

The Impact of Executive Compensation Gap on Corporate Innovation Activities in Internet Companies

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Abstract: The innovation activities of enterprises need to be strategically guided at the executive level, and the executive pay gap is an important indicator that affects the activities of executives. The executive pay gap affects the decision-making behavior of executives and has a certain influence on the enterprises to carry out innovation activity projects, which is directly related to the innovation activity decisions of enterprises. In this paper, by collating the research results of scholars in recent years and elaborating based on tournament theory, we put forward management suggestions for the compensation setting of Internet enterprises, hoping to provide reference values for the subsequent management of Internet enterprises and the research of scholars.

Keywords: Executive Compensation; Pay Gap; Innovation Input; Innovation Output; Tournament Theory

1. Introduction

The innovative activities of the enterprise cannot be separated from the guidance of people, and the executive team plays an important leading and leading role in the operation and development of the enterprise. Among the enterprises, the behavioral decisions of senior managers can directly affect the innovation ability of the enterprise, and the compensation management of the enterprise affects the behavioral decisions of the executives, so a scientific and reasonable executive compensation system is crucial to the business activities of the enterprise. The compensation level of executives not only represents the personal working ability of executives, but also is a symbol of social prestige. In addition to the pay level, the pay gap between the executive members also has a certain influence on the business activities of the enterprise. An appropriate pay gap helps to improve the ability of collaboration between the executive members of the enterprise, thus enhancing the innovation ability of the enterprise.

2. Theoretical basis

In the process of business management, there are gaps in the job content, scope of work and job responsibilities between top managers, and their pay will also be different. Then whether the existence of pay gap is beneficial to the development of corporate management, the current research on pay gap is mainly composed of two theories: tournament theory and behavioral theory, which are two diametrically opposed views. The tournament theory believes that the pay gap can positively affect corporate innovation and is beneficial to the innovative performance or innovation level of the company; the behavioral theory holds the opposite view that the pay gap can negatively affect corporate innovation and that the pay gap can cause employees to have negative emotions, which in turn threatens the innovative behavior of the company.

3. Research path based on tournament theory

This paper selects the executive compensation gap of Internet companies as the research object, through studying the relationship between the executive compensation gap and the innovation activities of Internet companies, we can better promote the Internet companies to strengthen the management of enterprises, so as to better play the innovation vitality of Internet companies. Under the

tournament theory, the executive compensation gap can positively contribute to the innovation activities of enterprises and bring vitality and power to enterprise innovation.

3.1 The incentive effect of tournament theory on the innovation activities of enterprises

3.1.1 The incentive effect of executive pay gap on executive behavioral activities

Tournament theory believes that in the case of high information asymmetry, the pay gap between executives can stimulate the energy of managers, and when the gap between executive pay is widened, it has a strong incentive effect on the behavioral activities of executives, who will pay a greater degree of work effort to obtain an increase in personal gains, or work harder to obtain promotions, or even work harder for the promotion of They may even take more risks in order to get promotion, and try to prove their ability and value in the company by making some breakthrough achievements. Some scholars have verified through empirical evidence that a moderate pay gap will generate internal competition within the enterprise and induce executives to work harder to surpass other competitors, in this case, the supervision cost of the enterprise is effectively reduced, which better motivates executives to work hard to carry out management, and thus can effectively promote the technological innovation activities of the enterprise.

3.1.2 Positive influence of positive executive behavior activities on corporate innovation activities

In this sequential elimination tournament, each player will try his best to win the final game. The large pay gap will make the higher paid executives alert to keep their position, while those lower paid executives will work hard for promotion, so that the internal supervision cost will be reduced and the executives will spontaneously make positive behavioral activities that can create value for the company. These positive behavioral activities are significantly related to the innovation activities of the company, and the innovative behavioral activities of the company are effectively stimulated. This means that the behavioral activities of the executives have a positive impact on the innovation activities of the company while they make efforts to increase their personal income. Under the tournament theory, the pay gap of the executive team will make the executives compete with each other similar to the tournament, and this state can effectively motivate the behavioral activities of executives to work hard to create benefits for the enterprise, so as to enhance the innovation performance of the enterprise, and finally show that the widening of the pay gap will play a certain role in promoting the innovation activities of the enterprise.

3.2 The applicability of tournament theory in Internet enterprises

3.2.1 The innovation speed of Internet enterprises is fast

The development of Internet enterprises can not be separated from innovation, and the development of Internet enterprises is even more inseparable from innovation. The speed of technological renewal of Internet enterprises can catch up with the needs of users, which to a certain extent also leads to strong competition among Internet enterprises, and this status quo forces Internet enterprises to compete effectively internally. Through tournament theory, we explore the influence of executive pay gap on innovation activities of Internet enterprises. Tournament theory suggests that the competition brought by the pay gap between executive employees of Internet enterprises is a kind of virtuous circle competition, which can make the internal management of Internet enterprises more effective, thus prompting the top managers to make more innovative decisions that are beneficial to the development of enterprises, which in turn affects the innovative activities.

3.2.2 The innovative thinking of Internet enterprises is stronger

The operation of Internet enterprises incorporates the latest development concepts, and their ability to accept new ideas and concepts is stronger, their innovative thinking helps them to produce a benign incentive function when the pay gap is larger, especially the innovative thinking of senior management employees is more strengthened, they will reflect on their behavioral decisions when facing a certain pay gap, and then propose more innovative activities to prove their They will reflect on the reasons for the gap between themselves and other people and put more efforts to carry out innovative activities to prove their ability because of the pay gap.

4. Suggestions for corporate remuneration and corporate innovation

4.1 Suggestions for corporate compensation

4.1.1 Establish a reasonable salary system with fairness as the main focus

The development of the compensation system implements differentiation strategy, and executives with different contributions implement different compensation level treatment. Many factors should be considered in the design of the compensation system, including executive compensation, employee compensation and pay gap, and the overall compensation structure design should also take into account the specific situation and business environment in which the company is located (such as the industry average salary). A scientific and reasonable compensation standard setting can effectively guide and motivate the management behavior of executives, which ultimately affects the performance level and innovation level of the company. The compensation level of executives can be determined according to the business characteristics and external features of the enterprise, etc., so as to be fair and just, scientific and reasonable, and fully integrate rationality and fairness.

4.1.2 Enterprises should strive to enhance the transparency of executive compensation

At the executive level of the enterprise, the details of the remuneration of the enterprise can be publicized regularly, and the evaluation criteria of the remuneration should be given, and the reasons for the differences in remuneration should be clear. Executive compensation should be correlated with performance, and the details of executive compensation should be appropriately disclosed. The level of compensation can effectively guide the direction of executives' work and direct their behavioral decisions. Transparent compensation can enable executives to communicate and collaborate with each other smoothly, which helps to play the resource-oriented role of compensation and convey the overall strategy and stage strategy of the enterprise, so as to improve the level of enterprise operation.

4.1.3 A complete set of executive assessment and evaluation system can be established within the enterprise

Setting up assessment system, assessment and evaluation system should be diversified to avoid single, and continuous follow-up and continuous communication feedback should be made in the assessment process, meanwhile the results of assessment and evaluation should be linked with salary, promotion and appointment to achieve the unity of responsibility and right, fully implement the responsibility of executives and do a good job in the incentive mechanism of assessment and evaluation. By improving the accuracy and feasibility of the assessment and evaluation of executives, we can further stimulate the enthusiasm and motivation of executives' work.

4.1.4 Improving the promotion mechanism of executives

In the promotion of senior executives, we should broaden the cause of selecting high-level talents, diversify the selection method, which can let the personnel show their value to the enterprise in many aspects and levels, so that the potential of high-level talents can be effectively played, to achieve fair competition, the only talent is to do, to truly achieve the best of people and talents, so as to stimulate the motivation of senior executives. To form a scientific motivation mechanism for high-level talents, a reasonable remuneration incentive system for high-level talents should be formed correspondingly, so as to provide a complete mechanism for staff promotion on the one hand, and prevent the imbalance of executives' mentality on the other hand, thus affecting team cooperation.

4.2 Suggestions for enterprise innovation

4.2.1 The top management of the enterprise should create an innovative atmosphere within it

Opportunities can be created in the organization to carry out informal communication so that employees can fully understand the organizational goals. Through various ways it is possible to create a relaxed and happy innovation atmosphere among the organization, to understand the different views of each member and to carefully absorb the opinions of others. The top management of the company should play a leading leadership role to incorporate innovation into the spirit of the company from top to bottom and establish a more open and diversified corporate culture, which is conducive to fully mobilizing the enthusiasm of innovation in the company. Meanwhile, the top management should respond positively to some new ideas and concepts, and give employees greater independence, autonomy and innovation in their work.

4.2.2 Attract innovative talents and set up innovation project incubation group

First of all, we can vigorously introduce talents, grasp the core talent team training, improve the enterprise's scientific and technological innovation ability, for innovative talents to fully explore their professional ability, stimulate their real potential, give such talents the opportunity to reflect their value, give innovative talents more space to play, not only to attract talents, but also to retain them and play their great potential. Secondly, we can establish a special incubation group for innovative talents and set up a special innovation project incubation fund to alleviate the conflict of interests between executives and shareholders in the enterprise R&D investment, so as to carry out innovation projects more comprehensively and without any worries, to facilitate the transformation of innovation goals into actual innovation activities, to accelerate the enterprise's ability of independent R&D, and to improve the core competitiveness of the enterprise.

Conclusion

Many scholars have conducted extensive and in-depth research on corporate innovation activities in different scenarios. Scholars have not only explored the mechanism of its influence, but also grasped its intrinsic influencing factors at a deeper level and come up with many useful suggestions. The results of this paper show that the executive compensation gap in Internet enterprises can effectively motivate executives to make effective innovation decisions, and then promote the development of innovation activities in enterprises. Then, it is given that enterprises should optimize the compensation structure of the executive team according to their actual development status, effectively motivate top managers to make decisions on innovation activities, enhance the innovation level of enterprises, and lead enterprises to high innovation level. The company should optimize the compensation structure of the executive team according to its actual development situation, effectively motivate the top managers to make decisions about innovation activities, improve the innovation level of the company, and lead the company to a high innovation level.

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