

Research on the Relationship between Executive Compensation and Enterprise Innovation

Chiyin Wang

University of Putra Malaysia, Sarden District, Selangor State, 43400, Malaysia

sunnywangchiyin@gmail.com

Keywords: Executive salary, Enterprise innovation, Relationship

Abstract: In the process of national development, scientific and technological innovation is not only one of the ways to promote China's economic growth and adjust the economic structure, but also a very important development strategy in China. In the fierce market competition, if enterprises want to improve their core competitiveness and achieve sustainable development, they need to adhere to innovation and actively carry out innovation activities. However, the development of innovation activities requires a lot of funds and resources. While investing, enterprises will inevitably face risk problems such as low return. Enterprise executives are an important leading force in enterprise innovation decision-making. Therefore, it is of great practical significance to study the relationship between executive compensation and enterprise innovation.

1. Introduction

Innovation ability is one of the important factors to measure the development level of a country and an enterprise, and improving the technological innovation ability of enterprises has an important impact on improving the level of national independent innovation. The improvement of enterprise innovation ability can play an important role in promoting social and economic progress. In the development of enterprises, executives and employees are important members. Only by correctly understanding the relationship between executive compensation and enterprise innovation can they stimulate their innovation power, continuously improve the level of enterprise innovation ability and ensure the long-term and stable development of enterprises.

2. Relationship between Executive Compensation and Enterprise Innovation

In enterprise innovation, executives are not only the commander of the enterprise, but also the main force of innovation, with decision-making power. Executive compensation refers to the salary composed of wages and bonuses paid by enterprises to executives. It is not only the recognition of executives' working ability, but also the guarantee of executives' work and life, playing a certain incentive role for executives. If the salary incentive of enterprises is not reasonable, senior managers are prone to risk aversion. Because there are many uncertain factors in innovation projects, in the actual work process, executives will consciously avoid some high-risk innovation projects, which will have a certain impact on the innovation ability of enterprises. However, if the enterprise can take certain salary gap incentive measures according to its own development, it can effectively alleviate some agency conflicts, enhance the confidence of senior executives in innovation activities, so that they can actively carry out innovation projects. For the temporary decline of business performance due to enterprise innovation activities, enterprises should give a certain buffer to ensure the stability of executive compensation on the basis of ensuring the economic benefits of enterprises. In this way, it can make executives' decision-making more scientific and reasonable, improve executives' risk-taking ability, and make innovation project decision-making more efficient.

By consulting the relevant literature on executive compensation and enterprise innovation, many scholars believe that executive compensation is an internal governance factor of enterprises, which

has a certain incentive effect on enterprise innovation and can promote enterprise innovation. By analyzing some data of Chinese manufacturing enterprises, it can be seen that encouraging the CEO of enterprises can improve the innovation ability and innovation performance of enterprises. A scholar verified the promotion effect of vertical salary gap on enterprise innovation through Tobit method, and also found that management salary premium will affect the quality of innovation. Other scholars have proved that whether the annual salary of CEO is connected with R & D investment will have a certain impact on the incentive effect of executive compensation on enterprise innovation, that is, there is an obvious positive correlation between CEO's newly increased salary and enterprise innovation. Therefore, in order to promote enterprise innovation, we need to establish a scientific and reasonable executive compensation system, and integrate long-term incentive and short-term fault tolerance into the compensation system.

3. Impact of Executive Compensation on Enterprise Innovation

If enterprises want to maintain strong vitality, they must actively carry out innovation activities. However, there are many uncertain factors and risks in innovation activities. Compared with other business activities, the failure rate of innovation activities is much higher. Therefore, in order to achieve the goal of sustainable development, the management needs to make innovation decisions. Executives play an important role in the decision-making of all matters of the enterprise. In order to carry out effective innovation activities, we need to fully mobilize the initiative and enthusiasm of executives in innovation activities. Appropriate salary incentives for executives can reduce or avoid the inconsistency between agency costs and information, enhance executives' awareness of innovation and improve their enthusiasm for innovation. At the same time, in innovation activities, giving executives a certain fault tolerance can improve the motivation of their innovation activities and establish their confidence and determination to create economic benefits. In addition, the enterprise should timely control the impact of the external environment on itself.

Executive compensation is the reward given by the enterprise to senior managers after they make great efforts to complete the business objectives and create wealth for the enterprise. From the executive compensation, we can see that the management right and ownership are separated in the actual operation and management of modern enterprises. Enterprise innovation requires the joint efforts of executives and employees to give full play to their talents and contribute to the enterprise. In the process of enterprise innovation, executives and employees need to have the spirit of innovation, the will to strive and forge ahead, and the ability to bear risks. From the perspective of human capital theory, the innovation spirit and innovation ability of enterprise executives and employees belong to intangible assets. These assets can help enterprises achieve business performance objectives. Therefore, we should give full play to the advantages of human resources. Internally, we can mobilize the enthusiasm and initiative of enterprise executives and employees, and provide compensation matching the ability of executives and employees, which can meet their needs in thought and life, so as to play a motivating role. Externally, by regularly organizing education and training, we can improve the quality of human resources as a whole and improve their adaptability, so that they can better deal with the pressure brought by the external market and competitive environment. Generally, enterprise executives have rich knowledge and excellent management ability. They play an important role in the innovation and development of enterprises. Therefore, in order to achieve better development, enterprises need to take effective and motivating measures to retain senior executives and minimize the loss of core talents. Enterprise employees are the members with the largest number and proportion in the process of enterprise operation and development. They are not only an important guarantee for enterprise productivity, but also the main force to realize enterprise value. In order to maximize the enterprise value, fully mobilize the initiative of executives and employees, and create more profits for the enterprise through innovation activities, the enterprise must establish a perfect incentive mechanism, form a great attraction to executives and employees, promote the combination of personal interests and enterprise interests, so as to ensure the sustainable development of the enterprise and realize the personal value of executives and employees. Referring to the relevant literature research, it can be seen that salary

incentive can motivate the innovation behavior of executives and employees, and further improve the innovation ability of enterprises.

According to the tournament theory, the salary gap of internal members has an important impact on the effectiveness of salary incentive. In general, employees are the first to put forward innovative ideas and the executor of innovative schemes. Executives are not only the decision-makers of innovation projects, but also the managers of innovation activities. According to the contribution of executives and employees to the enterprise, the enterprise will give appropriate compensation, and then there will be a salary gap. The existence of this gap can not only fully reflect the personal value of executives and employees, promote them to have a sense of achievement and satisfaction, more actively participate in innovation activities, give play to their own value, and then obtain greater benefits, but also promote executives and employees to pay more attention to the vitality of the enterprise and urge them to work harder, so as to obtain more salary rewards. In addition, it can enhance their sense of urgency, make them actively participate in innovation activities, and contribute to the realization of enterprise value. At the same time, the existence of salary gap can also stimulate the work enthusiasm of enterprise employees, have a positive impact on their daily work behavior, promote them to standardize their behavior at work, minimize the occurrence of slackness and other bad phenomena, effectively reduce the supervision cost, improve work efficiency, and provide help for the improvement of enterprise innovation ability. Therefore, a reasonable salary gap plays an important incentive role in enterprise operation and management. It can encourage enterprise executives and employees to take risks, actively participate in innovation activities, create more profits for the enterprise and maintain the vitality of the enterprise. Due to the existence of salary gap, executives and employees are more willing to contribute their wisdom to innovation projects, maintain advantages and occupy a favorable position in the fierce competition through efforts and struggle, so as to continuously improve the innovation ability of enterprises. According to the above contents, this paper puts forward the hypothesis that the salary gap between executive and employee is positively related to enterprise innovation.

From the innovation theory, we can understand that innovation activities need to study new fields and new products, and constantly explore new channels and markets, which is also one of the ways to maximize benefits. However, innovation activities need a process. In the early stage of innovation, a lot of resources, such as financial resources and talents, need to be invested. Moreover, in the process of innovation, it may fail and cause huge losses to enterprises. Even if the innovation is successful, the transformation of its achievements will take time, and it will take some time to adapt to the market. It can be seen that innovation activities have a lot of uncertainty and high risk. As the leader of the enterprise, executives have management and decision-making power over the operation and development of the enterprise. They are the guides of enterprise innovation activities. The operation and management of innovation activities are inseparable from executives. Whether executives can lead enterprises to carry out innovation activities with high risk and high profit determines whether enterprises can embark on the road of innovation. Innovation activities are unpredictable, and mistakes will inevitably occur in the process of practice. At this time, if the enterprise executives are punished for their temporary mistakes, it will attack the enthusiasm of executives' innovation and is not conducive to the development of enterprise innovation activities. Therefore, in addition to considering the incentive effect of salary gap on enterprise executives and employees, we should also consider the stickiness of executive compensation, allow executives to make innovation mistakes within a certain period of time, tolerate the mistakes of executives in innovation activities, and encourage executives to dare to try, actively carry out the development and research of innovation projects, so as to continuously improve the risk-taking ability of executives.

4. Conclusion

This paper studies the relationship between executive compensation and enterprise innovation. Executive compensation plays an important role in promoting enterprise innovation projects. Only by continuously improving the innovation ability can we improve the competitiveness of enterprises

and ensure the healthy development of enterprises. Therefore, we should pay attention to the contribution of executives in promoting innovation, focus on improving the core competitiveness of enterprises, and continuously promote the implementation of innovation projects by improving executive compensation.

References

- [1] Luo Xiaoya. Empirical Study on the relationship between executive compensation and corporate innovation performance from the perspective of executive gender heterogeneity [J]. Fortune Today, no.19, pp.217-219, 2021.
- [2] Xia Han. Executives' experience in cross-border, manager incentive and enterprise innovation [J/OL]. Scientific Research Management: 1-9 [2021-11-04]. <http://kns.cnki.net/kcms/detail/11.1567.G3.20210909.1326.004.html>.
- [3] Xiu Zexin. Executive compensation stickiness and innovative R & D -- the regulatory role of enterprise risk taking [J]. Journal of Xi'an Institute of Aeronautics, vol.39, no.04, pp.67-75, 2021.
- [4] Xie Tong. Research on the relationship between executive compensation, ordinary employee compensation and enterprise investment efficiency [D]. North China Electric Power University (Beijing), 2021.