

Does the executive pay gap affect audit risk?

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Abstract: This paper uses 2013-2022 panel data of A-share listed companies (excluding ST and financial sector) in China as a research sample to conduct a study on the impact of executive pay gap on audit risk. It is found that an increase in executive pay gap brings more audit risk; the heterogeneity test results show that the impact of executive pay gap on audit risk is more significant in non-state-owned enterprises and large-scale enterprises; the reduction of the level of entity investment and agency costs are important channels through which executive pay gap affects audit risk. The study provides a theoretical basis for enterprises to improve their executive compensation management systems, and provides useful suggestions for external audit bodies to effectively conduct risk assessment and risk response.

Keywords: Executive pay gap; Audit risk; Entity investment level; Agency costs; Inefficient investment

1. Introduction

Pay levels and gaps are important factors that influence employees' attitudes and behaviors. How to combine the "rational" and "emotional" aspects of compensation, to balance between long-term and short-term performance-based pay, and to develop a scientific compensation management system to attract and retain talent, is crucial to the development of the company. As decision makers and leaders, executives have a significant impact on the strategy and performance of the company and play an irreplaceable role in the company. By establishing a reasonable remuneration incentive mechanism, the agency problem can be effectively mitigated and the moral hazard of executives can be limited to a certain extent (Gu, H. and H. Zhu, 2021). Mehran, H. (1995) argues that managers are more motivated by the payout structure rather than just the pay level itself, and if the pay level is only increased unilaterally, it may produce a ratcheting effect that leads to the firm's increasing labour costs. Whereas changes in the pay structure are mainly manifested in the widening of the pay gap (Lei, T. and J. Zhou, 2014), the incentive effect of the pay gap between executives can motivate them to create more value for the firm.

At present, scholars' research on the executive pay gap has mainly focused on its impact on corporate performance (Zhang, Z. and X. Li, 2007), innovation (Niu, J. et al., 2019), and corporate value (Jayant, R.K. et al., 2009). In contrast to the existing literature which focuses on the impact of executive pay gap on the aspects of firms' own characteristics, this paper takes a panel data of Chinese A-share listed companies (excluding ST and financial sector) from 2013-2022 as a research sample to explore whether executive pay gap has an impact on audit risk from external audit subjects. The main innovations of this paper are: firstly, linking the executive pay gap to audit risk enriches the research findings on this academic issue; secondly, it is of great practical significance for auditors to effectively identify audit risks, better carry out audit work and ensure audit quality; thirdly, it provides a new perspective for Chinese enterprises to continuously improve their executive compensation management system, further enhance their awareness and ability of risk prevention and control, and better play their role in corporate governance.

2. Literature review

2.1 Executive pay gap

In recent years, relevant departments have issued a series of policies to continuously improve the corporate remuneration management system. However, a sound and complete remuneration management system has not yet been established in China, and there are still problems such as

unquantifiable job value, outdated and single performance assessment methods, and insufficient internal fairness of remuneration, etc. The road to reform is a long one.

The literature has discussed the executive pay gap and its motivational effects mainly in terms of Tournament Theory and Behavior Theory. The Tournament Theory proposed by Lazear and Rosen (1981) argues that the existence of an executive pay gap can motivate senior managers to pursue higher performance in order to seek higher pay and promotion opportunities. According to the theory, companies view senior management positions as a competition in which executives compete with each other to demonstrate their competence and performance. By setting a higher pay gap to reward senior executives who perform well in the competition and to motivate other employees, the company improves overall organisational performance. In practice, however, an individual who is promoted from deputy general manager to general manager may see an exponential increase in his or her pay level, and this widening of the pay gap does not necessarily coincide with a significant increase in individual competence. From that perspective, Tournament Theory gives a reasonable explanation for the large pay gap between executives. Behavior Theory, on the other hand, suggests that a high pay gap may lead senior managers to adopt a more risk-prone behaviour, focusing on short-term performance and neglecting the long-term interests and sustainability level of the firm (Zhang, R. and K. Guan, 2016) in pursuit of higher returns. In addition, high pay gaps may also trigger moral hazard, leading executives to use their power and information advantage to engage in misconduct. Meanwhile, according to the Social Comparison Theory, when employees find a significant gap between their own and others' pay levels, it can fuel their dissatisfaction and a constant search for pay equity.

The above two theories provide different perspectives to explain the creation and impact of executive pay gaps, and empirical studies on the role of pay incentives at home and abroad have also reached different conclusions. Hall and Liebman (1998) conducted a study on publicly owned business firms and showed a significant correlation between executive compensation and business performance. The results of an empirical study by Lin, J. et al. (2003) based on the pay gap between top executives and future firm performance in Chinese listed companies also support the Tournament Theory that large pay gaps can improve firm performance, and find that the main factor affecting the pay gap in Chinese firms comes from the internal governance structure, rather than depending on external market environment factors and the firm's own operational characteristics. Using 2003 to 2010 data from state-owned listed companies in the manufacturing industry in China, Li, W. and Y. Hu (2012) find that the internal pay gap has an insignificant incentive effect on executives and the gap only reflects management power to a certain extent. When the pay gap is small, it is able to motivate employees more, while when the pay gap is large it has no positive motivational effect on employees. The results of Jensen and Murphy (1990) also indicate that executive compensation is highly uncorrelated with company performance.

2.2 Audit risk

Audit risk is the possibility that the CPA will express an inappropriate audit opinion if there is a material misstatement in the financial statements. Audit risk arises from both technical reasons due to the increasing complexity of the audited entity's business operations, while audit methods and auditing standards are relatively outdated and the audit quality control system is not effectively implemented, as well as social reasons stemming from the audit accountability of auditors (Lu, J., 2002). According to Xie, R. (2003), audit risk consists of both the subject and object of the audit activity. In terms of the audit object, enterprises reflect their operating results and financial changes for a certain period through financial statements. If the financial statements are not true and reliable, and management lacks transparency or co-operation with the audit process, this will have a direct impact on audit risk. In terms of the audit subject, audit risk arises when there is non-compliance with the requirements of auditing standards, time and resource constraints or when the auditing standards relied upon are relatively outdated.

Existing research on the factors influencing audit risk has focused on the enterprise and the accounting firm. Wu, H. and L. Zhang (2023) used A-share listed companies on the Shanghai and

Shenzhen stock exchanges from 2006 to 2017 as a sample, and found that the higher the level of CEO narcissism, the higher the audit fees, the higher the frequency of changing auditors, and the higher the probability of auditors issuing non-standard audit opinions, and the greater the tendency to hire auditors with less experience in practice. The level of corporate governance also has a significant effect on audit risk and audit fees. Studies have found that a higher governance index and a more efficient corporate governance structure not only mitigate the principal-agent problem, but also reduce the audit fees charged by accounting firms (Pan, K., 2008). Wang, Y. et al. (2022) empirically found that accounting firms would respond to the instability of the executive team of listed companies by increasing their audit input and issuing going concern audit opinions, bringing higher audit fees accordingly.

2.3 Executive pay gap and audit risk

While the executive pay gap can have an incentive effect on executives, it can also be a double-edged sword. Managerial Power Theory suggests that when the internal governance environment of a firm is weak, the design of an equity incentive-based compensation system can easily result in the CEO abusing the equity incentive and committing opportunistic behaviors for personal gain (Xiao, S. and C. Zhang, 2009). Chen, S. and Y. Cao (2018) found that in the year prior to the issuance of the equity incentive plan, auditors would charge clients additional audit fees for the purchase of audit opinions. More powerful managers are even able to rely on their power to design incentive packages that achieve high monetary compensation while reaping power gains (Lv, C. and Y. Zhao, 2008). These unusual, profit-seeking behaviors increase the potential risk faced by the firm, which in turn increases the risk and difficulty of auditing by external auditors.

2.4 Entity investment level and agency costs

Entity investment is the act of investing funds or resources in actual physical assets or projects aimed at long-term returns and appreciation, often accompanied by a degree of risk and uncertainty. Executives, whose remuneration is often tied to the short-term performance of the company, are reluctant to take risks and prefer to pursue short-term profits rather than long-term entity investments. When market risk expectations and financial risks climb, executives tend to choose to increase financial investments and reduce entity investments (Yang, B. et al., 2022). This conservative and prudent approach is effective in reducing audit risk by avoiding the uncertainties and complexities that can arise from investments in high-risk entities.

Agency costs refer to the principal's efforts to prevent the agent from harming its own interests by limiting the agent's behaviour through a tight contractual relationship and strict supervision of the agent (Jensen, M.C. and W.H. Meckling, 1976). The existing literature mainly uses the management expense ratio and asset turnover ratio to measure the first category of agency costs. In comparison, the asset turnover ratio, as an indicator reflecting the level of asset turnover of a firm, can measure the rationality and effectiveness of investment decisions (James, S.A. et al., 2000), and can better reflect agency costs. When the total asset turnover is higher, it means that the agency costs are lower. For the second category of agency costs, this is measured by the capital employed by the majority shareholder as reflected by the ratio of other receivables to total assets. The executive pay gap can stimulate a sense of competition among executives in the hope of achieving higher pay through better performance, thus reducing the agency costs and audit risk of the company.

3. Empirical design

3.1 Sample selection and data source

This paper uses the panel data of Chinese A-share listed companies from 2013-2022 as the research sample. To ensure the reliability of the research findings, ST, financial sector and companies with missing key data were excluded, resulting in 22040 observations. The data in the paper are mainly obtained from the CSMAR database and manually collated.

3.2 Variable definition

3.2.1 Independent variable

The Executive pay gap (Gap). There are two main approaches to measuring the executive pay gap in existing research: the first, which places the top three highest paid executives in one category and the rest in another, and subtracts the average of the total annual pay of executives in both tiers and takes the natural logarithm as the executive pay gap. The second uses the difference between the pay of CEO and non-CEO executives as a measure. This paper draws on the first treatment.

3.2.2 Dependent Variable

Audit risk (Audrisk). The most widely used of audit risk measuring is the natural logarithm of current audit fees to measure audit risk (Wang, X. et al., 2014). When the business risk of the audited firm is high, the auditor may need to perform more procedures and checks to reduce the risk and provide a more reliable audit opinion, which may increase the audit effort and time, thus leading to an increase in audit fees (Bell, T. et al., 2001). This paper also draws on reference to that approach by taking the natural logarithm of audit fees as a proxy variable for audit risk.

3.2.3 Control variable

Drawing on existing studies, this paper mainly selects debt asset ratio (Lev), investment opportunities (Tobinq), internal control (Incon), net cash flow from operations (Cf) and ownership concentration (Hol) as control variables from the micro level of the firm.

3.2.4 Mediator Variable

The level of entity investment (Invest) and agency costs (Aturn) are the mediating variables in this paper.

Specific variable definitions and calculations are detailed in Table 1.

Table 1. Variable definitions

Type of variable	Variable name	Variable symbol	Variable calculation method
Independent variable	Executive pay gap	Gap	Log of the difference between the average of the annual total salaries of the top three executives and the remaining executives of the enterprise's pay
Dependent variable	Audit risk	Audrisk	Log of current audit fees
	Debt asset ratio	Lev	Total liabilities / total assets
	Investment opportunities	Tobinq	Market value / total assets
Control variable	Internal control	Incon	0 for presence of deficiencies, otherwise 1
	Net cash flow from operations	Cf	Net cash flow from operations / total assets
	Ownership concentration	Hol	Percentage of shareholding of the enterprise's largest shareholder
Mediator Variable	Entity investment level	Invest	Cash used to purchase fixed assets and intangible assets / total assets
	Agency costs	Aturn	Total asset turnover ratio

3.3 Model setting

This paper examines the impact of the executive pay gap on audit risk using a fixed effects model, set up as follows:

$$\text{Audrisk}_{it} = \alpha_0 + \alpha_1 \text{Gap}_{it} + \sum \alpha_2 X_{it} + \eta_i + \sigma_t + \varepsilon_{it} \quad (1)$$

i and t indicate the individual enterprise and year, α_0 is an intercept term, and α_1 represents the effect of executive compensation gap on audit risk. X_{it} reveals a set of control variables, η_i is an individual fixed effect, σ_t is a year fixed effect, and ε_{it} is the random error term.

The stepwise approach is used to construct a mediating effects model to test whether the executive compensation gap affects enterprise' audit risk through the level of investment in the entity and agency costs.

$$\text{Invest}_{it} = \alpha_0 + \alpha_1 \text{Gap}_{it} + \sum \alpha_2 X_{it} + \eta_i + \sigma_t + \varepsilon_{it} \quad (2)$$

$$\text{Audrisk}_{it} = \alpha_0 + \alpha_1 \text{Gap}_{it} + \alpha_2 \text{Invest}_{it} + \sum \alpha_3 X_{it} + \eta_i + \sigma_t + \varepsilon_{it} \quad (3)$$

$$\text{Aturn}_{it} = \alpha_0 + \alpha_1 \text{Gap}_{it} + \sum \alpha_2 X_{it} + \eta_i + \sigma_t + \varepsilon_{it} \quad (4)$$

$$\text{Audrisk}_{it} = \alpha_0 + \alpha_1 \text{Gap}_{it} + \alpha_2 \text{Aturn}_{it} + \sum \alpha_3 X_{it} + \eta_i + \sigma_t + \varepsilon_{it} \quad (5)$$

4. Empirical results analysis

4.1 Descriptive statistical analysis

Table 2: Descriptive statistics

Variable symbol	Number of samples	Average value	Median value	Standard deviation	Minimum value	Maximum value
Gap	22040	12.4583	12.4720	1.0399	6.8739	17.4229
Audrisk	22040	13.9686	13.8643	0.7370	11.9184	21.4170
Lev	22040	46.2174	44.2865	125.1490	-19.4700	7834.5469
Tobinq	22040	2.2630	1.6110	7.5707	0.6250	729.6290
Incon	22040	0.3324	0.0000	0.4711	0.0000	1.0000
Cf	22040	4.5364	4.4745	10.9006	1021.6230	222.1610
Hol	22040	33.0438	30.4000	14.9456	0.2860	89.9860
Invest	22040	26.8102	23.6385	18.2701	0.0010	95.6650
Aturn	22040	0.62700	0.5130	0.5741	0.0030	13.9140

As shown in the results of the descriptive statistics in Table 2, the minimum value of the executive pay gap (Gap) is 6.8739 and the maximum value is 17.4229 out of the 22040 sample observations, indicating that there is a degree of pay disparity between executives. The standard deviation of debt asset ratio (Lev) was 125.1490, indicating a large variation in solvency between firms. The median value is 44.2865%, indicating that most enterprises are able to better manage their financial risks and avoid bankruptcy due to insufficient cash flow and broken capital chains; a small number of enterprises may have high total gearing due to poor product competitiveness or the influence of external economic factors in certain years.

4.2 Benchmark result analysis

Table 3. The benchmark estimation results

	Audrisk(1)	Audrisk(2)	Audrisk(3)	Audrisk(4)	Audrisk(5)	Audrisk(6)
Gap	0.0522*** (17.01)	0.0527*** (17.24)	0.0523*** (17.14)	0.0522*** (17.13)	0.0523*** (17.13)	0.0522*** (17.09)
Lev		0.0008*** (13.48)	0.0008*** (13.60)	0.0008*** (13.63)	0.0008*** (13.53)	0.0008*** (13.55)
Tobinq			-0.0024*** (-7.65)	-0.0024*** (-7.62)	-0.0024*** (-7.64)	-0.0024*** (-7.63)
Incon				-0.0109* (-1.77)	-0.0108* (-1.77)	-0.0107* (-1.75)
Cf					-0.0001 (-0.52)	-0.0001 (-0.49)
Hol						0.0007** (-2.19)
Time effect	Yes	Yes	Yes	Yes	Yes	Yes
Individual effect	Yes	Yes	Yes	Yes	Yes	Yes
Constant	13.0051*** (350.73)	12.9632*** (350.04)	12.9723*** (350.64)	12.9750*** (350.43)	12.9750*** (350.42)	13.0024*** (332.60)
Obs	22040	22040	22040	22040	22040	22040
R-squared	0.3776	0.3836	0.3855	0.3856	0.3856	0.3858

4.3 Heterogeneity analysis

Table 4. Heterogeneity test results

	State-owned enterprises (1)	Non-state-owned enterprises(2)	Small-scale enterprises(3)	Large-scale enterprises(4)
Gap	0.0275*** (7.10)	0.0589*** (13.53)	0.0389*** (11.90)	0.0839*** (11.94)
Lev	0.0025*** (11.76)	0.0005*** (8.23)	0.0007*** (12.03)	0.0067*** (13.79)
Tobinq	-0.0273*** (-10.35)	-0.0019*** (-5.93)	-0.0022*** (-7.72)	-0.0510*** (-9.21)
Incon	0.0104 (1.35)	-0.0021 (-0.24)	0.0051 (0.78)	-0.0649*** (-4.60)
Cf	0.0002 (0.58)	0.0001 (0.34)	-0.0003 (-1.14)	0.0017** (2.35)
Hol	0.0021*** (13.10)	0.0058*** (-4.64)	0.0038*** (-10.29)	0.0040*** (6.11)
Time effect	Yes	Yes	Yes	Yes
Individual effect	Yes	Yes	Yes	Yes
Constant	13.2841*** (256.19)	12.7515*** (230.80)	13.0585*** (313.35)	12.8321*** (135.19)
Obs	9260	12780	15990	6050
R-squared	0.2620	0.4919	0.4132	0.3862

According to columns (1) and (2) of Table 4, it can be seen that the gap in executive compensation increases audit risk for both SOEs and non-SOEs, but relatively more so for non-SOEs. This may be due to the fact that SOEs are usually more strictly regulated by the government, with government

departments monitoring SOEs' financial reporting and internal controls to ensure accuracy and compliance, and therefore SOEs have good risk management and information disclosure systems compared to non-SOEs (Xiao, H. and Z. Yang, 2022). At the same time, SOEs are more sensitive to the implementation of government pay limits in order to better play their leading role, which to a certain extent limits the incentive effect of the pay gap on executives in SOEs (Wang, X. and M. Sun, 2023), thus reducing audit risk.

As can be seen from columns (3) and (4), the executive pay gap significantly increases audit risk in firms of all sizes, but its effect is more pronounced in large-scale firms. This may be due to the flatter management of small-scale enterprises, which facilitates executives' understanding of the operations of each business, and their high level of involvement in the preparation of financial reports, which can enhance management's understanding and transparency of financial information, reduce the possibility of information asymmetry and misunderstanding, thus reducing audit risk. At the same time, compared to large-scale enterprises, small-scale enterprises have simpler and more intuitive operations, which can reduce audit risks arising from complex business structures and processes.

4.4 Analysis of mediating effects

Table 5. Results of the mediating effect tests

	Audrisk(1)	Invest(2)	Audrisk(3)	Aturn(4)	Audrisk(5)
Gap	0.0522*** (17.09)	-0.8989*** (-9.91)	0.0514*** (16.79)	0.0294*** (8.97)	0.0519*** (16.98)
Invest			-0.0009*** (-3.67)		
Aturn					0.0076* (1.13)
Lev	0.0008*** (13.55)	0.0077*** (4.23)	0.0008*** (13.65)	-0.00005 (-0.07)	0.0008*** (13.35)
Tobinq	-0.0024*** (-7.63)	0.0343*** (3.73)	-0.0023*** (-7.53)	0.0025*** (7.51)	-0.0024*** (-7.68)
Incon	-0.0107* (-1.75)	-0.0530 (-0.29)	-0.0108* (-1.75)	0.0031 (0.47)	-0.0108* (-1.75)
Cf	-0.0001 (-0.49)	0.0852*** (10.64)	-0.00006 (-0.21)	0.0014*** (4.98)	-0.0001 (-0.53)
Hol	0.0007** (-2.19)	0.0151 (-1.57)	0.0007** (-2.22)	0.0005 (1.49)	0.0007** (-2.20)
Time effect	Yes	Yes	Yes	Yes	Yes
Individual effect	Yes	Yes	Yes	Yes	Yes
Constant	13.0024*** (332.60)	39.5365*** (34.04)	13.0381*** (323.78)	0.2893*** (6.89)	13.0002*** (332.12)
Obs	22040	22040	22040	22040	22040
R-squared	0.3858	0.0471	0.3862	0.0192	0.3858

Columns (2) and (3) of Table 5 show that the executive pay gap (Gap) inhibits the level of entity investment (Invest), and the level of entity investment assumes a partially mediating role in the transmission path between the executive pay gap and the firm's audit risk (Audrisk). When the executive pay gap is too large, executives may be more inclined to allocate funds to satisfy their own interests rather than invest them in the firm's entity projects. This tendency to allocate funds may lead to a lack of adequate corporate investment in key investment areas, which in turn reduces the number and size of related physical projects. Fewer entities to invest in means smaller corporate assets and less complex audit procedures, thus reducing the risk of audits. At the same time, the incentives created by the pay gap may lead executives to be more cautious about risky entity investment

opportunities. They may be inclined to choose a more conservative investment strategy, avoiding the potential negative consequences of risky investments, thereby reducing audit risk.

The results of the mediating effect of agency costs are shown in column (4). The regression coefficient between executive pay gap (Gap) and agency costs (Aturn) is 0.0294 and is significant at the 1% level, which shows that executive compensation gap can reduce the agency costs. As shown in column (5), the executive pay gap can reduce audit risk by reducing the agency cost of the enterprise. The executive pay gap can provide a strong incentive. Internally, executives working hard for higher compensation can increase corporate value to a greater extent, effectively reducing the occurrence of agency problems and reducing audit risk. Externally, the pay gap can attract more capable and experienced executives to join the business who have a better sense of risk and internal control, which can improve the management of the enterprise and drive it towards compliance, which in turn leads to less risk exposure in the audit process.

4.5 Robustness test

Table 6. Robustness test results

	One-period lagged variable(1)	Instrumental variables approach(2)	Substitute explanatory variables(3)
Gap	0.0431*** (13.85)	0.1349*** (13.26)	0.0228*** (11.11)
Lev	0.00008*** (4.87)	0.0007*** (10.82)	0.00008*** (4.83)
Tobinq	-0.0020*** (-6.78)	-0.0023*** (-6.57)	-0.0022*** (-7.89)
Incon	-0.0010 (-0.15)	-0.0026 (-0.40)	-0.0070 (-1.16)
Cf	-0.0003 (-0.88)	-0.0005* (-1.68)	0.0005*** (2.87)
Hol	0.00009 (0.26)	0.0003 (0.84)	0.0006* (-1.75)
Time effect	Yes	Yes	Yes
Individual effect	Yes	Yes	Yes
Constant	13.2050*** (333.28)		13.3395*** (447.25)
Obs	22040	22040	22040
R-squared	0.3309		0.377
Cragg-		1823.6750	

4.5.1 One-period lagged

To address the endogenous problem, this paper treats the executive pay gap (Gap) with a one-period lag. As shown in column (1) of Table 6, the positive effect of executive compensation gap on audit risk is significant at the 1% level and the estimates are well robust.

4.5.2 Instrumental variables approach

In this paper, the one-period lagged executive pay gap is selected as the instrumental variable. The selected instrumental variable passed the weak instrumental variable test and the conclusion that the executive compensation gap enhances audit risk is unchanged.

4.5.3 Substitute explanatory variables

This paper changes the measure of the explanatory variables to take the absolute value of the gap between core and non-core executive pay as a natural logarithm as a proxy variable. After re-regression, the coefficient is positive and significant at the 1% level, indicating that the impact of Gap on audit risk is not confounded by the selection of executive pay gap measures.

5. Conclusion and recommendation

This paper uses the 2013-2022 panel data of A-share listed companies (excluding ST and financial sector) in China as a research sample to test the impact of executive pay gap on audit risk, and the findings show that: first, while executive pay plays its internal incentive role, it brings more audit risk to external auditors; second, the impact of executive pay gap on audit risk is heterogeneous in terms of the nature of ownership and firm size, and the audit risk associated with executive pay gap is more significant in non-state-owned enterprises and large-scale enterprises in comparison; third, executive pay gap can suppress audit risk by reducing the level of investment in the entity and cutting the agency cost of the firm.

In order to promote the establishment of a rational executive compensation system and reduce audit risk, based on the above findings, it is prudent to give the following recommendations in this paper. First, when formulating executive remuneration policies, companies should ensure that executive remuneration is related to corporate performance and long-term value creation. Appropriate incentive mechanisms can enhance executives' concern for the overall interests of the enterprise and reduce conflicts between their personal interests and those of the enterprise, thereby reducing audit risk. At the same time, internal controls should be strengthened and a monitoring mechanism should be established to ensure that the behaviour of executives meets the standards. Secondly, from the perspective of the external audit, auditors should communicate well with the enterprise, strengthen the audit of the executive remuneration gap, assess its impact on corporate decision-making and risk management, and identify possible audit risks in a timely manner. Thirdly, the government should adhere to scientific legislation and strict enforcement, and formulate relevant regulations and guidelines to regulate the setting and disclosure requirements of executive remuneration, thereby enhancing the transparency and fairness of executive remuneration.

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