

# Analysis on Salary Level of Foreign-funded Enterprises in Shaanxi Province

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**Abstract:** *With further advancement of opening-up, Shaanxi Province has significantly accelerated the pace of attracting foreign investment, and put more efforts in attracting foreign investment and optimized the environment for foreign investors. More and more foreign-invested enterprises enter into the market, greatly driving the economic development of Shaanxi Province. At the same time, competition among enterprises is becoming increasingly fierce. Under the circumstances of fierce competition among enterprises, the salary of employees will seriously restrict the development of enterprises, so the salary level is of great significance to the sound development of an enterprise. This article mainly analyzes the salary level of foreign-funded enterprises in Shaanxi Province. The characteristics of the salary level of foreign-funded enterprises in different industries, regions, operating hours, R&D investment, asset scale, technological level, capital structure, and operating performance factors are respectively elaborated. On this basis, representative enterprises are selected as small samples and cross-analysis of multiple factors are made through combining with other factors so as to draw relevant conclusions and give policy recommendations.*

**Keywords:** foreign-funded enterprise, salary level, operating performance

## 1. Introduction

As the starting point of the Silk Road, Shaanxi Province has been at the forefront of the times in opening up. Since reform and opening up, Shaanxi Province has made great progress, especially the implementation of the "Belt and Road" initiative, and further promoted the construction of a pilot free trade zone. Shaanxi Province has further opened up to the outside world, and its pace of attracting foreign investment is significantly accelerated. In 2017, Shaanxi contracted foreign investment of exceeded US\$10 billion, a year-on-year increase of nearly 116%, achieving rapid growth. Judging from various data, Shaanxi Province is steadily moving forward on the road of using foreign capital. Our country's policies for foreign-funded enterprises are constantly evolving and vigorously encourages foreign businessmen's investment in our country through providing them beneficial conditions. So China attracted a large amount of foreign investment that has played an important role in promoting economic development, creating more employment opportunities, and promoting the continuous innovation and development of enterprises.

In the second half of 2018, the provincial government issued important documents to expand opening up, optimize the foreign investment environment, and adopt measures to attract foreign investment, which provide superior system guarantee for the development of foreign-funded enterprises in Shaanxi Province. By the end of 2018, Shaanxi Province had established more than 6,000 foreign-funded enterprises, with operating income exceeding 300 billion yuan, contributing nearly 10% of Shaanxi's tax revenue and about 70% of the imports and outports and solving the employment problem of nearly 200,000 people in Shaanxi Province. Foreign-funded enterprises have become an important pillar in the economic system of Shaanxi Province.

The mechanism of the corporate salary level system is an issue of great concern to corporate employees. With the increasing

competition for talents, scholars at home and abroad have conducted research on salary issues from various aspects, At the same time, many views have been known in academia. Ma Tao and Zheng Sai, to name but a few, pointed out some views about corporate salaries in 2010:

The management of remuneration levels has an important impact on the development of the enterprise now, and the lack of remuneration system will affect the normal operation of an enterprise, so the enterprise must establish a scientific and effective salary management system for its healthy development.

Another point is that salary and performance must be linked provided by a Chinese scholar. In 2013, Professor Wang Qing put forward the view that the sound development of the enterprise must eliminate the equalitarianism in income allocation. A good and competitive company definitely does not distribute wages equally, on the contrary, under the principle of the distribution of income should be based on personal ability and contribution.

Foreign scholars did not pay enough attention to the research on the corporate salary at the very beginning. With the advancement of globalization and the intensification of the competition among enterprises, foreign scholars have gradually begun to study and analyze issues related to salary from different aspects.

Research on salary issues from the perspective of economics mainly focuses on the determinants of salary. Adam Smith believed that the wages of laborers, like other commodities, have a natural level of value that is the basic living needs of laborers. Wages must be able to meet the basic living needs of laborers. If the wages are lower than this level, the reproduction of labor will be unsustainable and enterprises will not be able to carry out normal production and business activities. Taylor researched salary from the perspective of management. He noticed that salary has an incentive effect

and studied how to maximize the incentive effect of salary. And he used the method of job analysis and evaluation to explore the theory of rational salary system.

## 2. Salary Theory

There are many research theories on salary in academia that elaborate the salary from different angles. The minimum wage theory was proposed by the economist William Petty. The core of this theory is that salaries have a natural level of value like commodities on the market, and this natural level of value is determined by the basic living consumption needs of laborers. The minimum wage is the basic guarantee for the survival of workers, and it is also a necessary condition for the normal production and operation of enterprises. If it is lower than the minimum wage, workers will not be able to live normally. Of course, the labor force will not be able to carry out reproduction activities, and social stability and development will be difficult to maintain. Therefore, the government should establish a legal system to set minimum wage standards to coordinate conflicts of interest between employees and employers.

The representative of the theory of marginal productivity wages is the British economist Marshall, which is the basic theory of modern wage research and mainly explains the short-term fluctuations and long-term trends of wages. Marshall believes that only by realizing the optimal allocation of resources in a perfectly competitive market, can manufacturers obtain the maximum economic profit. In the labor market, it appears that the marginal output of hired workers is equal to the wages paid to workers. Therefore, the wage level of employees depends on their marginal productivity.

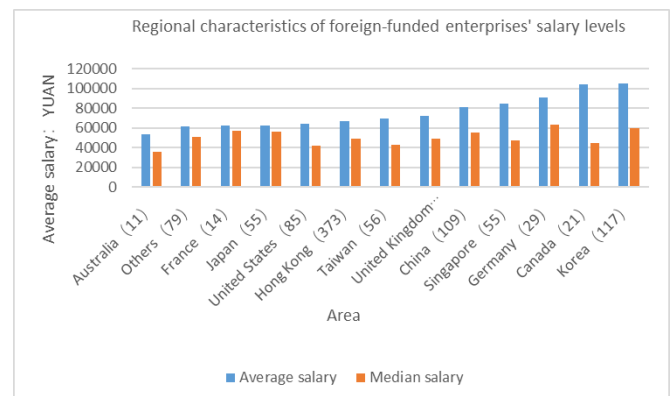
Motivation theory believes that employee performance level is related to motivation, which can be expressed as: employee performance = employee ability x incentive program. It can be seen from this formula that when an employee's ability is certain, the higher the level of incentives, the higher the level of performance. Incentives are related to human needs, including life needs and spiritual needs. In the enterprise, the most basic needs of employees are their economic needs, and economic needs are realized through wages. Therefore, according to the incentive theory, the key of wage management in social organizations is to perform its incentive function.

## 3. The Current Situation and Overall Characteristics of the Salary Level of Foreign-Funded Enterprises in Shaanxi Province

The overall salary level of foreign-funded enterprises in Shaanxi Province is at a medium level. This article uses relevant data from 1,318 foreign-funded enterprises in Shaanxi Province to describe the overall characteristics of the companies' salary levels. In the 16 industries analyzed, construction, real estate, transportation, storage and postal industry has reached 120,000 yuan per year from the perspective of average salary, which is much higher than other

industries, and culture, sports and entertainment industry have lowest average salary; From the perspective of median salary, the salary levels in the construction, information transmission, computer services and software industries are higher than other industries, and the financial industry, accommodation and catering industries have the lowest salary levels. Based on the two index data, the salary level of the construction industry and the real estate industry is the most advantageous, and the salary level of the financial industry, cultural entertainment and sports industry, accommodation as well as catering industry is at a relatively low level.

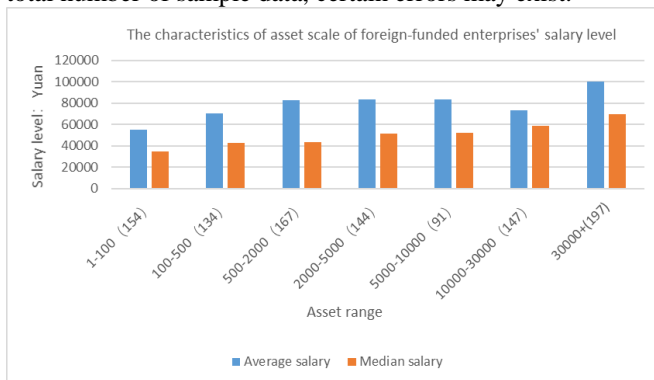
In the collected data of foreign-funded enterprises, they are classified into the following 14 countries or region according to the source of funds (the number in parentheses indicates the number of selected companies), countries and regions with a small number are classified into the other category. In general research, Hong Kong, Macao and Taiwan are all classified as foreign-invested enterprises. The nationality of foreign investors is used as the standard for corporate classification. From the average salary, the average salary in South Korea and Canada reached 100,000 yuan per year, which is a relatively high level, while the average salary in Australia is relatively low; In terms of median salaries, Germany ranks first, while Australia has lower median salaries, and South Korea's higher salaries may be due to the influence of large companies with higher salaries such as Samsung. Hong Kong has the largest number of foreign-funded enterprises in Shaanxi Province, and the salary level is at a medium level.



From the point of view of the length of operating time, there is no significant difference in the average salary level of enterprises, which is basically at an average level. Companies established in the past five years have higher average salaries. It may be that new companies are more adapted to the current economic environment and their business profits are higher. Excluding emerging companies, the average salary level has a rising trend as the operating time increases.

From the perspective of R&D investment, the salary level of enterprises with large R&D investment is also at a relatively high level, and with the increase of R&D investment, the average salary level is also increasing. The R&D investment in the electronic computer industry is generally relatively high. Enterprises with high R&D investment are generally innovative enterprises with good development prospects, so the salary level is generally higher. From the perspective of the scale of corporate assets, companies with assets below 1

million have relatively low salary levels; Companies with assets ranging from 5 million to 100 million have basically the same salary level, and companies with assets more than 300 million have higher salary levels. Looking at the overall trend, companies with large assets scale have a relatively high average salary. And with the expansion of the scale of assets, the average salary level has gradually increased. However, in the actual economic system, as the scale of the enterprise expands to a certain extent, economies of scale will appear, and the economic efficiency of the enterprise will be reduced, so the average salary may also be reduced. In general research, there are different evaluation indicators to measure the technological level of an enterprise. This article uses the number of companies' patents certified by the home and abroad as the evaluation index. There is no obvious linear relationship between the number of patents and the average salary level of employees. However, with the increase in the number of patents of enterprises and the improvement of technological level, the average salary level of employees has an overall upward trend. Since the number of companies in the following grouping accounts for a small proportion of the total number of sample data, certain errors may exist.

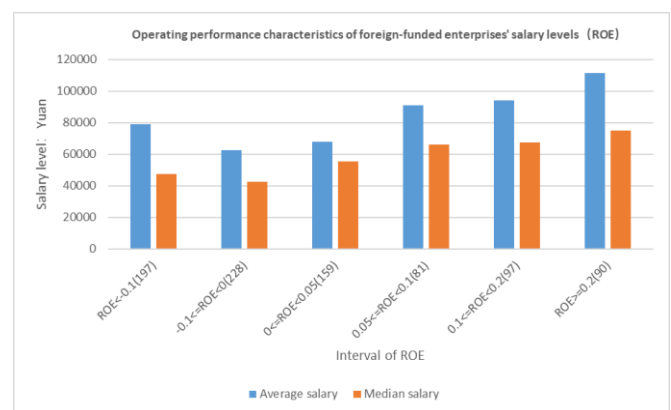


Capital structure refers to the composition and proportional relationship of various sources of long-term fundraising of an enterprise. Under normal circumstances, the capital structure of an enterprise consists of long-term debt capital and equity capital, and the capital structure refers to the proportion of long-term debt capital and equity capital. The indicators describing the capital structure of an enterprise generally include the following two parts: First, Shareholders' equity ratio (total shareholder's equity/total assets\*100%), and this indicator reflects the proportion of capital provided by the owner in the total capital, showing whether the financial structure is stable. 2. The debt-to-asset ratio (total liabilities/total assets\*100%). This indicator reflects how much of the total assets is financed by borrowing. And it can measure the extent to which the company protects its creditors during liquidation, and measure the company's operating capabilities and repayment debt capacity. With the increase in the shareholder's equity ratio, the average salary of the company has the tendency to rise. Besides, the average salary of companies with a shareholder's equity ratio ranging from 0.8 to 1 is the highest. But for a good company, the shareholder's equity ratio should be moderate. If the equity ratio is too small, it indicates that the company has excessive debt whose ability to withstand external shocks is significantly reduced; If the equity ratio is too large, it means that the company doesn't actively use financial leverage to expand the scale of operations.

#### 4. Three-Dimensional Factor Analysis of the Salary Level of Foreign-Funded Enterprises in Shaanxi Province

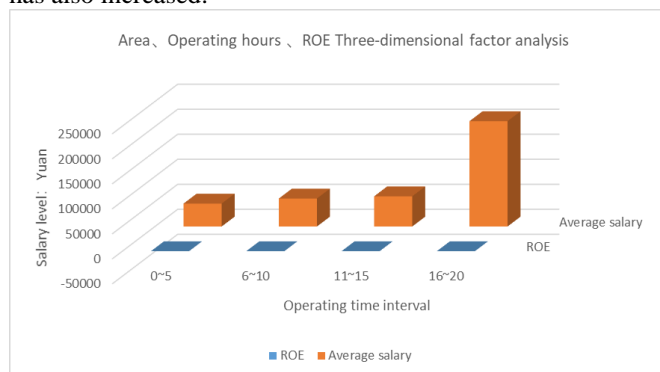
The management performance of enterprises refers to the operating efficiency and managers' performance within a certain operating period. The operating efficiency mainly shows company's profitability, asset operation ability, debt solvency and growth ability. managers' performance mainly refers to the achievement and contribution made by operators in the process of operating, managing and developing the company. From a comprehensive perspective, the operating performance of a company includes market performance and financial performance, but foreign-funded companies are not listed companies, so market performance is difficult to measure. Thus, we illustrate it by using two indicators that are the return on equity (ROE) and return on total assets (ROA) based on the traditional operating performance research experience.

Average salary level of foreign-funded enterprises is the highest when its' ROE is more than or equal to 0.2, while companies with negative ROE have lower salary levels. From the overall trend, with the increase of ROE, The average salary level of foreign-funded enterprises is also showing an upward trend. Similarly, in the range of ROA greater than 0.2, the average salary level of foreign companies is the highest, and the salary level of companies with ROA less than 0.01 is lower. From the overall trend, with the increase of ROA value, the average salary level of foreign-funded enterprises also shows an upward trend.



Three-dimensional factor analysis is to reduce the sample on the basis of single factor analysis, and analyze the three factors together. In the high-paying industry such as construction, Korea's ROE level is as high as 10% or more, which is much higher than other industries, and its average salary level is also much higher than other industries. China's ROE level is low, but its average salary level is at a high level, which may be due to the high financial leverage of China's construction and real estate industries. Except for China and South Korea, other countries all have negative ROE values, and the average salary level in the construction industry is also relatively low. Overall, with the increase in ROE level, the average salary is also in an upward trend.

In the research sample, the average salary level in Korea is higher than that of other foreign-funded enterprises. Among the 70 Korean companies, the average ROE is 0.0271, and the average salary is 12,8032.9 yuan per year. At the same time, the average ROE value of the company that has been in business for 6 years is 0.1748, which is the highest among all companies, with an average salary of 20,8248.2 yuan per year. The average ROE level of companies that have been in business for more than 6 years is not high. As an old company, there is no new business expansion, resulting in a recent decline in profits. This may be one reason for this result, and another reason is the number of companies in this operating range is still not enough and representative. On the whole, with the increase in operating time, the average salary level has also increased.



## 5. Summary

### 5.1 Analysis Conclusion

Based on the above analysis, foreign-funded enterprises in Shaanxi Province are currently involved in 15 major industries. Among them, the manufacturing industry has the largest number, accounting for 1/3 of the total. And the construction and real estate industries have the highest average salary, far exceeding the average level of all foreign-funded enterprises, with 79583.12 yuan per year. As of the time of the statistical annual inspection, 38 countries and regions have invested in Shaanxi Province, of which Hong Kong has the largest number of investments, accounting for about 1/4 of the total. And the average salary of companies in the UK, Canada and France has exceeded 100000 yuan per year at a relatively high level. (The country and region here refer to the source of funds) The dates of establishment of foreign-funded enterprises in Shaanxi Province are between 1987 to the present. Among them, enterprises established in the past 10 years account for half of the total. The business operations of enterprises established in the past five years are in line with the current economic environment, and the average salary level is higher than that of other companies.

In addition, 70% of all sample companies have no R&D investment, because most of them are traditional manufacturing and retail industries, while the salary levels of companies with higher R&D investment are also significantly higher than other industries. Innovation is indeed the source of an enterprise's progress and the foundation of survival. Among the 1,319 foreign-funded companies, 949 companies do not have their own patents, and companies with more than 10 patents indicate that the company's technological level is

relatively high, and of course the average salary level is also high. The financial structure of a company with a high shareholder's equity ratio is more stable. Of course, an appropriate debt ratio can also improve the company's operating capabilities. Since different industries are involved, each industry has different standards. On the whole, the average salary level of companies with the shareholder's equity ratio ranging from 0.8 to 1 is higher than that of other industries.

### 5.2 Policy Recommendations

From the perspective of the average salary level of enterprises, some relevant policy recommendations are put forward for the introduction of foreign-funded enterprises in various regions:

- 1) Judging from the basic characteristics of the salary level of foreign-funded enterprises, foreign investment should be used correctly and guide foreign capital to flow to key industries. While investing in high-profit industries such as real estate and construction, we must balance the development of other industries, the manufacturing sector focuses on encouraging the development of high-end energy chemicals, electronic information, and new energy Automobiles, etc. And the service industry focuses on encouraging the development of modern finance, e-commerce, modern logistics, cultural tourism industry, etc. So that we can achieve overall planning and comprehensive development.
- 2) The salary level of the company is positively related to the company's operating performance and asset scale. Foreign-funded enterprises with high technical level, large scale and mature operation can not only bring better benefits but also solve some employment problems to a large extent and improve the living standards of local people.
- 3) The sources of foreign-funded enterprises investing in Shaanxi are not rich enough. Most foreign investors choose to invest the southeast coastal areas, while the western area is less. As the gateway to the west, Shaanxi Province must integrate current economic environment to actively formulate preferential policies to attract foreign investment in order to adapt to the development strategy of the western development. At the same time, It is necessary to further publicize the development of the western region, formulate a sound foreign investment management system and operating mechanism, and promote the improvement of policy environment.
- 4) Foreign-funded enterprises have played an important role in the development of Shaanxi Province. So we should further relax the entry threshold of foreign investment, deepen the reform of the foreign investment system, fully implement the management system that are pre-access national treatment plus negative list for foreign investment, as well as simplify foreign investment projects, enterprise establishment and change management procedures. What's more, we should deepen foreign-invested enterprise' reform of the registered capital system and implement a unified registered capital system for domestic and foreign-funded enterprises.

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