

Research on Corporate Innovation and Compensation Incentives

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Abstract: The optimal contract theory believes that the compensation contract can alleviate the agency contradiction between executives and shareholders. By making the interest goals of executives and shareholders converge, it can enhance the innovation willingness of senior executives to a certain extent, increase the innovation investment of enterprises, and then improve the performance of the company. However, the increase of investment in innovation will not necessarily improve the company's performance, and there may be an endogenous relationship between the two factors, which further complicates the issue of compensation incentive. This article sorts out the relevant literature on enterprise innovation and salary incentive, and discusses the relationship between salary incentive and enterprise innovation and its influence on the endogenous relationship between enterprise innovation and company performance. In addition, the possible influence of executive attachment characteristics on compensation incentive is also discussed.

Keywords: enterprise innovation; corporate performance; compensation incentive

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1. Introduction

With the emergence of a new round of technological revolution and industrial revolution, innovation has become the key to the growth of enterprises and enhancing their global competitiveness. With today's vigorous development of artificial intelligence and digital economy, it has become a decisive force for enterprises to shape and develop new drivers and new advantages. The innovation level of an enterprise reflects the core competitiveness of an enterprise, which must be the existence that shareholders attach great importance to, and has also become one of the important bases for shareholders to measure the performance of senior executives. Rich research results have been achieved on how to make senior executives pay more attention to the innovation value of enterprises through compensation incentives. However, Yin Meiqun et al. (2018) found that enterprise innovation is not necessarily a simple promoting effect on company performance, and there may be an endogenous relationship between the two, which makes the relationship between compensation incentive and innovation investment and company performance more complex. Therefore, this paper sorts out the relevant literature on enterprise innovation and salary incentive, and discusses the relationship between salary incentive and enterprise innovation and its influence on the endogenous relationship between enterprise innovation and company performance. Since the executives with different attachment characteristics show differentiated interest demands and innovation willingness, they may become

the influencing factors that cannot be ignored in the incentive problems. Therefore, it is necessary to sort out and discuss the possible influence of the executive attachment characteristics on the salary incentive, and hope to mention the relevant theories and practices of the salary incentive for beneficial ginseng

2. Related research on compensation incentive and enterprise innovation

2.1. Salary incentive has a promoting effect on enterprise innovation

According to the optimal contract theory, compensation contract can alleviate the agency contradiction between executives and shareholders. By making the interest goals of executives and shareholders converge, it can restrain the risk avoidance tendency of senior executives to a certain extent, enhance the innovation willingness of senior executives and increase the innovation investment of enterprises. After in-depth analysis of the relationship between enterprise innovation investment and compensation incentive, Tang Qingquan and Zhen Liming (2009) found that short-term compensation incentive for senior executives is better than long-term incentive, which shows that Chinese senior executives are more likely to pay attention to short-term compensation. Wang Yanni (2011) empirically tested the impact of executive compensation incentive on enterprise innovation investment, and found that the current compensation contract in China can not fully meet the requirements. In this case, the executive compensation incentive still plays a very important role in the investment of innovation of enterprises. The higher the short-term compensation of the senior executives, the more they invest in innovation activities. The research of Liang Siming and Qi Congli (2019) shows that there is a positive relationship between executive compensation incentive and enterprise innovation investment. Liang and Qi also found that companies invest more in innovation activities in a high degree of market competition, indicating that market competition makes the incentive effect of executive compensation more significant. The results of Xu Yu and Feng Junke (2017) show that increasing compensation incentives will encourage executives to innovate, and this effect is related to the effectiveness of internal control. The higher the effectiveness of internal control, the more significant the positive correlation between compensation incentive and innovation performance. Gu Feng et al. (2018) studied the relationship between executive compensation incentive and enterprise innovation investment from the perspective of dynamic enterprise development life cycle

The research results show that the innovation investment level of GEM listed companies in China is generally low. In GEM enterprises, salary incentive has a positive impact on innovation investment. When enterprises are in different life cycles, executive compensation incentive has a differentiated impact on enterprise innovation investment. In the growth period and maturity period of the enterprise life cycle, the effect of the executive compensation incentive promotes the enterprise innovation investment, while in the recession period, the executive compensation incentive promotes the enterprise innovation investment. Zhang Yujuan and Shang Xiangxi (2018) respectively studied the state-owned enterprises and private enterprises in executive compensation incentive on the enterprise innovation input and innovation output, the results show that relative to the state-owned enterprises, private enterprises more innovative research and development activities, state-owned enterprise executives innovation power mainly from equity incentive, private enterprise executives innovation motivation mainly comes from compensation incentive, the state-owned enterprises and private enterprises to take appropriate compensation policy has important significance. In addition, Zhang Yujuan and Tang Xiangxi also investigated the impact of environmental factors on the research results, and found that the orderly market environment plays an important role in promoting enterprise innovation activities.

2.2. Salary incentive does not promote enterprise innovation

Ederer and Manso (2013) believe that motivating executives by “binding” financial performance to executive compensation may not have good results, but will reduce the willingness of executives to innovate. Compensation incentives are only effective for specific types of work, and it is difficult to guide executives to invest in innovation activities. Malik et al. (2015), who experimented on compensation incentives for all employees, found that only employees with high creative self-efficacy were motivated by compensation incentives. This suggests that short-term pay is not an incentive for all, and that innovative performance largely depends on the internal motivation of senior executives, rather than pay incentives. This idea was further verified by the model experiments of Chung and Wang (2016). The results show that the more attention executives pay to their career aspirations and tasks, the more responsive they respond to pay incentives. With increasing their compensation

incentives, such executives are more likely to engage in more strategic risk behaviors, such as strategic change and risk taking. This study has important implications for how to motivate executives to engage in strategic risk behavior through executive compensation. Zhang et al. (2015) pointed out in their research that for employees with risk aversion tendency, compensation incentive is negatively correlated with their creativity, and for those who are willing to take risks, compensation incentive is their creativityPositive correlation. Zhang also found that when employees are willing to take risks, compensation incentive has a positive indirect impact on their innovative behavior through creative self-efficacy. When employees tend to avoid risks, compensation incentive has a negative indirect impact on their innovative behavior through creative self-efficacy. The research of Chng and Zhang shows that compensation incentives do not necessarily promote enterprise innovation, and the relationship between compensation incentive and enterprise innovation may be influenced by many other factors. Xie Weimin (2018) believes that traditional compensation incentives may not have a significant effect if shareholders want to motivate executives to invest in technological innovation. In fact, the results show that if executive compensation is linked to company performance, the more sensitive the performance of executive compensation is, the worse it is to enterprise innovation, especially not to the output of invention patents with relatively high technical content. This inhibitory effect is clearer in non-state-owned enterprises

2.3. There is a nonlinear relationship between salary incentive and enterprise innovation

Zhou Fei and Yang Dongxu (2019) made an empirical analysis of the internal connection between enterprise innovation investment, corporate performance and executive incentive from an endogenous perspective. The results show that the relationship between salary incentive and enterprise innovation investment and company performance is “inverted U-shaped”, and the enterprise innovation investment has a negative impact on the current performance and a positive impact on the lagging performance. The conclusion shows that enterprises should fully consider the lag of company performance and innovation income when formulating the compensation system, dynamically adjust the compensation system, and avoid excessive or insufficient incentive. Miao Shujuan et al. (2018) discussed the relationship between executive manufacturing companies and the executive compensation and corporate innovation investment. Among them, the salary incentive and the enterprise innovation investment have an “inverted U-shaped” relationship, that is, with the improvement of the executive compensation level, the R & D investment increases first and then decreases, which indicates that the salary incentive only has a more obvious role in promoting the enterprise innovation investment within a certain scope.

3. Related research on enterprise innovation and corporate performance

3.1. The impact of enterprise innovation on corporate performance

A large number of literature shows that the relationship between innovation investment and enterprise performance is complex, and scholars have not yet reached a consistent conclusion on the impact of innovation investment on enterprise performance. One category believes that investing in innovation activities can improve the productivity of enterprises, and then improve the profit level of enterprises, and produce good economic benefits. Du Yong et al. (2014) took Chinas high-tech enterprises as a sample, and found that there was a significant positive correlation between enterprise innovation investment and profitability. The more enterprise innovation investment, the stronger the profitability of the company. Xu and Sim (2018) took the sample of Chinese and South Korean manufacturing enterprises, and found that enterprise innovation investment showed a significant positive impact on the performance of manufacturing companies in both countries, and the positive impact of South Korea was more obvious than that of China. QiuYun jie and Wei Hui (2016) using tendency score matching method of enterprise innovation into the impact of the empirical research, this method is the least squares method more cautious conclusion that the enterprise innovation can effectively improve company performance, investment in technological innovation enterprise its profit margins and total factor productivity than not invested in technological innovation enterprise about 3% higher.

The other group believes that in the case of limited resources, there is a trade-off between investment in innovative activities and investment in profitable activities, and investment in innovation activities will have a negative impact on the short-term performance of the enterprise. Vithessonthi and Racela (2016) believe that focusing on operational activities without emphasizing the improvement of enterprise innovation level may improve the short-term corporate performance, but is

not conducive to the long-term earnings of enterprises. The research results confirm this that the innovation investment of enterprises is negatively correlated with the short-term performance and is positively correlated with the long-term benefits of the company. Tsegaye (2023) Research found that although innovation investment has a positive impact on innovation achievements and long-term performance of enterprises, it has a negative impact on short-term performance and resource consumption. Moreover, the impact of enterprise innovation shows significant differences between different companies. The study of Leung (2021) shows that enterprise innovation investment is negatively correlated with the short-term performance, but positively related to the long-term value. In the short term, there is a competitive relationship between innovation activities and business activities in resource allocation. If the resource allocation is mainly innovation activities, business activities will not be supported enough, and there is a certain lag in innovation income, which will inevitably lead to the damage to business performance. On the contrary, if the allocation of resources is mainly based on business activities, the technological innovation of enterprises will slow down or even in stagnation. However, in the long run, investing in technological innovation will improve the level of innovation of the enterprise and gradually translate into economic effects, which will ultimately increase the long-term value of the company

Another category is that there is uncertainty about the impact of innovation investment on enterprise performance. For example, innovation investment may have an optimal level of R & D intensity, at which an enterprise can maximize its performance. Among them, Yeh et al. (2010) used the advanced panel threshold regression model to explore the panel threshold effect of enterprise innovation on corporate performance. The research results confirm the existence of single threshold effect, and show that there is an “inverted U-shaped” relationship between enterprise innovation investment intensity and company performance. However, the study of Dai Xiaoyong and Chengdu (2013) found that there is double threshold effect on the influence of enterprise innovation investment intensity on the company performance, only reaching the first threshold value; when the second threshold value, the effect on the company performance becomes insignificant. Dai Xiaoyong and Cheng Liwei also found the industry gap of this threshold effect, and the best R & D investment intensity range of different industries is not the same. In addition, some scholars suggest that the uncertainty of the impact of innovation investment on enterprise performance is also reflected in whether it is influenced by intermediary factors and regulatory factors. Liao and Rice (2010) found that the corporate performance is related to the corporate transformation strategy and market participation. Only with the specific transformation results as the medium can the corporate performance be affected by the enterprise innovation driven. Wang Xiaoyan and Liang Yanqing (2019) found that the relationship between enterprise innovation investment and corporate performance may be affected by growth opportunities, which has a double threshold effect. When the growth opportunity is lower than the first threshold value, the enterprise innovation investment shows obvious negative influence on the performance of the company; when the growth opportunity exceeds the first threshold value, the enterprise innovation investment has obvious positive impact on the company performance; when the growth opportunity crosses the second threshold value, the enterprise innovation investment on the company performance is significantly positive, but the impact degree is significantly reduced

3.2. Influence of corporate performance on corporate innovation

There are multiple discussions on the feedback impact of enterprise performance on innovation input. One view is that there is a positive feedback of enterprise performance on innovation investment. When innovation investment improves the financial performance of enterprises, enterprises may allocate more resources to innovation activities to achieve higher performance. Branch (1974) research shows that the change of enterprise innovation investment is positively correlated with the change of corporate performance. This shows that when the company performance increases, the enterprise will increase the innovation investment, and when the company performance decreases, the enterprise will reduce the innovation investment. Wang Renfei (2005) found that the company performance has a positive effect on the innovation investment and innovation intensity of the enterprise. The higher the company performance, the more resources it allocates to the innovation activities, and the more conducive to the technological innovation of the enterprise. Baber et al. (1991) pointed out from the opposite perspective that when innovation activities may lead to a decline in current performance or profitability, enterprises may prioritize short-term performance targets and reduce investment in innovation activities.

Another view is that there is a negative feedback of enterprise performance on innovation investment. In their research on technology-intensive industries, Yin Meiqun et al. (2018) found that there is a cyclical effect on the income obtained from enterprises investment in innovation activities. The company increases the innovation investment in the early stage to promote the current company performance, and the improvement of the current performance makes the management slow down the pace of innovation, leading to the decline of the performance in the future stage. In order to improve the performance, the company will increase the innovation investment again. The feedback effect of corporate performance on corporate innovation may also be influenced by other factors. Janosova and Jirasek (2017) found that board heterogeneity may have an impact on the performance feedback process, and the characteristics of board turnover, average age and board size may affect the performance feedback process, as well as the willingness of enterprises to change innovation investment due to the performance feedback effect.

4. Related study on compensation incentive and executive attachment

4.1. The impact of compensation incentive on independent senior executives

From the perspective of senior executive heterogeneity, Liu Shaobo and Ma Chao (2016) divided senior executives into three types: independent, dependent and one-body type according to the degree of attachment of senior executives to shareholders. Independent senior executives are selected from the market and held by professional managers. At this time, senior executives have their own interest demands and behavior patterns, and they are quite different from the interests of shareholders. They tend to avoid risks, so they are unwilling to actively increase innovation activities. Jiang FuXiu (2017) research found that compared with the shareholders as executives, independent executives place enterprise less innovation investment, lower level of innovation, less risk investment, and shareholders and the company top collusion tendency, and independent executives of enterprise performance than the shareholders as executives. However, the empirical results of Jia Zichao et al. (2017) show that the performance sensitivity of independent executive compensation is significantly higher than that of the family CEO. That is to say, a reasonable salary system may help coordinate the interests of independent executives and shareholders and promote the long-term development of the enterprise. Jia and others also found that family members involved in and supervise the operation of the company could play the same role as salary incentives. If we can ensure that the family members can supervise the operation of the company, the family business can strengthen the management of independent executives through the supervision of the family members, and alleviate the representatives of senior executives and shareholders Reduce the adherence to the compensation contract

4.2. The impact of salary incentive on dependent senior executives

Attached executives are appointed by major shareholders, have more contact with major shareholders than independent executives, and appear more in state-owned holding companies. The study of Mullins and Schora (2016) found that the management style and philosophy of dependent executives are consistent with shareholders and have a direct or potential connection with shareholders. As Liu Shaobo and Wang Chao (2016) pointed out, dependent executives are motivated to pursue personal interests, but their personal interests are less strong than independent executives. The demand for compensation incentives remains the dependent executives remains, but not as strong as independent executives.

4.3. The impact of salary incentive on senior executives

A senior executive is a major shareholder or his family member and has no personal interests. A senior executive is not an independent subject, and it acts in concert with the major shareholder. When studying the role of kinship in family business, Zhao Yiyi and Lu Changjiang (2015) found that senior executives had the lowest demand for compensation contracts and the best economic consequences. Relationships were reduced

It needs the demand for compensation contract, and the relationship can achieve effective incentives by itself, which has a positive impact on the companys performance. This may be related to the fact that different types of executives have different attitudes towards risk. As shown in the study of Tang et al. (2016), if shareholders are senior executives, they are more inclined to take risks. For the long-term development and long-term value of the company, they may consider more innovation activities with risks but long-term benefits to the company. LuJun (2023) of the research results also show that shareholders in listed companies as key executives can significantly improve the enterprise innovation and innovation output,

the founder of the entrepreneurship for long-term decision vision, resource acquisition ability and enterprise risk taking tendency are positive influence, so as to improve the level of enterprise innovation and innovation ability.

It can be seen that the compensation incentive for senior executives is closely related to its dependence on shareholders. The stronger the independence, the greater the differences between the interests of executives and shareholders, the greater the importance of compensation incentive; the weaker the independence, the more the interests of executives and shareholders, and the lower the demand for compensation incentive.

5. Conclusion

The existing literature has rich research results on enterprise innovation, corporate performance and salary incentives, which lays a solid foundation for subsequent research. Through the sorting out of the literature, the paper found that the relationship between innovation investment and enterprise performance cannot be simply concluded, and the two may have an endogenous relationship of mutual promotion or mutual exclusion. In one case, the innovation behavior of the enterprise effectively improves its own performance. When the innovation investment improves the financial performance of the enterprise, the enterprise will get more resources and further allocate them to the innovation activities. At this point, innovation investment and enterprise performance are complementary and promote each other. In the other case, the increase of innovation investment may lead to the allocation of resources to innovation activities, which will lead to the decline of short-term financial performance and profitability. The decline of performance prompts executives to refocus on innovation, thus increasing innovation investment. This situation may be related to the conflict of resource allocation and the periodicity of innovation activities, when the innovation investment and enterprise performance are mutually exclusive.

Research on the impact of salary incentive on enterprise innovation. Compensation incentive may both promote innovation investment and inhibit innovation investment, and may have a non-linear relationship with enterprise innovation. Therefore, the compensation incentive of senior executives should start from the actual situation of the enterprise, and fully consider the sensitivity of the executive compensation performance and the interaction of innovation investment and the performance of the company, so as to achieve the optimal incentive effect. In addition, the degree of dependence of senior executives to shareholders should be considered, and the most appropriate compensation incentive system should be formulated according to the specific interests of executives.

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