private firms. However, the increase of employee compensation will generate labor stickiness cost. Overall, our findings document both the potential benefit and cost of appointing foreign experienced managers.

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Appendix

Appendix A Variable definition
This appendix shows the definition of variables in this paper

Varaibles	Definition
Emp compensation	
	Natural logarithm of the average wage expenses in a given year after excluding top executives' compensation in year t-1. Average wage expenses equal the amount of "paid for and on behalf of employees" reported in the cash flow statement plus changes in "wages payable" in the balance sheet, divided by the number of employees
Adj comp	The ratio of *emp compensation* over the median *emp compensation* in the related industry during the year
aggr_comp	The natural logarithm of aggregate employee compensation minus executives' compensation
Employee index	The employee responsibility index retrieved from Hexun CSR score
TFP	The residuals of regressions followed by Giannetti et al. (2015)
loan	The ratio of bank loan to debt
Tobin's Q	The sum of market value of equity and book value of total liability to the book value of total assets
FE dummy	A dummy variable that equals 1 if a firm has chairman, CEO with foreign experience, otherwise 0
FE Chair	A dummy variable equals 1 if the chairman of the firm has foreign experience, otherwise 0
FE CEO	A dummy variable equals 1 if the CEO of the firm has foreign experience, otherwise 0
christian	The number of colleges for each province that were built by Christian missionaries up to 1920
policy	A dummy variable that equals to 1 in years of the allowance policy implementation for each province, otherwise 0
post	A dummy variable that equals 1 if firm-year observations are after the CEO transition, otherwise 0
transition	A dummy variable equals 1 if a firm i's CEO transition in year t is from a non-foreign experienced to foreign experienced CEO transition and 0 if a firm i's transition in year t does not involve any foreign experienced CEOs
High_edu	The proportion of employees who hold a bachelor's degree or above
High_expert	The proportion of employees whose jobs are located at zone 4 or 5 using JobZone data from Occupational Information Network

High employee protection	A dummy variable that equals to 1 if the manager gained experience from countries with top5 labor protection index, otherwise 0
High investor protection	A dummy variable that equals to 1 if the manager gained experience from countries with top5 investor protection index, otherwise 0
quick_ratio$_{t-1}$	The sum of cash, short-term investment and receivables over current liabilities
leverage$_{t-1}$	Total liability over total assets
firm_size$_{t-1}$	The natural logarithm of total assets
roa$_{t-1}$	The net income over total assets
top1$_{t-1}$	The largest shareholding over the number of shares outstanding
labor_intensity$_{t-1}$	The number of employees (times 10^7) over total assets at the end of t-1
indep$_{t-1}$	The number of independent directors over the total number of directors on the board
bsize$_{t-1}$	The natural logarithm of total number of directors on the board
insti$_{t-1}$	The percentage of institutional ownership
tangible$_{t-1}$	The ratio of net fixed assets over total assets
Std_cfo$_{t-1}$	Standard deviation of the cash flow from operations in the previous five years (year t-5 to t-1)
Std_nethire$_{t-1}$	Standard deviation of the change in the number of employees in the previous five years (year t-5 to t-1)
otherinvestment$_t$	The absolute value of the residuals from the regression model of non-labor investments (i.e., (cash payments for fixed assets, intangible assets, and other long-term assets minus the cash receipts from selling these assets)/total assets) versus sales growth
div$_{t-1}$	A dummy variable that equals 1 if a firm pays dividend, otherwise 0
big4$_{t-1}$	A dummy variable that equals 1 if a firm hires the audit service of a top 4 auditor in China, otherwise 0
soe$_{t-1}$	A dummy variable that equals 1 if the ultimate controller of the firm is the state or state-owned enterprises, otherwise 0
duality$_{t-1}$	A dummy variable that equals 1 if a firm's chairman and CEO are the same person, otherwise 0
GDP growth$_{t-1}$	The growth of provincial GDP each year
inflation$_{t-1}$	The inflation rate in China each year
Money_supply growth$_{t-1}$	The growth of money supply from central bank each year

Appendix B Year distribution
This appendix shows the year distribution of foreign experienced managers

Year Distribution of Foreign experienced managers

Year	Percentage
2016	20.46%
2015	19.31%
2014	16.39%
2013	13.18%
2012	8.77%
2011	6.99%
2010	5.62%
2009	4.99%
2008	4.30%

■ Percentage
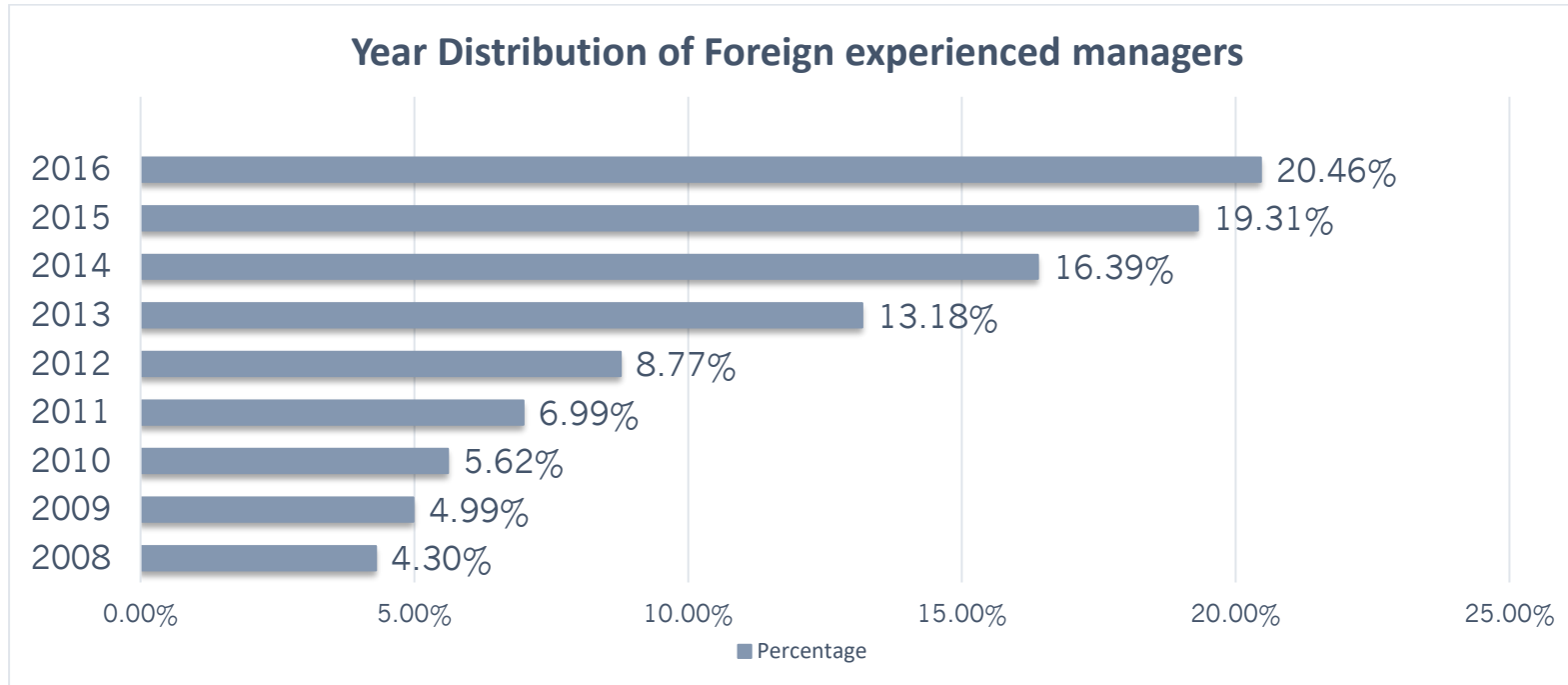
Tables

Table 1 summary statistics

This table report the summary statistics of our baseline model. All variables are defined in Appendix A.

	Obs	Mean	SD	p25	p75	p90
labor cost	16,026	11.300	0.637	10.938	11.672	12.083
labor cost (in dollar)	16,026	80,789	502,619	56,284	117,197	176,918
Adj_labor cost	16,026	1.000	0.051	0.974	1.030	1.063
FE dummy	16,026	0.000	0.306	0.000	0.000	1.000
quick_ratio$_{t-1}$	16,026	0.649	1.532	0.355	1.193	2.371
leverage$_{t-1}$	16,026	0.482	0.224	0.314	0.640	0.758
firm_size$_{t-1}$	16,026	21.771	1.278	21.018	22.647	23.616
roa$_{t-1}$	16,026	0.032	0.064	0.011	0.061	0.098
top1$_{t-1}$	16,026	0.334	0.152	0.231	0.463	0.565
labor_intensity$_{t-1}$	16,026	8.100	10.005	4.000	14.000	23.000
indep$_{t-1}$	16,026	0.333	0.052	0.333	0.400	0.429
bsize$_{t-1}$	16,026	2.197	0.201	2.079	2.197	2.398
insti$_{t-1}$	16,026	0.036	0.081	0.008	0.098	0.183
tangible$_{t-1}$	16,026	0.216	0.178	0.109	0.359	0.509
Std_cfo$_{t-1}$	16,026	0.011	0.068	0.005	0.028	0.076
Std_nethire$_{t-1}$	16,026	0.160	1.828	0.079	0.342	0.802
otherinvestment$_{t}$	16,026	0.033	0.031	0.017	0.047	0.072
div$_{t-1}$	16,026	1.000	0.485	0.000	1.000	1.000
big4$_{t-1}$	16,026	0.000	0.236	0.000	0.000	0.000
soe$_{t-1}$	16,026	1.000	0.500	0.000	1.000	1.000
duality$_{t-1}$	16,026	0.000	0.408	0.000	0.000	1.000
GDP_Growth$_{t-1}$	16,026	0.105	0.059	0.077	0.166	0.214
inflation$_{t-1}$	16,026	2.620	1.836	1.920	4.820	5.550
Money_supply growth$_{t-1}$	16,026	14.390	4.407	13.340	17.790	19.730

Table 2 Baseline results

Table 2 reports the results of OLS regression analysis and PSM analysis, consisting of 16,026 and 3,490 firm-year observations, respectively. The dependent variables are *emp compensation* and *Adj comp*, the measurements of employee compensation, and the test variable is *FE dummy*. Fixed effects are controlled by industry and year and standard errors are clustered by firm across two models. The variable descriptions are reported in Appendix A. The superscripts *, ** and *** demonstrate significance at the 90%, 95%, and 99% confidence levels, respectively.

	Baseline		PSM	
	emp compensation	*Adj comp*	*emp compensation*	*Adj comp*
FE dummy	0.112***	0.010***	0.141***	0.013***
	(3.842)	(3.936)	(3.948)	(4.015)
quick_ratio$_{t-1}$	0.007	0.001	0.013	0.001
	(1.000)	(1.041)	(1.426)	(1.368)
leverage$_{t-1}$	-0.250**	-0.023***	-0.248*	-0.024**
	(-2.553)	(-2.597)	(-1.830)	(-1.978)
firm_size$_{t-1}$	0.063***	0.006***	0.060**	0.005**
	(3.216)	(3.250)	(2.272)	(2.236)
roa$_{t-1}$	0.739**	0.062**	0.106	0.005
	(2.483)	(2.328)	(0.283)	(0.159)
top1$_{t-1}$	0.149*	0.013*	0.049	0.004
	(1.743)	(1.690)	(0.357)	(0.347)
labor_intensity$_{t-1}$	-0.022***	-0.002***	-0.018***	-0.002***
	(-15.844)	(-15.559)	(-7.626)	(-7.503)
indep$_{t-1}$	-0.203	-0.022	0.156	0.007
	(-0.822)	(-1.012)	(0.374)	(0.193)
bsize$_{t-1}$	-0.057	-0.006	-0.003	-0.002
	(-0.768)	(-0.907)	(-0.025)	(-0.241)
insti$_{t-1}$	0.286**	0.025**	0.374*	0.034*
	(2.224)	(2.184)	(1.754)	(1.810)
tangible$_{t-1}$	-0.283***	-0.024***	-0.253	-0.022
	(-3.666)	(-3.506)	(-1.498)	(-1.471)
Std_cfo$_{t-1}$	-0.020	-0.006	-0.033	-0.005
	(-0.090)	(-0.277)	(-0.090)	(-0.161)
Std_nethire$_{t-1}$	0.006	0.000	0.012*	0.001
	(1.181)	(1.087)	(1.710)	(1.583)
otherinvestment$_{t}$	-1.039**	-0.101**	0.261	0.016
	(-2.340)	(-2.515)	(0.442)	(0.314)
div$_{t-1}$	0.070***	0.006***	0.111**	0.010**
	(2.969)	(2.956)	(2.350)	(2.315)
big4$_{t-1}$	0.117*	0.011*	0.198**	0.018**
	(1.686)	(1.786)	(2.240)	(2.325)
soe$_{t-1}$	0.176***	0.016***	0.108**	0.010**
	(6.236)	(6.302)	(2.133)	(2.229)
duality$_{t-1}$	0.011	0.001	-0.000	-0.000
	(0.418)	(0.509)	(-0.007)	(-0.032)
GDP_Growth$_{t-1}$	-1.131***	-0.103***	-1.776**	-0.167**
	(-3.067)	(-3.111)	(-2.085)	(-2.229)
inflation$_{t-1}$	-0.069***	0.005***	-0.018	0.010***

	(-4.302)	(3.176)	(-0.503)	(2.977)
*Money_supply growth*t-1	-0.028***	0.001***	-0.017**	0.003***
	(-7.225)	(4.150)	(-2.427)	(4.181)
Constant	10.966***	0.893***	10.560***	0.863***
	(24.166)	(21.931)	(16.476)	(15.227)
Observations	16,026	16,026	3,350	3,350
Adjusted R-squared	0.127	0.083	0.113	0.083
Industry	Yes	Yes	Yes	Yes
Year	Yes	Yes	Yes	Yes

Table 3 Instrumental variable test

Table 3 reports the results of 2SLS instrumental variable analysis, consisting of 16,026 firm-year observations. The dependent variables are *emp compensation* and *Adj comp*, the measurements employee compensation, and the test variable is *FE dummy*. The first instrument, *christian*, is defined as the number of colleges for each province that were built by Christian missionaries up to 1920. The second instrument, *policy*, is a dummy variable which is equal to one in years of the allowance policy implementation for each province, and zero otherwise. Fixed effects are controlled by industry and year and standard errors are clustered by firm across three models. The variable descriptions are reported in Appendix A. The superscripts *, ** and *** demonstrate significance at the 90%, 95%, and 99% confidence levels, respectively.

	First step	employee compensation	Adj comp
FE dummy		4.507***	0.394***
		(2.947)	(2.934)
christian	0.019*		
	(1.787)		
policy	0.015***		
	(2.978)		
quick_ratio$_{t-1}$	0.006	-0.019	-0.002
	(1.540)	(-0.966)	(-0.939)
leverage$_{t-1}$	-0.029	-0.107	-0.010
	(-1.112)	(-0.686)	(-0.746)
firm_size$_{t-1}$	0.004	0.047	0.004
	(0.592)	(1.415)	(1.471)
roa$_{t-1}$	0.014	0.664*	0.056
	(0.239)	(1.713)	(1.620)
top1$_{t-1}$	-0.007	0.158	0.014
	(-0.213)	(0.899)	(0.886)
labor_intensity$_{t-1}$	0.000	-0.022***	-0.002***
	(0.289)	(-8.780)	(-8.730)
indep$_{t-1}$	-0.030	-0.018	-0.006
	(-0.325)	(-0.039)	(-0.153)
bsize$_{t-1}$	0.024	-0.149	-0.014
	(0.866)	(-1.024)	(-1.100)
insti$_{t-1}$	0.060	0.056	0.005
	(1.056)	(0.194)	(0.194)
tangible$_{t-1}$	0.061**	-0.507***	-0.043***
	(2.045)	(-2.984)	(-2.920)
Std_cfo$_{t-1}$	0.145	-0.705	-0.065
	(1.248)	(-1.176)	(-1.240)
Std_nethire$_{t-1}$	-0.003	0.018	0.002
	(-1.410)	(1.618)	(1.562)
otherinvestment$_{t}$	-0.054	-0.761	-0.077
	(-0.514)	(-1.203)	(-1.369)
div$_{t-1}$	0.006	0.031	0.003
	(0.754)	(0.695)	(0.714)
big4$_{t-1}$	0.081***	-0.267	-0.023
	(2.962)	(-1.444)	(-1.387)
soe$_{t-1}$	-0.070***	0.489***	0.043***
	(-5.668)	(3.922)	(3.949)

*duality*t-1	-0.021*	0.095	0.009
	(-1.716)	(1.444)	(1.479)
*GDP_Growth*t-1	0.017	-0.676	-0.063
	(0.134)	(-1.057)	(-1.120)
*inflation*t-1	-0.014**	-0.069*	0.011***
	(-2.212)	(-1.700)	(3.216)
*Money_supply growth*t-1	0.001	0.002	0.001
	(0.284)	(0.184)	(0.699)
Constant	0.000	10.163***	0.867***
	(0.002)	(13.313)	(12.888)
Observations	16,026	16,026	16,026
Adjusted R-squared	0.037	-	-
Industry	Yes	Yes	Yes
Year	Yes	Yes	Yes
Cragg-Donald Wald F statistic	22.995***	-	-
Hansen J-statistic *p* value	0.34	-	-

Table 4 Difference-in-differences test

Table 4 reports the results of the DID analysis, consisting of 888 firm-year observations. The dependent variables are *emp compensation* and *Adj comp*, and the test variable is *post$_t$ * transition$_i$*. Fixed effects are controlled by industry and year and standard errors are clustered by firm. The variable descriptions are reported in Appendix A. The superscripts *, ** and *** demonstrate significance at the 90%, 95%, and 99% confidence levels, respectively.

	emp compensation	Adj comp
post*transition	0.166*	0.016*
	(1.686)	(1.890)
post	-0.007	-0.001
	(-0.117)	(-0.164)
transition	0.100	0.009
	(0.720)	(0.743)
quick_ratio$_{t-1}$	0.007	0.000
	(0.240)	(0.013)
leverage$_{t-1}$	0.037	-0.002
	(0.171)	(-0.121)
firm_size$_{t-1}$	0.037	0.003
	(0.925)	(0.791)
roa$_{t-1}$	1.677***	0.136***
	(2.937)	(2.707)
top1$_{t-1}$	0.195	0.021
	(0.934)	(1.139)
labor_intensity$_{t-1}$	-0.021***	-0.002***
	(-6.349)	(-6.354)
indep$_{t-1}$	0.683	0.062
	(1.340)	(1.366)
bsize$_{t-1}$	0.172	0.019
	(1.094)	(1.362)
insti$_{t-1}$	0.172	0.020
	(0.648)	(0.839)
tangible$_{t-1}$	-0.235	-0.021
	(-1.274)	(-1.282)
Std_cfo$_{t-1}$	-0.611	-0.060
	(-0.694)	(-0.772)
Std_nethire$_{t-1}$	-0.018	-0.002
	(-1.107)	(-1.133)
otherinvestment$_t$	0.197	0.011
	(0.286)	(0.187)
div$_{t-1}$	0.084	0.005
	(1.611)	(1.018)
big4$_{t-1}$	0.506**	0.045**
	(2.360)	(2.360)
soe$_{t-1}$	0.166**	0.015**
	(2.496)	(2.588)
duality$_{t-1}$	0.075	0.007
	(1.245)	(1.238)
GDP_Growth$_{t-1}$	-2.268***	-0.203***
	(-2.606)	(-2.639)
inflation$_{t-1}$	0.023	0.013***

	(0.562)	(3.436)
*Money_supply growth*t-1	-0.015	0.003**
	(-1.346)	(2.549)
Constant	10.262***	0.837***
	(11.590)	(10.357)
Observations	888	888
Adjusted R-squared	0.319	0.274
Industry	Yes	Yes
Year	Yes	Yes

Table 5 Other fixed effects

Table 5 reports the regression results by firm fixed effect, and CEO fixed effects with 2SLS analysis, consisting of 16,026 firm-year observations. The dependent variables include *emp compensation, Adj comp, Resid_comp*, and *Resid_Adjcomp* and the test variable is *FE dummy*. Fixed effects are selected among firm, CEO, industry and year across Panels A and B. The standard errors are clustered by firm in Panel A and Panel B. The variable descriptions are reported in Appendix A. The superscripts *, ** and *** demonstrate significance at the 90%, 95%, and 99% confidence levels, respectively.

Panel A		
	emp compensation	*Adj comp*
FE CEO	0.032*	0.003*
	(1.818)	(1.899)
quick_ratio$_{t-1}$	-0.013***	-0.001***
	(-3.414)	(-3.752)
leverage$_{t-1}$	-0.087***	-0.006
	(-2.730)	(-1.357)
firm_size$_{t-1}$	0.089***	0.007***
	(10.874)	(4.447)
roa$_{t-1}$	0.280***	0.022***
	(4.286)	(2.928)
top1$_{t-1}$	0.145***	0.016*
	(2.689)	(2.061)
labor_intensity$_{t-1}$	-0.010***	-0.001***
	(-17.785)	(-11.234)
indep$_{t-1}$	0.062	0.000
	(0.621)	(0.023)
bsize$_{t-1}$	0.061*	0.003
	(1.764)	(0.654)
insti$_{t-1}$	0.238***	0.020***
	(4.473)	(3.689)
tangible$_{t-1}$	-0.090**	-0.008*
	(-2.302)	(-1.851)
Std_cfo$_{t-1}$	-0.006	-0.005
	(-0.055)	(-0.457)
Std_nethire$_{t-1}$	-0.045***	-0.004***
	(-19.094)	(-5.896)
otherinvestment$_{t}$	0.016	-0.005
	(0.149)	(-0.582)
div$_{t-1}$	-0.006	-0.001
	(-0.693)	(-0.727)
big4$_{t-1}$	-0.010	-0.000
	(-0.300)	(-0.020)
soe$_{t-1}$	-0.031	-0.005
	(-1.402)	(-1.402)
duality$_{t-1}$	-0.022*	-0.002
	(-1.871)	(-1.621)
GDP_Growth$_{t-1}$	-0.043	-0.009
	(-0.335)	(-0.848)
inflation$_{t-1}$	-0.155***	0.002***
	(-18.641)	(2.966)

Money_supply growtht-1	-0.003	0.001***		
	(-0.858)	(3.791)		
Constant	9.850***	0.845***		
	(48.563)	(20.128)		
Observations	16,026	16,026		
Adjusted R-squared	0.169	0.070		
Firm	Yes	Yes		
Year	Yes	Yes		

Panel B

	First stage	Second stage	First stage	Second stage
	emp compensation	*Resid_comp*	*Adj comp*	*Resid_Adjcomp*
FE CEO		0.080***		0.010***
		(3.569)		(3.896)
quick_ratiot-1	-0.019***	0.029***	-0.002**	0.003***
	(-3.640)	(5.523)	(-2.272)	(3.998)
leveraget-1	-0.151**	0.094*	-0.037**	0.014*
	(-2.113)	(1.833)	(-2.116)	(1.650)
firm_sizet-1	0.087***	-0.062***	0.008*	-0.002
	(4.194)	(-5.372)	(1.697)	(-1.193)
roat-1	0.074	0.622***	-0.014	0.076***
	(0.705)	(5.077)	(-0.409)	(2.838)
top1t-1	0.227**	0.009	0.051***	-0.038***
	(2.437)	(0.166)	(2.722)	(-4.960)
labor_intensityt-1	-0.007***	-0.015***	-0.001***	-0.001***
	(-6.771)	(-15.920)	(-3.342)	(-8.891)
indept-1	0.152	-0.082	0.001	-0.023
	(1.165)	(-0.530)	(0.038)	(-1.050)
bsizet-1	0.059	-0.045	-0.003	-0.003
	(1.202)	(-0.938)	(-0.406)	(-0.380)
instit-1	0.182***	0.065	0.026***	-0.001
	(2.679)	(0.718)	(2.795)	(-0.073)
tangiblet-1	0.045	-0.336***	0.009	-0.033***
	(0.650)	(-6.195)	(0.550)	(-4.822)
Std_cfot-1	-0.109	0.083	-0.033	0.028
	(-0.809)	(0.422)	(-1.491)	(1.380)
Std_nethiret-1	-0.049***	0.053***	-0.006***	0.006***
	(-5.419)	(13.263)	(-4.128)	(13.704)
otherinvestmentt	0.065	-0.348*	-0.036	-0.066
	(0.488)	(-1.714)	(-0.987)	(-1.624)
divt-1	-0.006	0.059***	-0.002	0.008***
	(-0.573)	(3.866)	(-0.846)	(3.854)
big4t-1	0.043	0.101**	-0.002	0.013**
	(0.843)	(2.332)	(-0.186)	(2.158)
soet-1	0.010	0.166***	0.010	0.006**
	(0.248)	(7.965)	(1.326)	(2.372)
dualityt-1	-0.010	0.022	-0.004	0.005**
	(-0.621)	(1.233)	(-1.124)	(2.347)
GDP_Growtht-1	0.244	-1.084***	0.043	-0.146***
	(1.543)	(-4.470)	(1.327)	(-4.413)

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*inflation*t-1	-0.105***	0.041***	-0.001	0.005***
	(-12.850)	(4.621)	(-0.310)	(3.561)
*Money_supply growth*t-1	-0.035***	0.009***	0.000	0.001***
	(-14.026)	(4.013)	(0.562)	(3.377)
Constant	10.489***	1.353***	0.881***	0.055
	(22.714)	(5.050)	(8.820)	(1.345)
Observations	16,026	16,026	16,026	16,026
Adjusted R-squared	0.232	0.137	0.018	0.047
Industry	Yes	Yes	Yes	Yes
Year	Yes	Yes	Yes	Yes
CEO fixed	Yes	No	Yes	No

Table 6 Efficient wage channel

Table 6 reports the results of channel tests. Panel A presents the regression results for collecting fitted values and residuals between *FE dummy* and the potential channel's measure, *High_edu* and *High_expert*. Panel B presents the channel test results between the fitted values from Panel A and the employee compensation measures. Panel C reports the results of labor market competition. Fixed effects are controlled by industry and year and standard errors are clustered by firm. The variable descriptions are reported in Appendix A. The superscripts *, ** and *** demonstrate significance at the 90%, 95%, and 99% confidence levels, respectively.

Panel A High skilled employees				
	High_edu	*High_expert*		
FE dummy	0.026***	0.018**		
	(2.401)	(1.978)		
Constant	0.033***	0.281***		
	(10.684)	(12.045)		
Observations	15,024	15,312		
Adjusted R-squared	0.194	0.162		
Industry	Yes	Yes		
Year	Yes	Yes		

Panel B High skilled employees				
	emp compensation	*Adj comp*	*emp compensation*	*Adj comp*
fv_High edu	3.945***	0.355***		
	(3.762)	(3.841)		
rsd_High edu	1.104***	0.096***		
	(17.873)	(17.383)		
fv_High expert			5.905***	0.538***
			(3.944)	(4.058)
rsd_High expert			0.967***	0.084***
			(13.628)	(13.322)
Constant	9.996***	0.806***	9.637***	0.772***
	(21.412)	(19.391)	(18.837)	(16.945)
Observations	15,024	15,024	15,312	15,312
Adjusted R-squared	0.186	0.141	0.176	0.128
Controls	Yes	Yes	Yes	Yes
Industry	Yes	Yes	Yes	Yes
Year	Yes	Yes	Yes	Yes

Panel C Labor market competition				
	Above median		**Below Median**	
	emp compensation	*Adj comp*	*emp compensation*	*Adj comp*
FE dummy	0.073**	0.007**	0.047	0.005
	(2.203)	(2.231)	(1.026)	(1.125)
Constant	9.948***	0.950***	8.127***	0.789***
	(14.791)	(15.551)	(13.384)	(14.545)
Observations	7,814	7,814	8,212	8,212
Adjusted R-squared	0.143	0.076	0.138	0.101
Controls	Yes	Yes	Yes	Yes
Industry	Yes	Yes	Yes	Yes
Province	Yes	Yes	Yes	Yes

Year	Yes	Yes	Yes	Yes

Table 7 Personal experience channel

Table 7 reports the results of personal experience channel analysis. The dependent variables are *emp compensation* and *Adj comp*, the measurements of employee compensation, and the test variables are *High employee protection, High investor protection, and FE dummy,* respectively. Fixed effects are controlled by industry, province and year across models and standard errors are clustered by firm. The variable descriptions are reported in Appendix A. The superscripts *, ** and *** demonstrate significance at the 90%, 95%, and 99% confidence levels, respectively.

Employee protection index (country level)		
	emp compensation	*Adj comp*
High Employee protection	0.212***	0.028***
	(3.656)	(3.112)
High Investor protection	-0.022	0.003
	(-0.651)	(0.820)
Constant	11.327***	0.900***
	(42.652)	(21.693)
Observations	16,026	16,026
Adjusted R-squared	0.304	0.085
Controls	Yes	Yes
Industry	Yes	Yes
Year	Yes	Yes

Table 8 The impact of firm financial characteristics

Table 8 reports the results the impact of firm characteristics, and managerial compensation. The dependent variables are *emp compensation* and *Adj comp*, the measurements of employee compensation, and the test variable is *FE dummy*. Panel A reports the results based on the median value of excess cash holdings; Panel B reports the results based on the median level of operating leverage; Panel C reports the results based on whether executives receive equity compensation. Fixed effects are controlled by industry and year and standard errors are clustered by firm. The variable descriptions are reported in Appendix A. The superscripts *, ** and *** demonstrate significance at the 90%, 95%, and 99% confidence levels, respectively.

Panel A Cash holdings				
	High		Low	
	emp compensation	*Adj comp*	*emp compensation*	*Adj comp*
FE dummy	0.079***	0.007***	0.052	0.005
	(2.745)	(2.928)	(1.184)	(1.198)
Constant	9.236***	0.884***	9.006***	0.866***
	(19.746)	(20.942)	(13.091)	(13.991)
Observations	7,978	7,978	7,978	7,978
Adjusted R-squared	0.169	0.114	0.124	0.087
Controls	Yes	Yes	Yes	Yes
industry	Yes	Yes	Yes	Yes
Year	Yes	Yes	Yes	Yes
Panel B Operating leverage				
	High		Low	
	emp compensation	*Adj comp*	*emp compensation*	*Adj comp*
FE dummy	0.050	0.005	0.082**	0.008**
	(1.501)	(1.563)	(2.110)	(2.194)
Constant	9.244***	0.890***	8.922***	0.855***
	(19.373)	(20.830)	(12.746)	(13.565)
Observations	8,013	8,013	8,013	8,012
Adjusted R-squared	0.149	0.201	0.099	0.088
Controls	Yes	Yes	Yes	Yes
Industry	Yes	Yes	Yes	Yes
Year	Yes	Yes	Yes	Yes

Table 9 The effect of government intervention

Table 9 reports the results of the effect of government intervention. Panel A reports the result of the effect of managerial foreign experience on employee compensation between SOEs and private firms; Panel B reports the results of managerial foreign experience on employee responsibility; Panel C reports the results of managerial foreign experience on total factor productivity. Fixed effects are controlled by industry and year and standard errors are clustered by firm. The variable descriptions are reported in Appendix A. The superscripts *, ** and *** demonstrate significance at the 90%, 95%, and 99% confidence levels, respectively.

Panel A SOEs versus private firms

	SOEs		Private firms	
	emp compensation	*Adj comp*	*emp compensation*	*Adj comp*
FE dummy	0.191***	0.017***	0.079**	0.007***
	(3.212)	(3.211)	(2.483)	(2.613)
Constant	12.210***	1.005***	10.119***	0.822***
	(17.454)	(15.903)	(16.931)	(15.587)
Observations	7,965	7,965	8,061	8,061
Adjusted R-squared	0.137	0.092	0.127	0.071
Controls	Yes	Yes	Yes	Yes
Industry	Yes	Yes	Yes	Yes
Year	Yes	Yes	Yes	Yes

Panel B Employee responsibility

	Full sample	SOEs	Private firms
	Employee index	*Employee index*	*Employee index*
FE dummy	0.320*	0.676*	0.164
	(1.907)	(1.923)	(0.969)
Constant	-17.693***	-18.747***	-14.808***
	(-10.602)	(-7.648)	(-6.423)
Observations	13,540	6,355	7,185
Adjusted R-squared	0.192	0.201	0.131
Controls	Yes	Yes	Yes
Industry	Yes	Yes	Yes
Year	Yes	Yes	Yes

Panel C Total factor productivity

	Full sample	SOEs	Private firms
	TFP	*TFP*	*TFP*
FE dummy	0.013	0.007	0.015**
	(1.351)	(0.554)	(2.263)
Constant	-0.353***	-0.491***	-0.292**
	(-3.782)	(-4.007)	(-2.233)
Observations	15,988	7,957	8,031
Adjusted R-squared	0.256	0.313	0.222
Controls	Yes	Yes	Yes
Industry	Yes	Yes	Yes
Year	Yes	Yes	Yes

Table 10 Employee compensation and shareholder value

Table 10 reports the results of the increased employee compensation through managerial foreign experience and shareholder value. The dependent variable is *Tobin's Q*, and the test variables are the interaction between *FE dummy* employee compensation measurements. Panel A shows the result in full sample. Panel B shows the results between SOEs and private firms subsamples. Fixed effects are controlled by industry, province and year and standard errors are clustered by firm. The variable descriptions are reported in Appendix A. The superscripts *, ** and *** demonstrate significance at the 90%, 95%, and 99% confidence levels, respectively.

Panel A

	Full sample	
	Tobins'Q	*Tobins'Q*
FE dummy labor cost*	0.278***	
	(2.713)	
labor cost	0.008	
	(0.320)	
*FE dummy*Adj_labor cost*		2.715**
		(2.212)
Adj_labor cost		0.037
		(0.133)
FE dummy	-2.977**	-2.546**
	(-2.573)	(-2.063)
Constant	33.749***	33.822***
	(28.526)	(28.559)
Observations	16,025	16,025
Adjusted R-squared	0.411	0.411
Controls	Yes	Yes
industry	Yes	Yes
Year	Yes	Yes

Panel B

	SOEs		Private firms	
	Tobins'Q	*Tobins'Q*	*Tobins'Q*	*Tobins'Q*
FE dummy labor cost*	-0.094		0.452***	
	(-0.888)		(2.762)	
labor cost	0.001		0.029	
	(0.032)		(0.756)	
*FE dummy*Adj_labor cost*		-1.303		5.094***
		(-0.990)		(2.648)
Adj_labor cost		-0.050		0.267
		(-0.144)		(0.612)
FE dummy	1.351	1.605	-4.941***	-4.916***
	(1.084)	(1.165)	(-2.711)	(-2.585)
Constant	24.910***	25.046***	41.802***	41.931***
	(17.573)	(17.289)	(23.132)	(23.267)
Observations	7,964	7,964	8,061	8,061
Adjusted R-squared	0.353	0.353	0.433	0.433
Controls	Yes	Yes		
industry	Yes	Yes	Yes	Yes
Year	Yes	Yes	Yes	Yes

Table 11 Managerial foreign experience and employee compensations stickiness

Table 11 reports the results of labor sticky costs, consisting of 15,823 firm-year observations. Fixed effects are controlled by industry, province and year and standard errors are clustered by firm. The variable descriptions are reported in Appendix A. The superscripts *, ** and *** demonstrate significance at the 90%, 95%, and 99% confidence levels, respectively.

	Labor cost stickiness
$Log(Rev_t/Rev_{t-1})$	1.141***
	(18.590)
$Decr*Log(Rev_t/Rev_{t-1})$	-0.675***
	(-5.848)
$Decr*Log(Rev_t/Rev_{t-1})*FE\ dummy_t$	-0.238**
	(-2.677)
$Decr*Log(Rev_t/Rev_{t-1})*AI_t$	-0.006
	(-0.066)
$Decr*Log(Rev_t/Rev_{t-1})*SucDecr_t$	-0.035
	(-0.498)
$Decr*Log(Rev_t/Rev_{t-1})*Loss_{t-1}$	-0.054
	(-0.621)
$Decr*Log(Rev_t/Rev_{t-1})*insti_t$	0.809
	(1.363)
$Decr*Log(Rev_t/Rev_{t-1})*GDPGrowth_t$	-0.903*
	(-1.812)
$FE\ dummy_t$	0.001
	(0.119)
AI_t	-0.021***
	(-2.736)
$SucDecr_t$	-0.070***
	(-11.005)
$Loss_{t-1}$	-0.093***
	(-8.810)
$insti_t$	0.186***
	(7.613)
$GDPGrowth_t$	0.171**
	(2.131)
Constant	0.091***
	(4.065)
Observations	15,823
Adjusted R-squared	0.397
Industry	Yes
Province	Yes
Year	Yes

Table 12 Robustness checks

Table 12 reports the results of robustness checks. Panel A reports the result using aggregate employee compensation, while Panel B reports the results of the effect of both foreign experienced chairman and CEO on employee compensation, respectively. Fixed effects are controlled by industry, and year and standard errors are clustered by firm. The variable descriptions are reported in Appendix A. The superscripts *, ** and *** demonstrate significance at the 90%, 95%, and 99% confidence levels, respectively.

Panel A Aggregated employee compensation				
	Aggr_comp			
FE dummy	0.069***			
	(2.769)			
Constant	-0.861***			
	(-2.493)			
Observations	16,026			
Adjusted R-squared	0.795			
Controls	Yes			
Industry	Yes			
Province	Yes			
Year	Yes			
Panel B Splits between foreign experienced chairmen and CEOs				
	emp compensation	*Adj comp*	*emp compensation*	*Adj comp*
FE Chair	0.064**	0.006***		
	(2.577)	(2.792)		
FE CEO			0.067***	0.007**
			(2.371)	(2.533)
Constant	11.259***	0.921***	11.260***	0.921***
	(45.864)	(41.765)	(45.877)	(41.791)
Observations	16,026	16,026	16,026	16,026
Adjusted R-squared	0.349	0.266	0.349	0.266
Controls	Yes	Yes	Yes	Yes
Industry	Yes	Yes	Yes	Yes
Province	Yes	Yes	Yes	Yes
Year	Yes	Yes	Yes	Yes