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Effort Redirection Across Multiple Career Tracks: Salary-Cut Policy and State-Owned Enterprises in China

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Prior literature in agency theory assumes that when incentives decrease, agents may shirk and reduce effort. We extend this work to multiple career tracks and suggest that a salary decrease may not necessarily lead to effort reduction, but instead may redirect efforts across multiple career tracks. Using an exogenous salary-cut policy shock levied on top executives of Chinese central state-owned enterprises (SOEs), our difference-in-differences analysis reveals that salary cuts motivate SOE top executives to redirect efforts from improving internal management (i.e., operational efficiency) to political objectives (i.e., job creation). A further test reveals that job creation mediates the relationship between salary cuts and SOE top executives' political appointments. Moreover, top executive age, as an indicator of political incentive, and media coverage, which reflects external monitoring, weaken the impact of the salary-cut policy on effort redirection between the two career tracks. These findings provide implications for research on agency theory, SOEs, and public policy.

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Introduction

As incentives are pivotal in addressing agency problems by aligning agents' interests with those of the principals, an appropriate compensation level is necessary to motivate agents to work hard (Eisenhardt, 1989; Gerhart & Milkovich, 1990; Hu & Xu, 2022). Accordingly, prior research suggests that when compensation decreases, agents may shirk and reduce their efforts (i.e., effort reduction; Fong & Tosi, 2007; Zenger & Marshall, 2000). However, such effort reduction logic implicitly assumes that the principal assigns a single objective to agents, overlooking scenarios where one principal—particularly state owner—has multiple objectives (Tihanyi et al., 2019). For example, in the context of state-owned enterprises (SOEs), the principals (i.e., the state or Chinese Communist Party (CCP), the state hereafter) have both financial and political objectives, which are often conflicting and incompatible (Bruton, Peng, Ahlstrom, Stan, & Xu, 2015; Hu & Xu, 2022). Thus, it is critical to understand how changes in incentives affect agents' effort choices across multiple objectives.

The dual nature of SOEs as both state agencies and for-profit entities provides an ideal context to examine how agents balance multiple and competing objectives. As the principal and the controlling owner of the SOEs, the state assigns dual goals for the SOEs: financial and political. On the one hand, as SOEs—especially listed SOEs—compete directly with private and foreign firms, the state requires SOE executives to improve operational efficiency and financial performance, leading to a business career track for these executives (Buck, Liu, & Skovoroda, 2008; Hu & Xu, 2022; Li & Walder, 2001; Mengistae & Xu, 2004). On the other hand, the state demands SOE executives to fulfill political objectives, such as maintaining employment and social stability, resulting in a political career track for them (Bruton et al., 2015; Gu, Tang, & Wu, 2020; Walder, Li, & Treiman, 2000; Wang & Luo, 2019). When evaluating top executives, the state expects them to achieve both financial *and* political objectives, despite their conflicting nature (Chang & Wong, 2009; Li, Li, & Wang, 2019). However, given their limited attention and resources, SOE executives are unable to equally pursue both objectives, and therefore have to navigate between two distinct career tracks.

In this study, we examine the consequences of salary cuts on SOE top executives' career trade-offs under conditions of multiple career tracks. We propose that when there are alternative career tracks, salary cuts may not reduce agents' overall efforts, but rather redirect agents' efforts across the principal's various objectives—a phenomenon we term "effort redirection." That is, agents will refrain from engaging in activities beyond the scope of the principal's objectives, but redirect their efforts toward tasks that optimize their own interests. As such, we argue that when multiple career tracks exist, agents can compensate for the salary reduction along one objective (i.e., the financial objective) by doubling down on another objective (i.e., the political objective). As agents continue to devote effort to the principal's objectives, this represents a *realignment* of principal-agent interests under conditions of multiple career tracks.

We further explore the boundary conditions for SOE top executives' effort redirection. According to agency theory, incentive alignment and monitoring are the primary mechanisms for containing agency problems (Jensen & Meckling, 1976; Martin, Wiseman, &

Gomez-Mejia, 2019). We argue that SOE top executives' internal political incentives at different career stages affect their priorities on alternative tracks, and external monitoring mechanisms help constrain their misbehaviors (Gentry & Shen, 2013). Accordingly, internal political incentives (e.g., top executives' age) and external monitoring (e.g., media coverage) may mitigate the impact of salary cuts on SOE executives' effort redirection across business and political career tracks.

We identified the 2014 salary-cut policy levied on central SOEs (i.e., SOEs that are directly controlled by the central government) as a quasi-natural experiment to employ a difference-in-differences (DID) design for examining its impact on top executives' political versus business career interests. To address the rising social discontent over the high salaries of SOE top executives, in 2014 the Chinese central government suddenly implemented a salary-cut policy on *central* SOE top executives, while *local* SOEs (i.e., SOEs that are directly controlled by the provincial and municipal government) were not affected. Meanwhile, stock options or equity components were still rarely available for SOE top executives, making salary a critical factor in aligning their financial interests and serving as the primary incentive in their business career track (Chen, Guan, & Ke, 2013). Many top executives at central SOEs experienced sharp salary reductions, providing a suitable setting to study the interplay between salary cuts and effort redirection across multiple objectives.

Our analysis of Chinese-listed central SOEs between 2010 and 2018 reveals that, following the salary-cut policy, central SOE top executives who experienced larger salary cuts are more likely to redirect their efforts from enterprise management toward pursuing political objectives, leading to a reduction in operational efficiency and an increase in job creation. Such effort redirection is moderated by political incentives (proxied by top executive age) and external monitoring (i.e., media coverage). Further analysis reveals that job creation mediates the relationship between salary cuts and SOE top executives' likelihood of attaining political appointments to prestigious government institutions. These findings suggest that, in response to salary cuts, SOE executives redirect efforts previously devoted to operational efficiency toward political objectives, thereby building political capital for future political appointments.

Our findings offer several contributions. First, our study contributes to agency theory by revealing "agent effort redirection" under conditions of multiple career tracks and competing objectives. While prior agency research suggests that a salary decrease leads agents to shirk, we argue that in the presence of multiple career tracks, salary cuts may lead agents to continue focusing on the principal's designated tasks but just redirect efforts among the principal's various objectives. This effort redirection compensates agents for salary reductions by ensuring their future political appointments. Second, we deepen the understanding of managerial behavior in Chinese SOE top executives by showing how changes in salary can motivate or demotivate executives' devotion to the business career track or the political career track. When facing salary cuts and pressures from the state, SOE executives may pursue their future political promotions at the expense of firm operational efficiency. Third, we contribute to research on public policy by demonstrating the managerial effects in shaping organizational response to regulatory pressure. As such, we reveal that a broad salary-cut policy intended to address social inequality in SOEs may lead to potentially undesirable consequences. Fourth, we contribute to the literature on goal attention and sequencing by showing how agents redirect their efforts across multiple objectives in response to changing rewards, rather than adhering to a sequential focus on individual goals.

Theory and Hypotheses

Salary-Cut Policy for Central SOEs

SOEs refer to enterprises whose controlling owners are the government or its related agencies. In China, central SOEs are owned by the central government through the State-Owned Assets Supervision and Administration Commission (SASAC). When these SOEs become publicly listed, it is not the entire group that gets listed but only the subsidiaries, with the parent SOE remaining the largest shareholder. SASAC holds 100% ownership of central SOEs at the parent level but not at the listed subsidiary level, where other shareholders (e.g., institutional investors) may exist. In general, SASAC sets broad policies for all listed central SOEs, while the extent of policy implementation varies across different SOEs.

The rapid increase in top management team (TMT) salaries among central SOEs, and particularly the growing gap compared to ordinary employees' salaries, has attracted a great deal of attention and criticism in Chinese society, which emphasizes both efficiency and social equality (Greve & Zhang, 2017). According to SASAC, the average pay gap between TMT and employees in central SOEs was 9.85 times in 2002 but increased to 13.39 times in 2010.[1] These criticisms were further aggravated by the fact that the profits of high-paying SOEs were falling. For example, Baoshan Iron and Steel Co., a central SOE, posted a 44% fall in net profits in 2013 compared to the previous year. Yet, the salary for its top three executives increased by 10.7% year-on-year to 3.55 million RMB (US$0.56 million) in 2013.

In order to quell social discontent, the Chinese government initiated a salary-cut policy and launched the Remuneration System Reform Plan in 2014. This plan established regulations for reducing top executive salaries in central SOEs, targeting chairmen, party secretaries, general managers, and other deputies in leading positions. This policy applies to all central SOEs, including the parent central SOEs and their listed subsidiaries. Employing a "one-size-fits-all" approach, the policy sets clear rules for standardizing base salaries, stipulating performance-based bonuses, and curbing misuse of non-salary benefits. First, executives' base salaries are set at up to five times the average salary of all central SOE employees from the previous year, with adjustments permitted based on firm-specific situations (the adjustment factor may be up to 1.5). Second, the performance-based bonus is determined by evaluating the executive's performance from the previous year, and is capped at three times the base salary (Nanda, Silveri, Wang, & Zhao, 2023). Third, the policy regulates job-related benefits and business expenses for central SOE executives. Job-related benefits are clearly defined as official vehicles, offices, and training, while business expenses are defined as business entertainment, domestic and overseas business trips, and communication fees (Nanda et al., 2023). By strictly prohibiting the use of public funds for personal purposes (e.g., club memberships and entertainment), this policy sets a ceiling on top executives' expense accounts.[2] Furthermore, for parent central SOEs, a cap of 600,000 yuan (US$97,600) a year has been placed on executives' annual salaries, with no provision for stock options or equity components. The policy also establishes a supervision system to supervise the enforcement of the salary system, prohibiting executives from claiming non-salary income from their firms or subsidiaries.

As an important part of reforms aimed at boosting SOE efficiency and transparency, the salary-cut policy aims to standardize the income distribution system with appropriate payment, reasonable structure, and effective supervision, considering both social equality *and* efficiency. As highlighted in a *Financial Times* article, the policy reflects President Xi

Figure 1a
Average Salary-Cut Amount ($Salary_{t-1} - Salary_t$)[1]

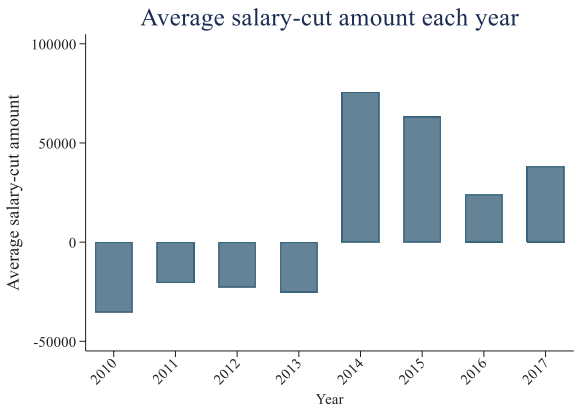
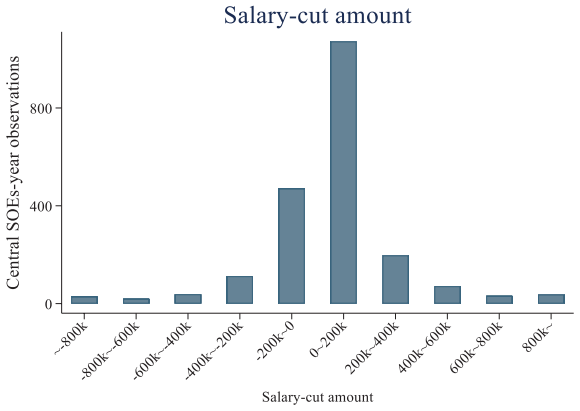


Figure 1b
Salary-Cut Amount Distribution



[1]A positive value means salary decrease while a negative value means salary increase.

Jinping's sweeping anti-corruption campaign and technocratic efforts to raise the efficiency of the bloated state sector.[3] By cutting wasteful expenditure and fostering modern governance, the policy seeks to de-bureaucratize SOEs.

Following its implementation, the total salary level for central SOE top executives fell from 12 times to 7 or 8 times that of an average employee.[4] Executives at financial SOEs were hit hardest as they previously enjoyed the highest income. For example, before 2014, top executives at China's four state-owned banks earned more than 1 million yuan (US$160,000), with the chairman of ICBC (Industrial and Commercial Bank of China) earning 2 million yuan (US$325,000). In 2015, all of their salaries had dropped below 600,000

yuan (US$97,600).[5] For publicly listed central SOEs, we calculated the salary-cut amount ($Salary_{t-1} - Salary_t$) by using the average salary changes of CEOs and chairmen in a focal year. We plotted the average salary-cut amount each year in Figure 1a, which shows SOE executives' salary increase before the policy and salary decrease after the policy. We plotted the distribution of observations with different salary cut amounts in Figure 1b, which shows that the magnitude of salary cuts varies across different central SOEs.

An Agency View of Salary-Cut Policy

Agency theory argues that, due to the separation of ownership and management, agents' interests may deviate from those of the principals, leading to significant agency problems (Fama & Jensen, 1983; Jensen & Meckling, 1976). While shareholders aim for value maximization, managers are likely to engage in activities that maximize their personal benefits at the expense of shareholders. To address this agency problem, incentive contracts and monitoring structures are necessary to align agents' interests with those of the principals, and ensure goal congruence (Devers, McNamara, Wiseman, & Arrfelt, 2008; Jensen & Meckling, 1976).

Agency theory assumes that agents prefer to pursue self-interests over principals' interests, and thus, when rewards decrease, executives may shirk and reduce effort on tasks designated by principals, or even engage in activities beyond the scope of principals' objectives (Eisenhardt, 1989; Fong & Tosi, 2007; Nyberg, Fulmer, Barry, & Carpenter, 2010), which we term "effort reduction." Based on the principle of utility maximization, scholars have suggested that agents' effort is a function of their rewards, and agents will contribute their efforts proportionally to the rewards (Fong & Tosi, 2007). Accordingly, when rewards decline, agents likely reduce their efforts on tasks designated by principals because their devoted effort is not easily observable, and it is in their self-interest to protect their physical or psychological capital (Zenger & Marshall, 2000). From this conventional agency view, a salary-cut policy likely induces SOE executives to shirk or reduce efforts on tasks assigned by principals, given that their appointment and dismissal are controlled by the government and it is difficult for them to seek outside options (Cao, Lemmon, Pan, Qian, & Tian, 2019).

However, prior studies mostly assume that the principal assigns a single objective to agents (Eisenhardt, 1989). Such a single focus is problematic because one principal may have several different tasks for agents to perform, or an agent's single task may have multiple dimensions. Here, we focus on a single principal with multiple objectives, rather than principal–principal conflicts. In certain circumstances, agents are assigned multiple, and even conflicting, objectives, leading to multiple career tracks for them. For example, the principles of SOEs require executives to achieve both financial and political objectives, yet financial objectives, such as profit maximization, often conflict with political objectives like solving local employment, subsidizing underdeveloped regions, and maintaining social stability (Brødsgaard, 2012; Wang & Luo, 2019). In such situations, when facing salary cuts, it is unclear whether agents will necessarily shirk.

We propose that when there are multiple career tracks, salary cuts may not demotivate hard work on the principal's specified tasks, but instead redirect agents' efforts toward the principal's alternative objectives. These objectives, while still within the scope of the principal's designated duties, are designed to optimize agents' interests in their calculations. We refer to this novel mechanism as "effort redirection"—that is, by redirecting efforts from one

objective to another, agents can still maximize their self-interest and utilities without significantly reducing the overall efforts invested in the principal's tasks. As such, we argue that when multiple career tracks exist, agents can compensate for the salary reduction along one objective by intensifying efforts in another, which may help them to achieve promotions in an alternative career track. As agents continue to commit efforts to the principal's goals, effort redirection represents interest realignment between agents and principals in scenarios involving multiple career tracks.

Agency Problem in SOEs: Executives' Business and Political Career Interests

Due to information asymmetry, SOE executives must demonstrate their competence by aligning their actions with the state's interests and achieving its objectives to enhance their promotion prospects. As such, the dual nature of SOEs as both for-profit entities and state agencies means that SOE top executives have two distinct career interests: a business career interest within the enterprise group and a political career interest within the Party/government (Hu & Xu, 2022; Li & Walder, 2001; Walder et al., 2000).

On the one hand, the business career is prominent for SOE executives. A series of SOE reforms have continuously emphasized their professionalization as business managers (Brødsgaard, 2012). The state explicitly regards SOEs as sources of sustainable economic growth. To improve SOEs' efficiency and governance, these reforms aim to establish a modern enterprise system that offers good career opportunities and favorable salary remuneration to executives (Lin & Milhaupt, 2013). In turn, SOE executives are required to develop new management skills and improve SOEs' operational efficiency and profitability (Jin, Xu, Xin, & Adhikari, 2022; Szarzec, Dombi, & Matuszak, 2021). Due to these reforms, many SOE executives have been promoted within the enterprise group because of their professional competence and management skills.

On the other hand, SOE top executives are appointed by the state rather than the board, requiring them to report to the higher levels of the Party organization and be evaluated under the Party's cadre management system (Zhou, Gao, & Zhao, 2017). As state agents, they bear the responsibility of fulfilling the state's political objectives (Bruton et al., 2015; Du, Tang, & Young, 2012; Hu & Xu, 2022; Wang & Luo, 2019). Both political loyalty ("being red") and expertise are criteria for cadre promotion (Guo, 2019: 97), with maintaining social stability and, ultimately, the legitimacy of the Communist Party holding "veto power" over other criteria of performance; that is, if political objectives are not met, achievements in financial objectives would be nullified in the cadre's promotion evaluation (Hu & Xu, 2022; Wang & Luo, 2019: 7). It is quite common for SOE top executives to be promoted to positions such as central government minister or provincial governor. For example, Zhuanglong Jin, who is currently the minister and party secretary of the Ministry of Industry and Information Technology, was formerly the chairman and CEO of Commercial Aircraft Corporation of China, Ltd., a central SOE group.

While the state requires SOE executives to balance these two career interests, they face a trade-off due to their conflicting nature and limited attention and resources. SOE executives can either be government cadres who prioritize political objectives but do so at the cost of shareholder value (Cao et al., 2019), or dutiful professional managers who focus on shareholder value maximization but compromise the state's political objectives and their political careers (Hu & Xu, 2022). This poses a unique research question: Under the

salary-cut policy, how will central SOE executives balance their business career interests versus political career interests?

The Impact of Salary-Cut Policy

Executive salary is an important aspect of aligning the interests of executives and shareholders in SOEs (Eisenhardt, 1989). In the context of SOE reform, the establishment of a modern enterprise system makes executive salary a key incentive for top executives to take up the role of business managers and fulfill the duties of corporate internal management (Groves, Hong, McMillan, & Naughton, 1995; Mengistae & Xu, 2004). Prior research suggests that executive salary cuts can result in negative financial performance (Lobo, Manchiraju, & Sridharan, 2018) and loss of firm-specific knowledge (Wang, Chu, Jiang, & Xu, 2020). Extending prior research, we argue that the salary-cut policy may redirect executives' efforts between political and business career tracks, rather than simply leading to shirking.

We argue that the salary-cut policy may reduce central SOEs' operational efficiency, defined as a firm's ability to generate valuable outputs from its given inputs (Delmas & Tokat, 2005). Low efficiency presents a significant challenge for SOEs because efficiency-driven measures, such as downsizing or reducing welfare, often conflict with SOEs' political objectives. Thus, efficiency has been a major focus within the business career for SOE executives (Fu, Vijverberg, & Chen, 2008; Tan & Peng, 2003). In this regard, SOE executives can establish their credibility as competent and dutiful professional managers by improving SOE efficiency (Guo, Huy, & Xiao, 2017). Operational efficiency reflects executives' efforts and managerial competence in corporate management, such as streamlining existing workflows and refining processes with new knowledge (Shen, Zhou, Wang, & Zhang, 2023). Accordingly, operational efficiency is a key metric for judging SOE executives' potential in the business career track.

The salary-cut policy likely reduces the attractiveness of business career paths for SOE executives. Since central SOE top executives are appointed by the state, they are not necessarily competitive in the open market and have limited opportunities in the external managerial labor market (Cao et al., 2019; Zhou et al., 2017). The state exercises ultimate authority over personnel decisions in central SOEs, including the selection, appointment, and dismissal of top executives. As a result, without the state's appointment, these executives cannot take positions in other SOEs (e.g., local or hybrid SOEs). While central SOE top executives may resign and move to private firms, such transition is rare and subject to significant restrictions, such as requiring approval from multiple bureaucratic levels and prohibitions on joining related private firms within several years (Cao et al., 2019). Furthermore, in China, where the principle of "party leading government" prevails and the state maintains substantial control over major economic resources, serving as a government official or SOE executive offers significant social, career, and economic benefits (Hu & Xu, 2022). As such, few SOE executives are interested in transitioning to private firms.

Given these constraints, SOE executives are more concerned about assessments from government officials than opportunities in the external managerial labor market. As salary cuts reduce the expected reward from the business career path, executives may place less emphasis on business career interests in their calculations and become less diligent in their business duties. However, improving SOE's operational efficiency is a multifaceted task that demands significant efforts and competencies from executives, requiring not only identifying and recommending changes but also monitoring and implementing those changes (Peng,

Schroeder, & Shah, 2008). Executives must be highly committed to changing the status quo by restructuring organizational processes and adopting new practices. In this regard, executives' lack of commitment would lead to lower operational efficiency. Thus, we predict that:

Hypothesis 1a (H1a): The salary-cut policy decreases central SOEs' operational efficiency.

We further predict that the salary-cut policy may motivate top executives to focus more on political career interests. Given the lowered salary, SOE top executives may be inclined to transfer to Party or government positions, which can help them gain power and privileges associated with high-ranking political roles (Hu & Xu, 2022). Such political promotion also brings higher social status and a better retirement package compared to a business career (Cao et al., 2019; Zuo, 2015). Hence, executives may turn to the political career path for promotion along the political ladder.

One crucial way for SOE top executives to achieve political promotion is by devoting efforts to political tasks, such as creating more employment positions. Research on SOEs indicates that employment growth or *job creation* is a crucial political task for SOE executives worldwide (Cuervo-Cazurra, Inkpen, Musacchio, & Ramaswamy, 2014; Du et al., 2012), and particularly in China (Hu & Xu, 2022; Wang & Luo, 2019). As noted by Zheng and Deng (2018: 72), "Of all the promotion criteria, one factor dominates—local employment rate. . . . Hence, to increase local employment will please one's party boss one level higher to increase one's chance to get a promotion." Along this line, extant research has widely used job creation as a measurement for SOE executives' political performance (Cuervo-Cazurra et al., 2014; Du et al., 2012; Hu & Xu, 2022; Wang & Luo, 2019). Hence, when facing a salary cut, SOE executives would direct more efforts toward job creation, which likely increases their opportunities for political appointments. Accordingly, we propose that:

Hypothesis 1b (H1b): The salary-cut policy increases central SOE's job creation.

Moderating Effects of Incentives and Monitoring

Incentives and monitoring are critical to align agent interests with those of principals (Fama & Jensen, 1983; Jensen & Meckling, 1976). Therefore, we further investigate how top executives' political incentives and firms' external monitoring moderate the main-effect relationships. First, political incentives vary at different career stages, affecting executives' priorities between two career interests (Inoue, 2020; Wang & Luo, 2019). Because China sets a clear retirement age system that prioritizes young politicians over old ones, older executives approaching retirement age have little chance for political promotion (Wang, Zhu, Chen, & Luo, 2021). Hence, we focus on the contingent role of the *top executive age* (average age of the Chairman and CEO) to reflect political incentives. Second, because external monitoring constrains executives' self-serving behaviors (Eisenhardt, 1989; Fama, 1980), it likely moderates the impact of the salary-cut policy on executives' two career interests. Accordingly, we assess the contingent role of one type of external monitoring, *media coverage*, which is reflected by the number of news articles in newspapers and online media about focal firms in a given year.

Top executive age. In China, the career advancement system for government officials and SOE top executives specifies a mandatory retirement age, requiring central SOEs' top execu-

tives to retire at the age of 63 (Wang & Luo, 2019). Under this system, executives may selectively prioritize career objectives according to their personal career stage. Younger executives have more opportunities for advancement in a political career and hence have a stronger incentive to pursue the political career track. In contrast, older executives close to retirement likely tie their career interests to their current position as the top executives of SOEs (Inoue, 2020; Wang et al., 2021).

We suggest that the impact of a salary-cut policy on effort redirection from the business career to the political career may be weaker for older executives. For younger executives, their potential for political promotion is high, given their age advantage (Wang & Luo, 2019). When the value of a business career decreases with the pay cut, younger executives tend to redirect more attention away from improving internal management to creating more jobs. In contrast, older executives have lower political incentives, because they are approaching retirement age and have a shorter time horizon for political promotion (Wang & Luo, 2019). As a result, fulfilling the responsibility of their current position rather than pursuing political objectives becomes a better choice, despite the declining value of the business career track (Wang & Luo, 2019). The absence of promotion prospects in the political career track would reduce their incentives to divert efforts into politically related targets. Thus, we propose that:

Hypothesis 2a (H2a): The negative relationship between the salary-cut policy and central SOE's operational efficiency is weaker when top executives are older.

Hypothesis 2b (H2b): The positive relationship between the salary-cut policy and central SOE's job creation is weaker when top executives are older.

Media coverage. The impact of the salary-cut policy also depends on the monitoring mechanisms that rely on disciplinary forces to monitor managers' behaviors and protect shareholder value (Eisenhardt, 1989; Fama, 1980). By constraining executives' self-serving behaviors, external monitoring helps reduce agent costs and deter corporate fraud. As a type of monitoring channel, the media plays an important watchdog role, scrutinizing executives' actions and compelling them to act in the best interest of shareholders (Liu & McConnell, 2013; Miller, 2006). Prior research shows that when media coverage is high, poorly performing firms are more likely to force CEO turnover (Farrell & Whidbee, 2003).

We propose that media coverage may reduce the effort redirecting effect of the salary-cut policy. The media plays an important role in monitoring firm activities by raising doubts about corporate actions (Liu & McConnell, 2013; Miller, 2006). When media coverage is high, a firm is closely monitored for agency misbehavior and corporate indiscretion. As such, executives face strong pressures if they attempt to divert their efforts to areas unrelated to firm internal management. Hence, even when salary cuts hurt the value of the business career, executives are less likely to redirect efforts to investment in political capital. In contrast, when media coverage is low, firms receive less attention and scrutiny from stakeholders and the general public. As a result, executives find it easier to reduce business efforts and feel that it is less necessary to justify actions from the strategic perspective (Brauer & Wiersema, 2018), thus likely diverting more efforts to create more jobs and fulfilling political tasks. Therefore, we hypothesize:

Hypothesis 3a (H3a): The negative relationship between the salary-cut policy and central SOE's operational efficiency is weaker when media coverage is greater.

Hypothesis 3b (H3b): The positive relationship between the salary-cut policy and central SOE's job creation is weaker when media coverage is greater.

Figure 2 depicts our conceptual model.

Method

Sample and DID Design

Since the salary-cut policy was imposed only on central SOEs, we collected data for all publicly listed central SOEs. To determine the central SOE sample, we first obtained the full list of central SOE groups from the SASAC website for the years 2010 to 2018. We then identified all the listed firms within these groups during the same period as the listed central SOEs. We collected the information from multiple data sources. First, we collected executive (e.g., salary, tenure, and age), firm (e.g., job creation, political appointments, financial performance, and analyst information), and industry-level (e.g., industry uncertainty) information from the China Stock Market and Accounting Research (CSMAR) database, which is widely used in strategy research on Chinese listed firms (Xu, Zhou, & Du, 2019; Zhou et al., 2017). Second, we collected media coverage information from the DataGo database, which provides a comprehensive review of news articles available about China's listed firms (Piotroski, Wong, & Zhang, 2015).

It is possible that, in 2014, the state emphasized the necessity to address unemployment issues, which likely suppresses efficiency and leads to the effort redirection effect. In such a case, the salary-cut policy could be part of the state's decision to make SOE reprioritize employment. To mitigate this concern, our main analysis employed a DID design with a continuous treatment to examine the differences both before and after the policy implementation and across central SOEs with different levels of salary-cut magnitude. As salary reduction varies across different central SOEs, those experiencing greater salary cuts post-2014 are presumably more influenced by the salary-cut policy. This DID design with a continuous treatment can help us to isolate other events around 2014 that may influence SOE executives' effort redirection.

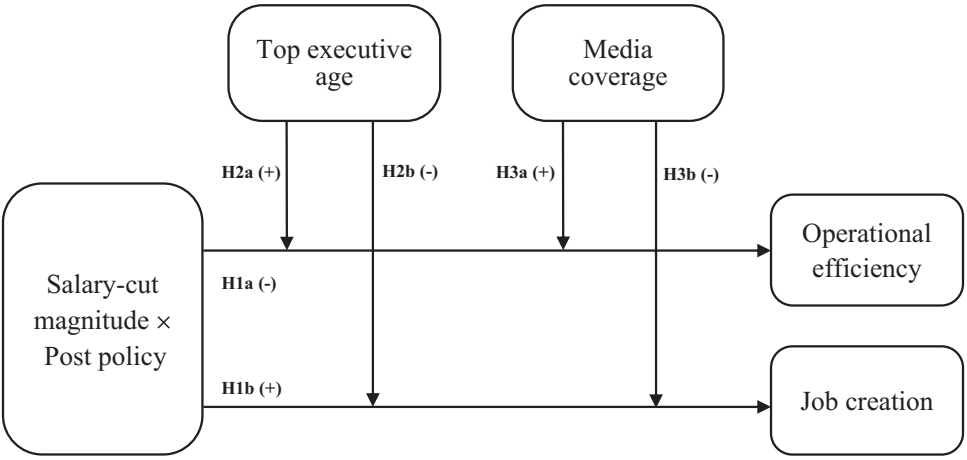
To avoid potential confounding effects from other events, we followed prior studies and selected the 4 years before (2010–2013) and after (2014–2017) the policy implementation year of 2014 as our sample period (Wang et al., 2021). We forwarded the dependent variables by 1 year to reduce reverse causality. Thus, our independent, moderating, and control variables come from 2010 to 2017, while the dependent variable comes from 2011 to 2018. After dropping observations with missing data, we obtained a sample of 281 listed central SOEs and 2,006 firm–year observations for the analysis.

Measures

Dependent variables

Operational efficiency. We used the stochastic frontier estimation (SFE) methodology to measure a firm's operational efficiency in transforming its operational resources into

Figure 2
Conceptual Model



operational output (Dutta, Narasimhan, & Rajiv, 2005). Compared with conventional efficiency measures (e.g., single financial indicators such as labor productivity and inventory turnover), SFE provides a more comprehensive measure of a firm's overall operational efficiency and makes it comparable across industries (Lam, Yeung, & Cheng, 2016). Because SFE incorporates a composite error term into its estimations, it can more accurately capture efficiency variations beyond those caused by random shocks (Vandaie & Zaheer, 2015). Following previous studies (Lam et al., 2016; Li, Lam, Ho, & Yeung, 2022; Shen et al., 2023), we used operating income as output and three factors as operating-resource inputs: (1) number of employees, (2) capital expenditure, and (3) cost of goods sold. We also controlled for industry-fixed effects. The model is shown below:

$$\begin{aligned} ln(Operationalincome)_{it} = {} & \beta_0 + \beta_1 ln(Numberofemployees)_{it} \\ & + \beta_2 ln(Capitalexpenditure)_{it} \\ & + \beta_3 ln(Costofgoodssold)_{it} + \varepsilon_{it} - \gamma_{it}, \end{aligned} \tag{1}$$

where ε_{it} indicates the stochastic random error and γ_{it} captures a firm's technical inefficiency compared with the most efficient firm (i.e., the frontier) in the same industry and year. γ_{it} ranges from 0 to 1, with 0 meaning no operational inefficiency (relative to the industry). To ease the interpretation of the test results, we applied reverse coding and used $1\text{-}\widehat{\gamma_{it}}$ to provide a direct indication of a firm's operational efficiency. As firm operational efficiency may vary significantly across industries, we adjusted operational efficiency by the industry mean (i.e., the focal firm's operational efficiency minus the average operational efficiency for all firms in the industry and year).

Job creation. Following prior research (Hu & Xu, 2022; Wang & Luo, 2019), we used job creation as a proxy for political performance. We measured it as the difference between the number of total employees in the current year and that in the previous year, adjusted by

the industry mean (i.e., the focal firm's job creation minus the industry-average job creation, in units of thousand for readability; Du et al., 2012; Hu & Xu, 2022; Zheng & Deng, 2018).

Independent variable

Salary-cut policy. We used *salary-cut magnitude* as the continuous treatment variable to capture the influence of salary-cut policy on each firm. Specifically, we used the average percentage change in the salaries of CEOs and chairmen of the focal firm in the focal year as a proxy for salary-cut magnitude: $(\text{Salary}_{t-1} - \text{Salary}_t)/\text{Salary}_{t-1}$. A higher value of this variable means a higher salary reduction compared with last year.

Post policy. The salary-cut policy was implemented in 2014. Therefore, we coded it as 1 for observation years equal to or after 2014, and 0 otherwise.

Within the DID design, our focal independent variable is the interaction term between these two variables: *Salary-cut magnitude* × *Post policy*. We will elaborate on this point in the estimation methods section.

Moderators

Top executive age. We measured this as the average age of the chairman and CEO at the end of the focal year.

Media coverage. We measured media coverage by counting the number of news articles in newspapers and online media of the focal firm in a given year (unit: thousand; Piotroski et al., 2015). The DataGo database archives newspaper and magazine articles from more than 23,000 publications and uses an automated article-crawling robot to search the archives to identify all Chinese language articles featuring publicly listed firms. Thus, it provides a comprehensive set of news articles about China's listed firms (Piotroski et al., 2015).

Controls

We controlled for a series of factors at the executive, firm, and industry levels. At the executive level, the variance in the ages of the CEO and chairman matters, so we included *top executive age divergence*, measured by the standard deviation between the CEO's and the chairman's ages. We also included *top executive duality*, which was coded as 1 if the chairman also serves as the CEO, and 0 otherwise. With dual roles, top executives have greater discretion in internal management and political activities. We also included *top executive turnover*, coded as 1 if the chairman/CEO changed in a focal year and 0 otherwise.

At the firm level, we included *firm size*, indicated by the natural logarithm of total sales, and firm performance, indicated by *ROA* (return on assets). We also included firm *leverage ratio* (i.e., long-term debts scaled by total assets) because firms with richer financial resources may be better positioned to improve operational efficiency and enhance the likelihood of political appointments. Given that operational efficiency is underpinned by a firm's innovation capability (Peng et al., 2008), we included *R&D intensity*, measured by the ratio of R&D (research and development) expenditures to sales. As a firm's ownership structure shapes its strategic flexibility and hence its operational efficiency (Shen et al., 2023), we included *shareholder concentration*, defined as the amount of the top five shareholders' squared share of ownership. Firm market diversification increases managerial, structural, and organizational

complexity, incurring greater coordination and integration costs, straining management resources, and hence affecting operational efficiency. Thus, we included *market diversification*, measured using the widely used entropy measure based on the sales in each market segment identified by 3-digit industry codes (Chakrabarti, Singh, & Mahmood, 2007).

At the industry level, we controlled for *industry uncertainty*, as market uncertainty may affect operational efficiency (Li et al., 2022) and political activities. We regressed industry total sales over the 5 years preceding the given year against time and used the standard error of the regression coefficient related to a time dummy variable divided by the average value of the industry's sales to proxy industry dynamism (Wang, Choi, & Li, 2008).

Common Trend Assumption

The validity of our DID analyses relies on the parallel trends assumption, which requires that, before the policy, firms experiencing different magnitudes of salary changes exhibit no significant differences in operational efficiency and job creation. To test this assumption, we employed a dynamic DID model. The model specification is as follows:

$$\begin{aligned} Operational\ efficiency_{i,t+1}\ or\ Job\ creation_{i,t+1} = \alpha + & \sum_{k=2010}^{2017} \beta_k \times Year^k \\ & \times Salary-cut\ magnitude_{it} \\ & + Control\ variables_{it} \\ & + industry\ dummies + year\ dummies \\ & + province\ dummies + \varepsilon_{it}, \end{aligned} \tag{2}$$

where i refers to the firm, t to the year, $Year^k$ is a dummy variable equal to 1 for year k. Note that $k = 2013$, the reference year, was omitted to avoid multicollinearity. The coefficients β_{2010} to β_{2017} capture the differences in operational efficiency and job creation between firms with different magnitudes of salary changes, both before and after the salary-cut policy.

Table 1 presents the results from estimating Equation 2. The interaction terms Salary-cut magnitude $\times$ $Year^{2010} - Year^{2012}$ are not statistically significant in Models 1 and 2, indicating that, before the policy, changes in executives' salaries did not significantly impact firm operational efficiency and job creation. However, the interaction term Salary-cut magnitude $\times$ $Year^{2015} - Year^{2017}$ are statistically significant in both models, except for Salary-cut magnitude $Year^{2015}$ in model 2, which is marginally significant. The results support the parallel trends assumption of our DID design.

Estimation Methods

Since one of our dependent variables—operational efficiency—is truncated on both sides (i.e., between 0 and 1), we used a fractional regression model to test hypotheses related to operational efficiency (Murteira & Ramalho, 2016). We used ordinary least squares regression to test hypotheses related to job creation. We included year, industry, and province dummies to control for unobserved heterogeneity across annual trends, industries, and provinces.

Our models are:

Table 1
Validation of Common Trend Assumption

DV	Operational Efficiency		Job Creation	
Model #	(1)		(2)	
Parallel Trends Tests				
Salary-cut magnitude × $Year^{2010}$	−0.05		0.07	
	(0.08)	[.483]	(0.27)	[.796]
Salary-cut magnitude × $Year^{2011}$	0.03		−0.13	
	(0.03)	[.295]	(0.12)	[.280]
Salary-cut magnitude × $Year^{2012}$	−0.03		0.11	
	(0.05)	[.623]	(0.14)	[.464]
Salary-cut magnitude × $Year^{2014}$	−0.02		0.48	
	(0.03)	[.514]	(0.16)	[.003]
Salary-cut magnitude × $Year^{2015}$	−0.21		0.49	
	(0.09)	[.021]	(0.28)	[.086]
Salary-cut magnitude × $Year^{2016}$	−0.10		0.33	
	(0.04)	[.009]	(0.15)	[.027]
Salary-cut magnitude × $Year^{2017}$	−0.08		0.31	
	(0.03)	[.009]	(0.12)	[.013]
Constant	4.93		−3.90	
	(0.41)	[.000]	(1.12)	[.001]
Control variables	Yes		Yes	
Year FE	Yes		Yes	
Industry, province FE	Yes		Yes	
Observations	2,006		2,006	
R-squared	0.109		0.128	

Note. FE = fixed effects; DV = dependent variable. Standard errors are reported in parentheses; *p* values are reported in square brackets (two-tailed). All regressions included the control variables outlined in the "Controls" section. To conserve space and improve readability, the detailed regression results for control variables have not been reported in this table.

$$\begin{aligned} Operational\ efficiency_{i,t+1} = {} & \alpha + \beta_1 \times Salary-cut\ magnitude_{it} + \beta_2 \times Post\ policy_t \\ & + \beta_3 \times Salary-cut\ magnitude_{it} \times Post\ policy_t \\ & + Control\ variables_{it} + industry\ dummies \\ & + year\ dummies + province\ dummies + \varepsilon_{it} \end{aligned} \tag{3}$$

$$\begin{aligned} Job\ creation_{i,t+1} = {} & \varphi + \gamma_1 \times Salary-cut\ magnitude_{it} + \gamma_2 \times Post\ policy_t \\ & + \gamma_3 \times Salary-cut\ magnitude_{it} \times Post\ policy_t \\ & + Control\ variables_{it} + industry\ dummies \\ & + year\ dummies + province\ dummies + \varepsilon_{it} \end{aligned} \tag{4}$$

where *i* refers to the firm and *t* to the year.

Table 2
Descriptive Statistics and Correlations

	Mean	*SD*	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
1. Operational efficiency	0.65	0.21	1														
2. Job creation	0.31	2.00	−0.05	1													
3. Salary-cut magnitude	0.19	0.80	−0.02	0.04	1												
4. Post policy	0.51	0.50	−0.01	0.02	−0.02	1											
5. Top executive age	51.43	3.97	−0.13	0.01	0.01	0.19	1										
6. Media coverage	6.29	0.94	−0.22	0.21	0.01	0.16	0.18	1									
7. Top executive age divergence	3.39	2.81	−0.01	0.02	0.01	−0.10	−0.02	0.03	1								
7. Top executive duality	0.06	0.24	0.03	−0.01	0.02	−0.02	−0.00	−0.05	−0.31	1							
8. Top executive turnover	0.35	0.47	−0.01	−0.02	−0.11	0.03	−0.11	−0.06	−0.01	−0.01	1						
9. Firm size	22.94	1.58	−0.34	0.21	−0.01	0.14	0.26	0.34	0.02	−0.05	−0.03	1					
10. ROA	0.03	0.05	0.30	0.07	0.05	−0.08	0.06	0.09	−0.00	0.03	−0.08	−0.01	1				
11. Leverage ratio	0.53	0.21	−0.29	0.08	0.01	0.01	−0.0	0.18	−0.00	−0.00	0.00	0.40	−0.34	1			
12. R&D intensity	0.02	0.03	0.16	−0.02	−0.02	0.15	−0.03	−0.06	−0.04	0.01	0.00	−0.29	0.04	−0.31	1		
13. Shareholder concentration	0.21	0.12	−0.07	0.06	−0.01	−0.02	0.15	0.17	−0.01	−0.05	0.02	0.38	0.09	0.05	−0.11	1	
14. Market diversification	0.35	0.47	−0.03	0.01	0.01	0.03	0.09	0.11	−0.01	0.02	−0.01	0.22	−0.00	0.10	−0.11	0.08	1
15. Industry uncertainty	0.06	0.05	−0.06	−0.03	0.06	−0.27	−0.01	0.04	0.04	0.00	0.01	0.00	0.04	−0.03	−0.14	0.10	0.05

Note. $N = 2{,}006$. ROA = return on assets; R&D = research and development. Correlations $\geq |0.04|$ are significant at $p \leq .05$.

Table 3
Salary-Cut Magnitude, Operational Efficiency, and Job Creation

DV	Operational Efficiency								Job Creation							
Model #	(1)		(2)		(3)		(4)		(5)		(6)		(7)		(8)	
H1a/b: Salary-cut magnitude × post policy	−0.08		−0.10		−0.10		−0.11		0.27		0.33		0.38		0.45	
	(0.03)	[.008]	(0.03)	[.001]	(0.03)	[.005]	(0.03)	[.000]	(0.11)	[.014]	(0.11)	[.003]	(0.11)	[.001]	(0.11)	[.000]
H2a/b: Salary-cut magnitude × post policy × Top executive age			0.02				0.02				−0.08				−0.09	
			(0.01)	[.007]			(0.01)	[.006]			(0.03)	[.008]			(0.03)	[.004]
Salary-cut magnitude × Top executive age			−0.00				−0.00				−0.01				−0.01	
			(0.00)	[.849]			(0.00)	[.804]			(0.02)	[.470]			(0.02)	[.565]
Post policy × Top executive age			−0.00				−0.00				0.01				0.01	
			(0.01)	[.675]			(0.01)	[.798]			(0.02)	[.604]			(0.02)	[.533]
H3a/b: Salary-cut magnitude × post policy × media coverage					0.09		0.09						−0.68		−0.69	
					(0.04)	[.035]	(0.04)	[.026]					(0.14)	[.000]	(0.14)	[.000]
Salary-cut magnitude × media coverage					0.01		0.01						−0.16		−0.16	
					(0.02)	[.695]	(0.02)	[.720]					(0.07)	[.017]	(0.07)	[.021]
Post policy × media coverage					−0.02		−0.02						−0.15		−0.17	
					(0.03)	[.538]	(0.03)	[.636]					(0.10)	[.121]	(0.10)	[.081]
Salary-cut magnitude	−0.03		−0.03		−0.03		−0.04		0.14		0.17		0.18		0.20	
	(0.02)	[.071]	(0.02)	[.050]	(0.02)	[.050]	(0.02)	[.032]	(0.05)	[.008]	(0.06)	[.003]	(0.06)	[.001]	(0.06)	[.000]
Post policy	0.24		0.24		0.24		0.24									
	(0.07)	[.000]	(0.07)	[.000]	(0.07)	[.000]	(0.07)	[.000]								
Top executive age	−0.02		−0.02		−0.02		−0.02		−0.03		−0.03		−0.03		−0.03	
	(0.00)	[.000]	(0.00)	[.000]	(0.00)	[.000]	(0.00)	[.000]	(0.01)	[.029]	(0.01)	[.033]	(0.01)	[.026]	(0.01)	[.031]
Media coverage	0.02		0.02		0.02		0.02		0.05		0.05		0.02		0.02	
	(0.02)	[.353]	(0.02)	[.347]	(0.02)	[.386]	(0.02)	[.366]	(0.08)	[.494]	(0.07)	[.491]	(0.08)	[.745]	(0.08)	[.760]
Top executive age divergence	−0.01		−0.01		−0.01		−0.01		0.00		0.00		0.01		0.01	
	(0.01)	[.045]	(0.01)	[.045]	(0.01)	[.041]	(0.01)	[.042]	(0.02)	[.861]	(0.02)	[.870]	(0.02)	[.764]	(0.02)	[.760]

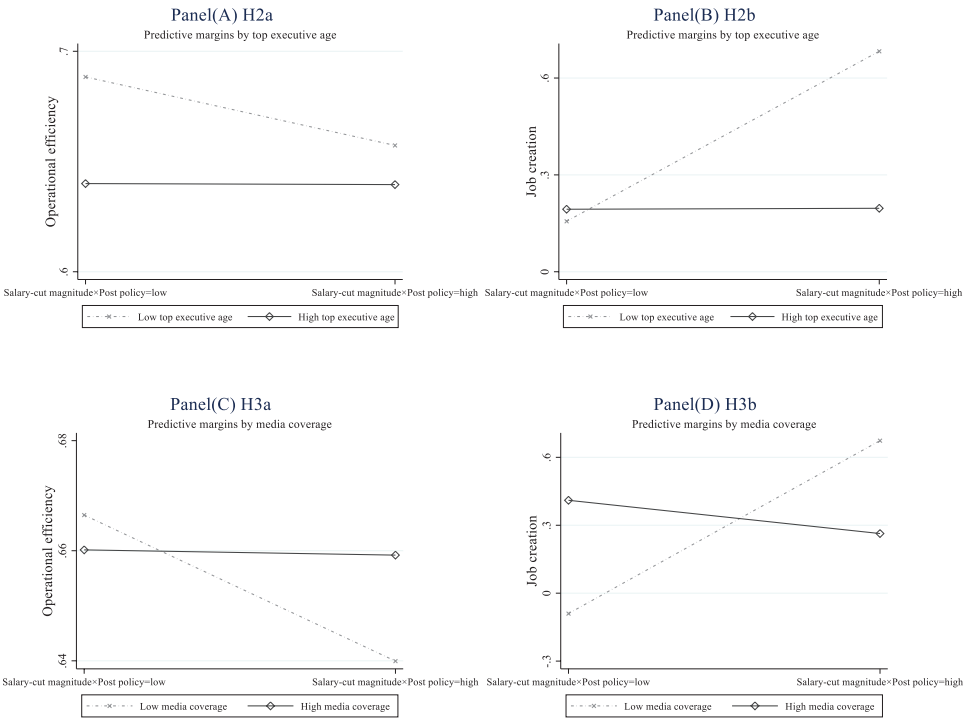
(continued)

Table 3 (continued)

DV	Operational Efficiency								Job Creation							
Model #	(1)		(2)		(3)		(4)		(5)		(6)		(7)		(8)	
Top executive duality	0.10		0.11		0.10		0.11		0.06		0.05		0.05		0.04	
	(0.07)	[.115]	(0.07)	[.098]	(0.07)	[.115]	(0.06)	[.099]	(0.19)	[.745]	(0.19)	[.805]	(0.19)	[.779]	(0.19)	[.838]
Top executive turnover	−0.04		−0.04		−0.04		−0.04		0.02		0.02		0.01		0.01	
	(0.03)	[.138]	(0.03)	[.151]	(0.03)	[.157]	(0.03)	[.171]	(0.09)	[.835]	(0.09)	[.837]	(0.09)	[.925]	(0.09)	[.936]
Firm size	−0.11		−0.11		−0.11		−0.11		0.27		0.28		0.27		0.28	
	(0.02)	[.000]	(0.02)	[.000]	(0.02)	[.000]	(0.02)	[.000]	(0.06)	[.000]	(0.06)	[.000]	(0.06)	[.000]	(0.06)	[.000]
ROA	5.51		5.53		5.53		5.55		3.06		2.94		2.98		2.86	
	(0.44)	[.000]	(0.45)	[.000]	(0.45)	[.000]	(0.45)	[.000]	(1.10)	[.005]	(1.10)	[.007]	(1.09)	[.006]	(1.09)	[.009]
Leverage ratio	−0.45		−0.45		−0.45		−0.44		−0.17		−0.21		−0.25		−0.28	
	(0.12)	[.000]	(0.12)	[.000]	(0.12)	[.000]	(0.12)	[.000]	(0.33)	[.595]	(0.33)	[.519]	(0.33)	[.453]	(0.33)	[.386]
R&D intensity	−1.79		−1.83		−1.81		−1.84		1.35		1.46		1.11		1.21	
	(0.75)	[.017]	(0.75)	[.015]	(0.75)	[.015]	(0.75)	[.014]	(2.31)	[.558]	(2.31)	[.527]	(2.30)	[.629]	(2.29)	[.599]
Shareholder concentration	0.63		0.63		0.62		0.62		0.28		0.28		0.23		0.22	
	(0.16)	[.000]	(0.16)	[.000]	(0.16)	[.000]	(0.16)	[.000]	(0.48)	[.561]	(0.48)	[.562]	(0.47)	[.626]	(0.47)	[.639]
Market diversification	0.05		0.06		0.05		0.06		−0.04		−0.06		−0.05		−0.07	
	(0.03)	[.116]	(0.03)	[.084]	(0.03)	[.103]	(0.03)	[.073]	(0.11)	[.733]	(0.11)	[.603]	(0.11)	[.654]	(0.11)	[.525]
Industry uncertainty	0.30		0.30		0.25		0.25		−1.60		−1.58		−1.34		−1.31	
	(0.54)	[.577]	(0.54)	[.577]	(0.54)	[.649]	(0.54)	[.646]	(1.39)	[.249]	(1.39)	[.255]	(1.38)	[.332]	(1.38)	[.342]
Constant	4.95		4.98		4.94		4.97		−4.78		−4.85		−4.60		−4.68	
	(0.41)	[.000]	(0.41)	[.000]	(0.41)	[.000]	(0.41)	[.000]	(1.15)	[.000]	(1.15)	[.000]	(1.14)	[.000]	(1.15)	[.000]
Year FE	Yes		Yes		Yes		Yes		Yes		Yes		Yes		Yes	
Industry, province FE	Yes		Yes		Yes		Yes		Yes		Yes		Yes		Yes	
Observations	2,006		2,006		2,006		2,006		2,006		2,006		2,006		2,006	
R-squared	0.11		0.11		0.11		0.11		0.13		0.13		0.14		0.15	

Note. ROA = return on assets; R&D = research and development; FE = fixed effects; DV = dependent variable. Standard errors are reported in parentheses; *p* values are reported in square brackets (two-tailed).

Figure 3
Decomposing the Interaction Effects



Results

Table 2 presents the descriptive statistics and correlation matrix for the central SOE sample.

Hypothesis Testing

Table 3 reports the results of hypothesis testing. The value of the variance inflation factors ranges from 1.01 to 2.29 across various models, much lower than the suggested cut-off value of 10, suggesting multicollinearity is not a serious concern.

H1a predicts that the salary-cut policy has a negative impact on central SOEs' operational efficiency. In support of H1a, the coefficient of *Salary-cut magnitude* × *Post policy* is significant and negative ($b = -.08$, $p = .008$, Model 1 of Table 3), and this effect is consistently significant in Models 2 through 4. Regarding the effect size, one standard deviation (*SD*) of salary-cut magnitude decreases central SOEs' operational efficiency by 3.1% *SD* (from 0.663 to 0.649; Mitton, 2024).

H1b predicts that the salary-cut policy has a positive effect on central SOEs' job creation. In support of H1b, the coefficient of *Salary-cut magnitude* × *Post policy* is significantly positive ($b = .27$, $p = .014$, Model 5 of Table 3), and this effect is consistently significant in Models 6 through 8. As for the effect size, one *SD* of salary-cut magnitude increases central SOEs' job creation by 5.4% *SD* (from 0.205 to 0.420).

H2a/H2b deals with the moderating role of chairman/CEO age. In line with H2a, the coefficient for the three-way interaction of *Salary-cut magnitude*, *Post policy*, and *top executive age* is positive and significant ($b = .02$, $p = .007$, Model 2 of Table 3). In Figure 3, we followed Aiken, West and Reno (1991) and plotted the interaction effects. As shown in Panel A, the association of salary-cut policy and central SOEs' operational efficiency is negative ($b = -.04$, $p = .001$) when top executive age is low (1 *SD* below mean), but it becomes nonsignificant ($b = -.00$, $p = .952$) when top executive age is high (1 *SD* above mean). Regarding the effect size, 1 *SD* of salary-cut magnitude decreases central SOEs' operational efficiency by 7.3% *SD* (from 0.688 to 0.657) when the top executive age is low. The results remain consistent in the full model (Model 4).

Consistent with H2b, the coefficient for the three-way interaction of *Salary-cut magnitude*, *Post policy*, and *top executive age* is negative and significant ($b = -.08$, $p = .008$, Model 6 of Table 3). This effect remains consistent in Model 8. As illustrated in Figure 3, Panel B, when top executive age is low, salary-cut policy is positively related to central SOEs' job creation ($b = .65$, $p = .000$); however, this association becomes insignificant ($b = .00$, $p = .980$) when top executive age is high. Regarding the effect size, 1 *SD* of salary-cut magnitude increases central SOEs' job creation by 13.1% *SD* (from 0.156 to 0.682) when the top executive age is low.

H3a/H3b relates to the moderating role of media coverage. In support of H3a, the three-way interaction of *Salary-cut magnitude*, *Post policy*, and *Media coverage*, is positive and significant ($b = .09$, $p = .035$, Model 3 of Table 3). As shown in Figure 3, Panel C, when media coverage is low, salary-cut policy is negatively correlated with central SOEs' operational efficiency ($b = -.03$, $p = .003$), but the association becomes non-significant ($b = -.00$, $p = .911$) when media coverage is high. Regarding the effect size, 1 *SD* of salary-cut magnitude decreases central SOEs' operational efficiency by 6.3% *SD* (from 0.666 to 0.639) when media coverage is low. The results remain consistent in Model 4.

As H3b predicts, the three-way interaction of *Salary-cut magnitude, Post policy*, and *Media coverage* is negative and significant ($b = -.68$, $p = .000$, Model 7 of Table 3). This effect remains consistent in Model 8 of Table 2. As shown in Figure 3, Panel D, when media coverage is low, salary-cut policy is positively related to central SOEs' job creation ($b = .94$, $p = .000$), but this effect becomes non-significant ($b = .18$, $p = .199$) when media coverage is high. As for the effect size, 1 *SD* of salary-cut magnitude increases central SOEs' job creation by 19.1% *SD* (from −0.090 to 0.673) when media coverage is low.

Mediating Tests

We conducted a mediating analysis to test whether job creation actually enhances political appointments. Following prior studies (Jean, Kim, Zhou, & Cavusgil, 2021; Zhao, Lynch, & Chen, 2010), we used the PROCESS macro with 1,000 bootstraps to test the mediation effect with one model. Using this technique, we estimated a unified mediation model with political appointments as the dependent variable, the interaction term (*Salary-cut magnitude* × *Post policy*) as the independent variable, job creation as the mediator, and all control variables as covariates.

We measured political appointments as a dummy variable by checking whether a firm's board chair or CEO is serving in state organs such as the People's Congress (PC) and the Chinese People's Political Consultative Conference (CPPCC) at four different administrative levels (i.e., national, provincial, city, and county/town-level) in a given year. As

Table 4
Salary-Cut Policy, Job Creation, and Political Appointments

DV	Political Appointments		Political Appointments	
Model #	(1)		(2)	
Salary-cut magnitude × Post policy	0.93		0.08	
	(0.23)	[.000]	(0.23)	[.728]
Job creation			0.15	
			(0.05)	[.001]
Salary-cut magnitude	0.17		0.15	
	(0.11)	[.133]	(0.11)	[.174]
Post policy	−4.81		−4.78	
	(0.65)	[.000]	(0.65)	[.000]
Top executive age	0.09		0.10	
	(0.04)	[.018]	(0.04)	[.010]
Media coverage	0.32		0.33	
	(0.20)	[.117]	(0.21)	[.112]
Top executive age divergence	−0.01		−0.01	
	(0.04)	[.763]	(0.04)	[.796]
Top executive duality	−1.60		−1.71	
	(0.58)	[.006]	(0.60)	[.004]
Top executive turnover	−0.32		−0.35	
	(0.21)	[.119]	(0.21)	[.091]
Firm size	0.35		0.28	
	(0.18)	[.047]	(0.18)	[.127]
ROA	−3.02		−3.50	
	(3.11)	[.332]	(3.14)	[.266]
Leverage ratio	−1.65		−1.54	
	(1.02)	[.106]	(1.03)	[.136]
R&D intensity	−3.78		−3.55	
	(7.42)	[.610]	(7.50)	[.636]
Shareholder concentration	4.02		4.10	
	(1.65)	[.015]	(1.67)	[.014]
Market diversification	0.83		0.86	
	(0.33)	[.013]	(0.34)	[.011]
Industry uncertainty	7.18		7.78	
	(2.74)	[.009]	(2.77)	[.005]
Constant	−37.41		−37.14	
	(5331.55)	[.994]	(6514.14)	[.995]
Year FE	Yes		Yes	
Industry, province FE	Yes		Yes	
Observations	1,762		1,762	
Log likelihood	−560.080		−554.260	

Note. ROA = return on assets; R&D = research and development; FE = fixed effects; DV = dependent variable. Standard errors are reported in parentheses; *p* values are reported in square brackets (two-tailed).

China's legislature, PCs have the power to (1) elect chief government officials at their own administrative levels and (2) draft and approve local laws and policies. CPPCC provides advice and puts forward proposals on political and social issues to the Party/government.

These positions represent political recognition and social status and provide executives with opportunities to interact regularly with government officials and build a strong political network in the bureaucratic system (Shen et al., 2023; Zhang, Marquis, & Qiao, 2016).

We report the results of the mediating test in Table 4. We found that the top executives in central SOEs with larger salary cuts exhibit a higher likelihood of attaining political appointments. Meanwhile, the mean indirect effect is positive and significant ($a \times b = 0.04$, $p = .005$), with a 95% confidence interval (CI) excluding zero (0.012 ~ 0.070). The direct effect ($c = 0.01$, $p = .258$) is not significant. These results suggest that job creation mediates the relationship between the salary-cut policy and political appointments.

Robustness Tests

We performed several robustness tests. First, we used the excess employment ratio to measure an SOE's political performance. With top executives redirecting efforts toward job creation, firms may hire more workers than what actually needed (i.e., excess employment). We obtained the data on the excess employment ratio from the CSMAR database. CSMAR adopts surplus labor as the proxy for excess employees and calculates the excess employment ratio for Chinese-listed firms according to the following formula:

$$Excessemploymentratio_{it} = \frac{Emp_{it} - Sales_{it} * \frac{Emp_{indt}}{Sales_{indt}}}{Emp_{it}},$$

where Emp_{it} refers to firm i's total employee number in year t, $Sales_{it}$ refers to total sales, Emp_{indt} refers to average total employee number in the industry, $Sales_{indt}$ refers to average total sales in the industry. Prior studies have used this excess employment ratio to proxy for excess employees or overstaffing (Liao, Chen, Jing, & Sun, 2009; Ma, Kong, & Liu, 2023). We used the excess employment ratio as an alternative measure for job creation and reran analyses related to H1b/H2b/H3b (see Table 5).

Second, in China, board chairs are highly influential to the extent that their levels are higher than that of CEOs and they act as full-time executives with the ultimate decision-making power (Fan, Wong, & Zhang, 2007; Xu, Zhou, & Chen, 2023). Hence, we only used the *chairman age* to reflect top executives' political incentives (see Models 1 and 2, Table 6).

Third, we used an alternative measure of monitoring mechanism: *analyst coverage*. Analysts are security specialists with rich industry experience in detecting abnormal changes in operating performance (Brauer & Wiersema, 2018). High analyst coverage helps detect and discipline executives' value-destroying behaviors (Gentry & Shen, 2013). Following previous research (Gentry & Shen, 2013; Zhang, Wang, & Zhou, 2020), we considered an analyst to be covering a firm in the focal year if he/she issued an annual earnings forecast report for the focal firm during the year. We measured analyst coverage as the percentage of analysts who cover the focal firm in an industry segment. That is, analyst coverage equals a_i/A_j, where A_j is the number of analysts covering industry segment j, and a_i is the number of these analysts covering focal firm i in that industry segment (White, 2010). We reanalyzed the data using this alternative moderator (see Models 3 and 4, Table 6).

Fourth, we used different measures to address potential media bias. Given the media control in China, we differentiated between media that are more affected by the CCP and those that are more

Table 5
Use Excess Employment Ratio to Measure Job Creation

DV	Excess Employment Ratio							
Model #	(1)		(2)		(3)		(4)	
H1a/b: Salary-cut magnitude × post policy	0.10		0.14		0.13		0.18	
	(0.05)	[.044]	(0.05)	[.010]	(0.05)	[.011]	(0.05)	[.001]
H2a/b: Salary-cut magnitude × post policy × Top executive age			−0.03				−0.04	
			(0.01)	[.015]			(0.01)	[.006]
Salary-cut magnitude × Top executive age			0.01				0.01	
			(0.01)	[.093]			(0.01)	[.053]
Post policy × Top executive age			0.01				0.01	
			(0.01)	[.305]			(0.01)	[.317]
H3a/b: Salary-cut magnitude × post policy × media coverage					−0.15		−0.16	
					(0.06)	[.019]	(0.06)	[.010]
Salary-cut magnitude × media coverage					0.02		0.03	
					(0.03)	[.459]	(0.03)	[.339]
Post policy × media coverage					−0.01		−0.02	
					(0.04)	[.812]	(0.04)	[.606]
Salary-cut magnitude	−0.00		−0.01		−0.01		−0.02	
	(0.03)	[.894]	(0.03)	[.591]	(0.03)	[.713]	(0.03)	[.377]
Top executive age	0.01		0.01		0.01		0.01	
	(0.01)	[.197]	(0.01)	[.139]	(0.01)	[.189]	(0.01)	[.131]
Media coverage	0.02		0.02		0.02		0.02	
	(0.03)	[.576]	(0.03)	[.546]	(0.03)	[.609]	(0.03)	[.601]
Top executive age divergence	−0.01		−0.01		−0.01		−0.01	
	(0.01)	[.149]	(0.01)	[.189]	(0.01)	[.166]	(0.01)	[.211]
Top executive duality	−0.22		−0.23		−0.21		−0.22	
	(0.09)	[.009]	(0.09)	[.008]	(0.09)	[.013]	(0.09)	[.011]
Top executive turnover	−0.00		−0.01		−0.00		−0.01	
	(0.04)	[.986]	(0.04)	[.890]	(0.04)	[.920]	(0.04)	[.806]
Firm size	−0.14		−0.14		−0.14		−0.14	
	(0.03)	[.000]	(0.03)	[.000]	(0.03)	[.000]	(0.03)	[.000]
ROA	−2.47		−2.44		−2.48		−2.45	
	(0.48)	[.000]	(0.48)	[.000]	(0.48)	[.000]	(0.48)	[.000]
Leverage ratio	−0.46		−0.46		−0.47		−0.47	
	(0.14)	[.002]	(0.14)	[.002]	(0.14)	[.001]	(0.14)	[.001]
R&D intensity	6.26		6.35		6.19		6.27	
	(1.00)	[.000]	(1.00)	[.000]	(1.00)	[.000]	(1.00)	[.000]
Shareholder concentration	−0.56		−0.57		−0.57		−0.58	
	(0.21)	[.007]	(0.21)	[.007]	(0.21)	[.006]	(0.21)	[.006]
Market diversification	0.10		0.10		0.10		0.10	
	(0.05)	[.035]	(0.05)	[.040]	(0.05)	[.039]	(0.05)	[.045]
Industry uncertainty	1.22		1.24		1.26		1.28	
	(0.63)	[.053]	(0.63)	[.048]	(0.63)	[.046]	(0.63)	[.042]
Constant	2.78		2.70		2.77		2.69	
	(0.50)	[.000]	(0.51)	[.000]	(0.50)	[.000]	(0.51)	[.000]
Year FE	Yes		Yes		Yes		Yes	
Industry, province FE	Yes		Yes		Yes		Yes	
Observations	1,948		1,948		1,948		1,948	
R-squared	0.467		0.470		0.469		0.473	

Note. ROA = return on assets; R&D = research and development; FE = fixed effects; DV = dependent variable. Standard errors are reported in parentheses; *p* values are reported in square brackets (two-tailed). When CSMAR calculates the excess employment ratio, firms with fewer than 100 employees and missing total sales information are treated as missing values. Therefore, the number of observations in this section is lower than in the main analysis.

Table 6
Alternative Measures of Political Incentive and Monitoring Mechanism

Robustness Tests	Use Chairman Age to Measure Political Incentive				Use Analyst Coverage to Measure the Monitoring Mechanism			
DV	Operational Efficiency		Job Creation		Operational Efficiency		Job Creation	
Model #	(1)		(2)		(3)		(4)	
H1a/b: Salary-cut magnitude × Post policy	−0.10		0.36		−0.14		0.48	
	(0.03)	[.002]	(0.11)	[.001]	(0.04)	[.002]	(0.13)	[.000]
H2a/b: Salary-cut magnitude × Post policy × Political incentive	0.02		−0.07					
	(0.01)	[.019]	(0.02)	[.003]				
Salary-cut magnitude × Political incentive	0.00		−0.02					
	(0.00)	[.283]	(0.01)	[.114]				
Post policy × Political incentive	−0.00		0.01					
	(0.01)	[.799]	(0.02)	[.427]				
H3a/b: Salary-cut magnitude × Post policy × Monitoring					1.10		−4.00	
					(0.50)	[.029]	(1.67)	[.017]
Salary-cut magnitude × Monitoring					−0.01		0.04	
					(0.24)	[.974]	(0.83)	[.960]
Post policy × Monitoring					0.35		−0.30	
					(0.31)	[.259]	(0.94)	[.749]
Salary-cut magnitude	−0.04		0.18		−0.00		0.09	
	(0.02)	[.040]	(0.06)	[.002]	(0.02)	[.946]	(0.07)	[.165]
Post policy	0.23				0.28			
	(0.07)	[.001]			(0.07)	[.000]		
Political incentive	−0.02		−0.02		−0.02		−0.03	
	(0.00)	[.000]	(0.01)	[.059]	(0.00)	[.000]	(0.01)	[.024]
Monitoring	0.02		0.06		2.11		2.03	
	(0.02)	[.361]	(0.07)	[.440]	(0.38)	[.000]	(0.86)	[.019]
Top executive age divergence	−0.00		0.02		−0.01		0.00	
	(0.01)	[.653]	(0.02)	[.323]	(0.01)	[.031]	(0.02)	[.903]
Chairman-CEO duality	0.11		0.07		0.10		0.07	
	(0.07)	[.085]	(0.20)	[.707]	(0.06)	[.106]	(0.19)	[.734]
Chairman/CEO turnover	−0.04		0.03		−0.04		0.02	
	(0.03)	[.142]	(0.09)	[.754]	(0.03)	[.169]	(0.09)	[.866]
Firm size	−0.11		0.27		−0.16		0.23	
	(0.02)	[.000]	(0.06)	[.000]	(0.02)	[.000]	(0.05)	[.000]
ROA	5.54		2.81		5.15		2.82	
	(0.45)	[.000]	(1.10)	[.010]	(0.45)	[.000]	(1.10)	[.011]
Leverage ratio	−0.44		−0.22		−0.35		−0.07	
	(0.12)	[.000]	(0.33)	[.511]	(0.11)	[.002]	(0.32)	[.825]
R&D intensity	−1.68		1.57		−2.11		1.10	
	(0.75)	[.025]	(2.31)	[.496]	(0.74)	[.004]	(2.31)	[.634]
Shareholder concentration	0.64		0.26		0.67		0.28	
	(0.16)	[.000]	(0.48)	[.589]	(0.16)	[.000]	(0.47)	[.553]
Market diversification	0.06		−0.05		0.07		−0.03	
	(0.03)	[.074]	(0.11)	[.624]	(0.03)	[.023]	(0.11)	[.762]
Industry uncertainty	0.29		−1.62		0.28		−1.58	
	(0.54)	[.589]	(1.39)	[.243]	(0.52)	[.599]	(1.39)	[.256]
Constant	4.76		−5.28		5.93		−3.69	
	(0.41)	[.000]	(1.09)	[.000]	(0.42)	[.000]	(1.22)	[.003]
Year FE	Yes		Yes		Yes		Yes	
Industry, province FE	Yes		Yes		Yes		Yes	
Observations	2,006		2,006		2,006		2,006	
Log likelihood	0.108		0.134		0.110		0.136	

Note. CEO = chief executive officer; ROA = return on assets; R&D = research and development; FE = fixed effects; DV = dependent variable. Standard errors are reported in parentheses; *p* values are reported in square brackets (two-tailed).

Table 7
Party-Affected Media Coverage and Business Media Coverage

	Operational Efficiency				Job Creation			
DV	Party-Affected Media Coverage		Business Media Coverage		Party-Affected Media Coverage		Business Media Coverage	
Model #	(1)		(2)		(3)		(4)	
H1a/b: Salary-cut magnitude × Post policy	−0.10		−0.10		0.40		0.41	
	(0.03)	[.001]	(0.03)	[.003]	(0.11)	[.000]	(0.11)	[.000]
H3a/b: Salary-cut magnitude × Post policy × media coverage	0.10		0.09		−0.44		−0.71	
	(0.03)	[.003]	(0.04)	[.030]	(0.11)	[.000]	(0.14)	[.000]
Salary-cut magnitude × media coverage	−0.01		0.01		−0.06		−0.17	
	(0.02)	[.654]	(0.02)	[.805]	(0.06)	[.294]	(0.07)	[.011]
Post policy × media coverage	−0.03		−0.02		−0.11		−0.15	
	(0.03)	[.262]	(0.03)		(0.09)	[.237]	(0.09)	[.107]
Salary-cut magnitude	−0.03		−0.03		0.17		0.18	
	(0.02)	[.040]	(0.02)	[.070]	(0.06)	[.002]	(0.06)	[.001]
Post policy	0.22		0.24					
	(0.07)	[.001]	(0.07)	[.000]				
Top executive age	−0.02		−0.02		−0.03		−0.03	
	(0.00)	[.000]	(0.00)	[.000]	(0.01)	[.020]	(0.01)	[.027]
Media coverage	0.02		0.02		0.01		0.02	
	(0.02)	[.347]	(0.02)	[.399]	(0.07)	[.851]	(0.07)	[.737]
Top executive age divergence	−0.01		−0.01		0.01		0.00	
	(0.01)	[.038]	(0.01)	[.041]	(0.02)	[.732]	(0.02)	[.776]
Top executive duality	0.10		0.10		0.05		0.05	
	(0.06)	[.106]	(0.07)	[.116]	(0.19)	[.807]	(0.19)	[.791]
Top executive turnover	−0.04		−0.04		−0.00		0.01	
	(0.03)	[.190]	(0.03)	[.158]	(0.09)	[.979]	(0.09)	[.921]
Firm size	−0.11		−0.11		0.28		0.27	
	(0.02)	[.000]	(0.02)	[.000]	(0.06)	[.000]	(0.06)	[.000]
ROA	5.53		5.54		3.06		2.95	
	(0.44)	[.000]	(0.45)	[.000]	(1.09)	[.005]	(1.09)	[.007]
Leverage ratio	−0.45		−0.45		−0.24		−0.25	
	(0.12)	[.000]	(0.12)	[.000]	(0.33)	[.463]	(0.33)	[.449]
R&D intensity	−1.86		−1.80		1.28		1.11	
	(0.74)	[.013]	(0.75)	[.016]	(2.30)	[.579]	(2.30)	[.629]
Shareholder concentration	0.62		0.62		0.23		0.23	
	(0.16)	[.000]	(0.16)	[.000]	(0.48)	[.625]	(0.47)	[.629]
Market diversification	0.05		0.05		−0.03		−0.05	
	(0.03)	[.130]	(0.03)	[.099]	(0.11)	[.749]	(0.11)	[.634]
Industry uncertainty	0.25		0.24		−1.48		−1.31	
	(0.54)	[.648]	(0.54)	[.660]	(1.39)	[.288]	(1.38)	[.343]
Constant	5.00		4.95		−4.65		−4.60	
	(0.42)	[.000]	(0.41)	[.000]	(1.17)	[.000]	(1.15)	[.000]
Year FE	Yes		Yes		Yes		Yes	
Industry, province FE	Yes		Yes		Yes		Yes	
Observations	2,006		2,006		2,006		2,006	
R-squared	0.109		0.109		0.137		0.143	

Note. ROA = return on assets; R&D = research and development; FE = fixed effects; DV = dependent variable. Standard errors are reported in parentheses; *p* values are reported in square brackets (two-tailed).

Table 8
Salary-Cut Policy, Operational Efficiency, and Job Creation (Central and Local SOE Sample)

DV	Operational Efficiency				Job Creation			
Model #	(1)		(2)		(3)		(4)	
H1a/b: Central SOEs × Post policy	−0.16		−0.08		0.28		0.31	
	(0.04)	[.000]	(0.04)	[.045]	(0.09)	[.002]	(0.09)	[.001]
H2a/b: Central SOEs × Post policy × Top executive age			0.02				−0.04	
			(0.01)	[.045]			(0.02)	[.077]
Central SOEs × Top executive age			−0.02				−0.06	
			(0.01)	[.003]			(0.01)	[.000]
Post policy × Top executive age			−0.02				0.04	
			(0.00)	[.000]			(0.01)	[.000]
H3a/b: Central SOEs × Post policy × media coverage			0.12				−0.21	
			(0.05)	[0.023]			(0.10)	[0.034]
Central SOEs × media coverage			−0.16				0.16	
			(0.03)	[.000]			(0.05)	[.002]
Post policy × media coverage			−0.12				0.07	
			(0.02)	[.000]			(0.04)	[.106]
Central SOEs	−0.04		−0.04		0.16		0.18	
	(0.02)	[.085]	(0.02)	[.097]	(0.05)	[.002]	(0.05)	[.001]
Post policy	0.23		0.24					
	(0.04)	[.000]	(0.04)	[.000]				
Top executive age	−0.01		−0.02		0.01		0.01	
	(0.00)	[.000]	(0.00)	[.000]	(0.01)	[.007]	(0.01)	[.010]
Media coverage	−0.03		−0.04		0.08		0.08	
	(0.02)	[.127]	(0.02)	[.018]	(0.03)	[.008]	(0.03)	[.005]
Top executive age divergence	−0.01		−0.01		0.01		0.01	
	(0.00)	[.037]	(0.00)	[.036]	(0.01)	[.325]	(0.01)	[.270]
Top executive duality	−0.02		−0.03		0.13		0.14	
	(0.04)	[.678]	(0.04)	[.511]	(0.08)	[.133]	(0.08)	[.099]
Top executive turnover	−0.05		−0.05		0.03		0.04	
	(0.02)	[.036]	(0.02)	[.020]	(0.04)	[.443]	(0.04)	[.340]
Firm size	−0.02		−0.00		0.22		0.22	
	(0.01)	[.213]	(0.01)	[.908]	(0.02)	[.000]	(0.02)	[.000]
ROA	4.64		4.58		2.04		2.10	
	(0.31)	[.000]	(0.30)	[.000]	(0.53)	[.000]	(0.53)	[.000]
Leverage ratio	−0.68		−0.69		−0.18		−0.18	
	(0.08)	[.000]	(0.08)	[.000]	(0.14)	[.217]	(0.14)	[.194]
R&D intensity	−0.20		−0.25		−1.86		−1.93	
	(0.51)	[.693]	(0.51)	[.629]	(1.12)	[.095]	(1.11)	[.082]
Shareholder concentration	0.58		0.58		0.25		0.23	
	(0.10)	[.000]	(0.10)	[.000]	(0.19)	[.186]	(0.19)	[.211]
Market diversification	−0.03		−0.03		−0.02		−0.02	
	(0.02)	[.162]	(0.02)	[.180]	(0.05)	[.639]	(0.05)	[.687]
Industry uncertainty	0.04		0.24		−0.50		−0.65	
	(0.35)	[.900]	(0.35)	[.490]	(0.63)	[.425]	(0.63)	[.303]
Constant	1.67		1.50		−6.16		−6.05	
	(0.30)	[.000]	(0.30)	[.000]	(0.49)	[.000]	(0.50)	[.000]
Year FE	Yes		Yes		Yes		Yes	
Industry, province FE	Yes		Yes		Yes		Yes	
Observations	7,202		7,202		7,202		7,202	
R-squared	0.06		0.06		0.09		0.10	

Note. CEO = chief executive officer; ROA = return on assets; R&D = research and development; FE = fixed effects; DV = dependent variable. Standard errors are reported in parentheses; *p* values are reported in square brackets (two-tailed).

market-driven, based on Qin, Strömberg, and Wu's (2018) recent study of media bias in China. In Table 7, we used party-influenced media outlets and business media outlets respectively.

Fifth, following prior studies (Jia, Huang, & Zhang, 2019; Lin, Fu, & Fu, 2021), we conducted a DID with a dummy treatment (i.e., the 2014 salary-cut policy) using central SOEs as the treatment group and local SOEs as the control group (For more details, see the Appendix). This approach assesses the differences both before and after the policy implementation and central and local SOEs (Table 8). All the tests generated consistent results.

Discussion

While the salary-cut policy aims to address social grievances over income inequality and enhance efficiency in the state sector, our study reveals an unintended consequence: central SOE top executives divert efforts from the business career track (i.e., internal management) to the political career track (i.e., enhancing employment for political promotion). This redirection of efforts reduces central SOEs' operational efficiency but increases job creation, thereby enhancing executives' likelihood of attaining political appointments. Moreover, the effect of the salary-cut policy on effort redirection is moderated by the top executive age as a proxy for political incentive, and media coverage, which functions as a monitoring mechanism.

Theoretical Contributions

First, this study contributes to agency theory by demonstrating that effort redirection, rather than effort reduction, occurs when reward decreases in the context of multiple career tracks and competing objectives. Existing agency studies on rewards have mainly covered the scenarios with a single objective; they view rewards as an incentive for hard work, and when rewards decrease, agents reduce their efforts on principals' assigned tasks and engage in activities outside the defined scope of principals' specified duties (i.e., effort reduction; Devers, Cannella, Reilly, & Yoder, 2007; Nyberg et al., 2010; Pepper & Gore, 2015). Extending this work to the condition of multiple career tracks, we propose that when rewards decrease, agents may still concentrate on principals' designated tasks but redirect their efforts toward principals' other objectives without significantly reducing the overall efforts (i.e., effort redirection). In a single-career track context, agents may find it difficult to appeal to the principal and may resort to shirking when rewards decrease. However, in a multiple-career track context, agents can compensate for a reduction in rewards for one objective by intensifying their efforts on principals' other objectives, thus ensuring their future career development. As such, our study enriches existing literature on executive compensation and agency theory (Devers et al., 2007; Mengistae & Xu, 2004), which overlooks the impact of salary reduction under scenarios with multiple career tracks.

Second, this study contributes to research on SOEs by examining how salary changes motivate or demotivate executives in the political career track and business career track. While the dual career tracks of SOE executives are well-recognized (Brødsgaard, 2012; Hu & Xu, 2022), this dual identity complicates incentive design for SOE executives far more than prior agency studies elucidate (Pepper & Gore, 2015). It remains unclear how incentive changes influence executives' efforts across dual career tracks in SOEs with multiple

objectives. Our study provides evidence on how salary changes affect executives' behaviors in both business and political career tracks. We suggest that when facing salary cuts and state pressure, SOE executives pursue their future political promotions by building political capital at the cost of firm operational efficiency. We also offer contextualized theorizing about SOE executives' dual career interests by relating these career interests to the internal incentive and external monitoring mechanisms. Our findings show that effort redirection between the two career tracks depends on political incentives and external monitoring. As such, we enrich the SOE literature by showing how to address the agency problem of SOEs through incentives and monitoring mechanisms.

Third, by highlighting organizational responses to regulatory pressure, our study contributes to research on public policy aimed at improving social equality and SOE governance (Aguilera, Desender, Bednar, & Lee, 2015; Jia et al., 2019; Misangyi & Acharya, 2014). Although the salary-cut policy may have been well-intended to reduce social inequality, it can lead to potentially undesirable consequences of decreased efficiency. The state designed the salary-cut policy to quell social discontent and expected SOE executives to follow its call to sacrifice their self-interests and enhance firm efficiency. In a meeting of a reform-oriented task force, President XI Jinping said that "Comrades of state enterprises . . . should also strengthen their sense of responsibility and self-sacrifice and correctly view and support this [salary-cut] reform" (*The Straits Times*, 2014). However, our study finds that SOE executives, although in principle should follow the party's call, do not sacrifice their own interests to comply with the policy. Instead, they redirect effort from business duties to political gains, resulting in reduced operational efficiency.

Fourth, our study contributes to the literature on goal attention and sequencing by demonstrating that agents redirect their efforts among multiple objectives based on changes in expected rewards from each objective, rather than strictly adhering to different goals sequentially. The goal attention and sequencing literature suggests that when organizations pursue multiple goals, agents typically focus on one goal at a time and shift their attention to the next goal after achieving high performance in the first goal (Cyert & March, 1963; Greve, 2008). According to this view, only the fulfillment of the first goal prompts agents to direct their efforts to subsequent goals. Recent studies have expanded this perspective by examining goal attention and sequencing in the context of SOEs, particularly in emerging markets such as China. For example, Stan, Peng, and Bruton (2014) show that SOEs' allocation of attention across multiple goals is shaped by domestic institutional changes and government priorities. Cuervo-Cazurra et al. (2014) found that SOEs adjust goal priorities in response to shifting state objectives, market pressures, and legitimacy concerns. Bruton et al. (2015) demonstrate that state ownership and control influence how SOEs balance competing goals. More recently, Gao, Lu, Hu, and Martin (2023) further reveal that agents' attention allocation among different goals is subject to the influence of institutional environments. Extending this line of research, our study provides new insights into how agents adjust their effort allocation in response to changing incentives. Rather than simply reprioritizing goals based on institutional shifts or state directives, we show that changes in expected rewards for each goal prompt agents to reduce efforts toward one objective and reallocate efforts toward another. As such, agents are not bound to a sequential focus on individual goals; rather, they make strategic adjustments to alternative goals in response to incentive changes.

Practical Implications

Our findings have important implications for firm principals and policymakers. First, our findings suggest that principals should scrutinize managerial behaviors in response to regulatory pressure. Specifically, when organizations have multiple objectives, it is difficult to discern whether managers behave in line with principals' interests. On the surface, managers may appear to accept the policy (e.g., salary reduction) and avoid engaging in activities beyond the scope of principals' objectives. However, in reality, they may merely redirect their efforts toward the tasks that optimize their interests at the cost of principals' other objectives. As such, principals should examine managerial behaviors comprehensively to protect their interests.

Second, our findings are instructive for policymakers seeking to regulate salary practices directly to de-bureaucratize SOEs. Specifically, our findings provide a cautionary note to policymakers by showing that simply reducing executive salary cannot achieve the goal of boosting SOE efficiency and transparency. Therefore, policymakers should complement the salary-cut policy with additional governance mechanisms, such as enhancing media monitoring, to ensure that SOE executives act appropriately when facing salary reductions.

Limitations and Future Research

Our study has some limitations that present opportunities for future research. First, we focus on operational efficiency as a proxy for executives' efforts devoted to the business career track and job creation as a proxy for efforts devoted to the political career track. However, these may not be the only ways in which effort redirection manifests itself. For example, SOE executives can also establish their credibility as competent and dutiful professional managers through mergers and acquisition deals, or they can bolster their political performance by increasing public welfare and maintaining social stability. Therefore, future research could explore the alternative efforts that may have been used in response to the salary-cut policy.

Second, we consider the moderating roles of political incentives and external monitoring mechanisms. However, other factors may also be important. For example, financial incentives, such as long-term contracts and equity awards, may affect executives' choices between two career interests (Martin et al., 2019). Political monitoring, such as direct purview and control from the state authorities (Hu & Xu, 2022), may also influence executives' discretion in firm decision-making. Therefore, future research could explore how these factors affect the extent of effort redirection.

Third, our study is limited to SOEs in China. While a dramatic salary-cut mandate may be less likely to occur in other countries, SOE executives worldwide have business and political career tracks and often face trade-offs between these two interests. Future researchers are encouraged to collect data from other countries to corroborate our findings. Also, a growing number of private firms require CEOs to pursue both financial and Environmental, Social, and Governance (ESG) objectives (Battilana, Obloj, Pache, & Sengul, 2022). When the incentive for financial performance is decreased, we expect that CEOs may reduce efforts on financial outcomes and redirect efforts to ESG activities, thereby enhancing their personal reputation and securing alternative career paths. If this is the case, then the effort redirection phenomenon could have wider applicability. Therefore, we encourage future research to assess it in other multiple-objective contexts, such as non-profit organizations and private firms.

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Notes

1. http://www.xinhuanet.com/2017-01/16/c_1120316789.htm in 2017.
2. http://en.people.cn/n/2014/0829/c90882-8776483.html, on English.people.cn.
3. https://www.ft.com/content/f0386784-29a4-11e4-baec-00144feabdc0.
4. For example, the Sinopec CEO's salary decreased by 46% from RMB 0.97 million (US$0.16 million) in 2014 to RMB 0.53 million (US$0.08 million) in 2015; and the Petro China CEO's salary decreased from RMB 1.137 million (US$0.19 million) to RMB 0.73 million (US$0.12 million), a 35.44% drop.
5. https://finance.sina.cn/bank/yhgd/2022-04-04/detail-imcwiwss9913551.d.html?from=wap

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