DOI:10.18686/ahe.v7i19.9460

Executive Compensation Incentives and Enterprise Innovation Performance: Research Overview and Prospects

Wen Sun[1,2]
1.Center for International Education, Philippine Christian University, Manila,Philippines
2.School of Business Administration, Chaohu University, Hefei, 238000, China

Abstract: In the ever-changing technological environment, innovation performance can ensure the company's sustainable competitive advantage, and the effect is very obvious. Therefore, how to improve the innovation performance of enterprises is an important issue in building an innovative country in our country. Senior managers assume important management responsibilities at the top of the enterprise, and the performance of the enterprise will be significantly affected by their decisions. Among the incentives for executives, salary incentives are the most effective and mature method. In recent years, a large number of scholars have studied how corporate innovation performance is affected by executive compensation incentives. This paper sorts out the literature on the impact of monetary salary incentives, equity incentives, salary gaps, and salary stickiness on corporate innovation performance, sorts out the relationship between the two, and looks forward to future research directions.
Keywords: Executive compensation; Innovation performance; Equity incentive

Fund Project:
Chaohu University 2021 school-level scientific research general project (Research on audit evaluation of leading cadres' water resource assets departure based on PSR model: XWY-202103)

1. Introduction

In the report to the 19th National Congress of the Communist Party of China, General Secretary Xi Jinping once again emphasized the need to accelerate the construction of an innovative country. He pointed out that "innovation is the first driving force leading development and the strategic support for building a modern economic system. Implementing an innovation-driven development strategy is an inevitable choice to respond to changes in the development environment, grasp development autonomy, and improve core competitiveness. At the same time, it is also It is an inevitable choice to speed up the transformation of the economic development mode and solve the deep-seated contradictions and problems of economic development." As the makers and executors of the major strategies of the enterprise, the senior management personnel of the enterprise hold the core resources of the enterprise and have the right to control these resources. Therefore, appropriate incentives for corporate executives can effectively promote the improvement of corporate innovation capabilities. There are differences in the degree of influence of incentive mechanism on enterprise innovation. The research of domestic and foreign scholars mainly focuses on the impact of monetary salary incentives, equity incentives, salary gaps and salary stickiness on corporate innovation performance. These studies explore the impact of executive incentives on innovation performance based on different theories. Therefore, this article sorts out the relevant literature on the relationship between the above-mentioned executive incentive methods and innovation performance, which will help readers quickly understand the current situation and future development trends in this field, and at the same time provide guidance for enterprises to reasonably formulate incentive mechanisms and improve innovation capabilities. effect.

2. Definition of related concepts

Determining the conceptual definition of relevant concepts is the basis for constructing a theoretical framework, and determining the measurement method is a prerequisite for further empirical research. Scholars have different opinions on the definition of the two concepts of executive motivation and innovation performance, and the measurement methods for these concepts are not completely consistent.

2.1 The Definition of Executive Compensation Incentives

According to existing research, explicit and implicit compensation incentives are usually used to classify management compensation incentives. Senior executives who receive capital and monetary compensation are generally considered to receive explicit compensation. The monetary remuneration is mainly based on basic salary and performance salary, which has a short-term incentive effect. Long-term incentive strategies involve capital rewards in the form of stocks, options, etc. The term “hidden wages” refers primarily to compensation for work attrition and promotion. Hidden rewards take into account psychological changes in employees as well as spiritual rewards such as self-awareness, achievement and reputation building. At present, most studies focus on capital incentives, salary incentives, and promotion incentives, which are the most basic corporate incentive mechanisms.

2.2 Definition of Innovation Performance

Innovation performance is an integral part of performance, and different people have different definitions of innovation performance. Smith & Hagedoom et al. defined and evaluated innovation performance through research in 1995 and 2003. From their perspective, technology, management, systems, processes, etc. can be used to determine whether the business is achieving its goals. Taking the output results of multiple aspects as a comparison benchmark, the innovation performance measured by the output results of the above-mentioned aspects is the real measure of the process and technology. According to the input-output theory, Chinese scholar Gao Jian et al. (2004) defined innovation performance as the effectiveness of innovation activities, output results, and the degree of contribution to the economic benefits of enterprises. Guan J C.etc (2016) uses the financial performance of technological innovation, R&D expenditure, and the number of patent applications or authorizations to measure the performance of enterprises in technological innovation. Wu Yuming et al. (2015) explained innovation performance from the aspects of innovation strategy, innovation technology and innovation financial performance.

3. The impact of executive compensation incentives on corporate innovation performance

As the highest decision-making body of an enterprise, executives play an important role in enterprise innovation performance. The following will explain the impact of executive compensation on innovation performance from monetary compensation, equity incentives, salary gap and salary stickiness.

3.1 The Influence of Monetary Salary on Enterprise Innovation Performance

When Jiang Zefang and Chen Zuying (2019) studied the effectiveness of monetary compensation incentives based on principal-agent theory and optimal contract theory, they explained that shareholders can optimize the compensation contract with management and directly link the compensation contract with company performance to improve management decisions. Sun Songzhi et al. (2018) created a dynamic panel data model for regression analysis under the agency cost theory, and added the first-order lag item of executive salary level to the static salary model. They found a positive relationship between executive compensation and firm performance. Performance and risk-taking are related, and from the perspective of risk-taking, risk-taking is the bridge between executive compensation and business performance.

3.2 The Influence of Equity Incentives on Enterprise Innovation Performance

At present, the academic circle mainly measures the innovation performance of enterprises from two levels of innovation input and innovation output. From the perspective of innovation output, equity incentives have a positive effect on corporate innovation performance, and stock options have a stronger positive effect. Ji Yiting and Chen Kunyu (2020) used the propensity score matching method to study and found that for mixed enterprises, the implementation of stock option incentives can quickly improve the innovation output capacity of the enterprise, while the effect of restricted stocks is mediocre, but the positive effect of stock options is also affected by other factors. Guo Lei et al. (2019) conducted an empirical study on the correlation between ordinary employee stock ownership and corporate innovation output and found that the use period of equity options has a positive correlation with corporate innovation, that is, the longer the validity period of equity options, the greater the company’s innovation output. The ability will also be stronger.

3.3 The impact of salary gap on corporate innovation performance

Due to the influence of ambiguous factors inside and outside the organization, and the fact that corporate innovation initiatives are often accompanied by huge risks and long implementation cycles, it is easy for companies to avoid independent innovation. But the progress of the times requires organizational innovation and change, and managers also need to take more risks. Kini and Williams (2012) showed that pay differentials also increase executive job excitement, confirming previous findings. Wang Xiufen and Yang Xiaoxing (2019) found from the perspective of executive psychology and behavioral decision-making that the salary gap among executives will generate competitive comparison psychology, prompting executives to try to increase the level of risk-taking and increase the funds or costs invested in corporate innovation activities , resulting in better innovation performance.

3.4 The impact of salary stickiness on enterprise innovation performance

In order to eliminate managers' concerns about technological innovation, Xu Yue et al. (2018) believe that when drafting a salary contract, companies should consider short-term performance losses caused by innovation failures and protect managers' personal interests. The stickiness of executive compensation is a viable strategy and an effective arrangement. The term "executive compensation stickiness" refers to the fact that the marginal increase in executive compensation when the company performs well is greater than the marginal decrease in executive compensation when the company performs poorly. Lei Yu and Guo Jianhua (2017) believe that salary stickiness is the embodiment of the human virtues of salary contract makers who "reward right but not punish wrong". Showing appropriate tolerance to subordinates may sometimes pique their interest and improve organizational performance when compared to strict organizational rules.

4. Research Conclusions and Prospects

In conclusion, researchers have used a variety of theories and methods to study the impact of monetary compensation incentives, equity incentives, compensation differentials and compensation stickiness on corporate innovation performance. When examining how executive compensation affects firm innovation performance, many different results emerge. The reasons are as follows: firstly, research the industry of the sample, the internal situation of the company, the nature of the company, etc.; secondly, research the basic information such as the gender, education level, risk tolerance level and experience of the senior executives in the sample.

According to the latest research, the following prospects are proposed: First, in order to examine the link between executive compensation incentives and innovation performance from a micro perspective, we can first integrate case studies from the perspective of research technology. Current research is mostly empirical, using various models to test relevant facts before drawing any conclusions. However, empirical research only reveals the status quo of the industry, and for a particular firm in the industry, there are not many results. The second is to narrow the scope of the study, such as classifying firms as large or small. It is impossible to generalize the characteristics of enterprises of different sizes. In order to improve the research results and conduct a more thorough investigation of the problem, the research domain needs to be carefully divided.

References:

[1]Zhu Yongming, Jia Ming'e, Zhao Chengcheng.Promotion Incentives and Innovation Performance of GEM Listed Companies[J]. Technological Progress and Countermeasures,2017(15).

[2]Chen Hui, Fu Rong, Su Meiling. Executive salary gap, company growth level and innovation investment[J].Accounting Communication,2017(36).

[3]Wang Yanni, Gong Chunjing. Executive Incentives and R&D Investment--The Moderating Effect of Corporate Risk and Independent Directors[J].Modern Business,2014(30):163-167.

[4]Yu Honglin, Zhang Shuyu. Executive Promotion Incentives, Assessment Mechanism and R&D Investmentof State-owned Enterprises[J]Economic Science,2016(5):95-110.

About the author:

Wen Sun (1993—), female, Han nationality, from Chaohu, Anhui, a teacher at Chaohu University, a teaching assistant, PhD in International Accounting, Philippines Christian University. Research direction: accounting theory and practice.