**Exploring the Link Between Managers’ Motivation and Education**

In recent years, many researchers have been investigating the associations between wage, education, and productivity, to gather valuable insight that could guide business decision-making. Professor Qiao Wang at Capital University of Economics and Business in Beijing has recently carried out a study specifically exploring the possibility that the motivation and productivity of business managers could be affected by their levels of education.

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Many recent studies in the field of economics and business have evaluated the effects of so-called ‘wage distortion’. The term ‘wage distortion’ refers to instances in which the difference between the salary of junior and senior employees within the same company disappears or is drastically reduced.

As a result of this ‘distortion’, a manager might end up earning only slightly more than their subordinates. This can sometimes affect the satisfaction and productivity of employees who hold more senior positions.

In fact, managers might feel they are not being adequately compensated for their work, particularly when compared to their peers. Over the past few decades, many studies showed that wage distortion still occurs in many enterprises in China.

Professor Qiao Wang at Capital University of Economics and Business, in China, has recently carried out a study investigating a possible reason for the existence of wage distortion in the Chinese labour market. More specifically, she assessed whether managers who did not complete higher education courses might be harder to motivate and less willing to take on responsibilities, which could in turn influence their retribution.

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The analysis conducted by Professor Wang was based on the principal-agent model of moral hazard. This theoretical model is sometimes used in economics research to summarise instances in which one party is taking on more risks because another party bears the cost of those risk.

In the context of enterprises, this essentially means that a manager’s actions and the quality of their work affect the manager in a different way to the company’s shareholders. In addition, the principal-agent model specifically highlights instances in which a shareholder or executive is unable to directly control or monitor the actions of a manager, even if these actions will have a significant impact on the company.

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According to the principal-agent model of moral hazard, the financial compensation of managers is divided into two parts: a flat rate and an incentive component. If a manager’s efforts and the results of their work can be monitored, they will be paid the flat rate.

In addition, managers might also receive additional pay, known as the incentive component. This component is designed to mitigate moral hazard. Thus, it is closely related to the extent to which the manager takes on important responsibilities and completes demanding tasks.

The incentive component of managerial salaries typically depends on abnormal returns resulting from the manager’s work and the demand of the tasks they complete. In other words, if there are reported changes in specific aspects of the manager’s job, such as an increase in responsibilities or travel requirements, the incentive component of a manger’s salary should increase.

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In her paper, Professor Wang hypothesised that managers with lower levels of education might be less willing to take on risks and new responsibilities, as they might not feel as confident and prepared as those who completed sector-specific higher-education courses. The moral hazard associated with hiring these managers could thus result in lower compensation, and consequently wage disruption. To test this hypothesis, she developed a two-step semi-parametric process that could be used to identify and measure moral hazard.

Professor Wang then used this process to analyse data in the RESSET [reset] database, which contains information about employees at different Chinese firms and their compensation, collected between 2016 and 2019 by Beijing Juyuan Ruisi [Bay-jing Joo-you-an Roo-see] Data Technology Corporation Limited. The data she analysed related to a total of 37,697 managers in China, working at 2,671 different firms operating in numerous different sectors, ranging from agriculture to manufacturing and energy.

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The in-depth analyses conducted by Professor Wang yielded very interesting results, suggesting that the education of managers could be associated with their motivation and moral hazard, as well as their salary. Specifically, she was able to estimate parameters and factors that affected the compensation contracts of managers, such as abnormal returns and the demand of job duties.

Overall, Professor Wang observed that most managers who had completed higher education courses experienced fewer conflicts in the workplace, compared to those who had not. This was true all of the sectors she examined, including agriculture, mining, manufacturing, energy, construction, information, catering, education, entertainment, scientific research, and the public sector.

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In addition, Professor Wang’s analyses showed that the costs of moral hazard were significantly higher for most managers with a high-school diploma compared to those with an undergraduate or post-graduate degree. As moral hazard is a vital factor influencing the compensation of managers, managers with high-school diplomas who did not take on risks and additional responsibilities might also receive lower compensation.

Professor Wang’s findings suggest that most managers who had left education after high school might be harder to motivate than graduates or post-graduates. Closer analyses also suggest that this lack of motivation could be linked to a lack of knowledge about how to complete tasks that require high levels of responsibility, which graduates might have learned more about during their studies.

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While managers who completed higher education courses can be more motivated and willing to take risks, bear responsibilities, and tackle demanding tasks in their field of expertise, hiring these managers might not always be possible. In fact, small- or medium-sized companies in China typically do not have the financial resources to hire more than a couple of graduates.

As a result, many of these companies might ultimately hire managers who are underqualified or unable to perform highly demanding tasks that entail high levels of responsibility. The study carried out by Professor Wang suggests that this could be the reason for the wage distortion often observed within the Chinese labour market.

Professor Wang’s recent work offers valuable insight about some of the factors influencing managerial salaries in China, particularly those linked to education and professional training. In the future, this insight could inspire new economics and business studies, as well as interventions aimed at reducing wage distortion in China.

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This SciPod is a summary of the paper ‘Is it really hard to motivate those who are not highly educated? Empirical evidence from a semi-parametric analysis’, in *Applied Economics*. <https://doi.org/10.1080/00036846.2021.1934394>

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