

# Analysis of Compensation Incentive Mechanism under the Internationalization of Chinese Corporates

Yuxin Wang

School of Business, Hohai University, Nanjing 211100, China

1919309314@qq.com

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**Abstract:** Chinese corporates have made rapid progress under the internationalization strategy. And now they're having problems with establishing a complete and efficient intentional compensation incentive mechanism. Starting from summarizing the deficiency of the compensation incentive system through Chinese corporates, this paper mainly puts forward some corresponding suggestions to encourage those Chinese corporates to improve their systems, respect and make full use of cultural differences, and better integrate into the tide of internationalization.

## 1. Introduction

In 1960, Stephen Hymen, an American scholar, put forward the theory of monopoly advantage in his doctoral dissertation, which made the concept of corporate internationalization formally enter the public's field of vision and caused extensive discussion and further research by subsequent scholars. Many corporates in emerging economies are also looking to the international market for greater profits and have already occupied a pivotal position. Among them, the development of Chinese corporates in the process of internationalization is noteworthy. In today's increasingly fierce market competition, corporates also need to strengthen internal management like improving the existing compensation incentive system, which will help them comply with the international trend, carry out revolutions, and maintain great competitiveness in the international competition. How to promote the integration and common prosperity of the two has become an urgent issue for Chinese corporates in the process of internationalization.

## 2. Corporate Internationalization and Compensation Incentive System

### 2.1 The Definition of Corporate Internationalization

At present, scholars have not reached a consensus on the specific concept of corporate internationalization. The mainstream views are as follows:

(1) Corporate internationalization is the transition from the gradual development and expansion of the corporate itself and its business activities to overseas. In this continuous process, local corporate will gradually improve its commitment to the overseas market.

(2) Corporate internationalization refers to the tendency of local corporates to follow the international market preference in terms of production factors and the flow of products and services. This view holds that corporate internationalization is oriented to all markets, and there is no specific country or region orientation;

(3) Corporate internationalization is the summation of all methods used in the process of transnational operation, emphasizing the regional scope and all related business activities across national boundaries.

(4) Corporate internationalization is the combination of open and go-out strategy, which can be divided into two aspects: inward and outward internationalization. Inward internationalization mainly includes the introduction of products, technology, management experience, etc., while outward internationalization mainly includes the international flow of production factors of local corporates, the establishment of overseas distribution, etc.

Based on the above points of view, considering the fluency of the description and analysis, this paper defines the internationalization of corporates in a narrow sense as outward internationalization, which includes a series of activities including the flow of production factors, products and services between countries, as well as overseas branches, trade exports, etc.

## **2.2 The Importance of the Compensation Incentive Mechanism**

Compensation incentive is to improve the enthusiasm of employees through the adjustment of compensation management mechanisms such as compensation structure, compensation composition and compensation level. A great compensation incentive mechanism can guide employees to define their responsibilities, promote the improvement of performance, and make continuous efforts in the direction of strategic development of the corporates, so as to achieve a win-win situation between the corporate and employees; Besides, a proper compensation incentive mechanism can help employees work more actively, give full play to their subjective initiative, and fully realize their value. Finally, it also can reflect the principle of fairness in all aspects, so that employees can maintain a good relationship between competition and cooperation, thus to ensure the harmonious and stable development of corporates.

## **3. The Current Situation and Suggestions of Compensation Incentive Mechanism of Chinese Corporates in the Context of Internationalization**

In the context of internationalization, due to the differences in economic system, political system, cultural customs and so on, the local corporates in China are slightly inadequate in international management. First of all, compensation structure and compensation composition will affect the incentive effect on employees. According to the two-factor theory, the factors that affect the incentive effect are divided into motivator factor and hygiene factor. Hygiene factors are related to whether employees will have a “dissatisfaction” mood, while motivator factors are related to how satisfied employees are. Therefore, we should give full play to the role of motivator factor to meet the needs of employees to improve the individual satisfaction of employees and achieve the incentive effect. However, at present, the compensation structure and composition of Chinese international corporates are still in a relatively imperfect stage. The compensation form of ordinary employees is too simple, mainly in the form of a basic salary. At the same time, the needs of grass-roots employees are often not met, resulting in low loyalty and a low sense of responsibility since it affects their work efficiency and enthusiasm. Therefore, it is necessary to carry out cultural and compensation surveys and establish a reasonable compensation structure and composition system.

For the international employees at the primary level, the corporate lacks diversified forms of compensation incentive measurement, and most of them pay in currency. Fair, scientific and various ways of compensation incentive measurement s are conducive to improving the enthusiasm of employees to achieve the ideal goal of the corporates. Also, those corporates are lack of a precise quantitative system for compensation incentive related indicators, which also directly affects employees' attention to their performance. A perfect evaluation system is conducive to the objective evaluation of the performance of employees in international corporates and guiding employees so that they can make more targeted efforts.

Meanwhile, the compensation incentive system for managers of those international corporates is also unreasonable. The high compensation level of managers in most international corporates will cause the public to question the matching degree of executive compensation and performance. And it is not conducive to maintaining the internal compensation equity of the company. The low sensitivity of the manager's salary and performance reflects the imperfection of the compensation management system and the lack of information disclosure in international companies, which will affect the social image of corporates and the enthusiasm and loyalty of internal employees. It is also not conducive to encouraging senior managers to improve their level and create greater value for their corporates. Also, the highly sensitive relationship between manager compensation and corporates performance is also conducive to the selection and employment of high-quality

international managers to further improve the overall strength of corporates.

Under the background of internationalization, the current situation of compensation incentives in Chinese corporates is not perfect mainly because of the backward concept of compensation management and the defects of the system. On the one hand, the lack of awareness of using compensation incentive to form compensation incentive culture makes corporates pursue more material benefits rather than comprehensive benefits; on the other hand, due to certain difficulties and costs in identifying cultural differences and transnational salary surveys, many corporates are reluctant to pay extra efforts to carry out in-depth research on it. They would rather use the compensation management system of traditional domestic corporates or even backward domestic corporates to motivate employees of different cultures in the context of internationalization. Therefore, to help Chinese corporates to achieve better compensation incentive effect in the context of internationalization, it is necessary to deeply understand the cultural differences of different countries, improve the corresponding compensation management and compensation incentive system, and give full play to the potential of different employees.

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