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Literature Review of the Impact of Executive Incentives on Corporate Innovation

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Abstract

Enterprise innovation is an important support for Chinese future economic development, while executives are important decision-makers for companies to innovate. Therefore, systematically studying the impact of executive incentives on Chinese enterprise innovation has guiding significance for long-term economic development. In order to comprehensively analyze the impact of executive incentives on corporate innovation, this paper reviewed the impact of three different incentive methods on corporate innovation, including salary incentives, equity incentives and promotion incentives. Through combing and analyzing the relevant literature at home and abroad, the main deficiencies of the existing research are pointed out, and the future research trend of this direction is forecasted, in order to provide a theoretical basis for the company to formulate a reasonable executive incentive plan.

Keywords

principal-agent theory; executive incentive; corporate innovation.

1. Introduction

"Only reformers advance, but innovators are strong, but reform-and-innovators win." Innovation is an important strategic support for improving Chinese social productivity and national strength has gradually become the focus of social attention. Technological innovation by enterprises can promote industrial upgrading and enhance national competitiveness.

According to the principal-agent theory, in the modern enterprise system, due to the separation of ownership and management rights of the enterprise, the ultimate goal of the enterprise owner and the enterprise operator is different: the goal of the enterprise owner is to maximize the value of the company, and the operator's goal is to maximize personal interests. Because it is difficult for enterprise owners to effectively supervise operators, when the company's interests differ from the operators' own interests, the operators tend to prefer to maximize their own interests while making decisions. In order to solve such problems, enterprise owners need to implement incentives including compensation incentives, equity incentives and promotion incentives. As the most important decision-maker of enterprise innovation investment, management is affected by the level of incentives to a large extent, and the content and intensity of the incentives are different, so the decision-making will also be different. Extensive research has been conducted on the relationship between incentives and corporate innovation. On the basis of summarizing the relevant literature at home and abroad, this article, combined with the current situation of Chinese executive incentives, puts forward my own new understanding and gives suggestions in order to provide reference countermeasures for listed companies' executive incentive mechanism.

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2. Literature Review

2.1. Summary of the Impact of Executive Compensation Incentives on Corporate Innovation

Modern principal-agent theory believes that executives can serve the goal of maximizing corporate profits by linking executive compensation with company performance. And this theory is basically confirmed in the field of enterprise innovation. Li Chuntao and Song Min [1] conducted a survey on 1,482 manufacturing companies in 18 cities of China and found that incentive compensation for executives can promote enterprise innovation, and the promotion effect of the property rights incentives is different, state-owned property rights will weaken the promotion of executive compensation incentives to corporate innovation. Niu Yanxiu et al. [2], Wang Jianhua et al. [3] and Zhang Yueyan [4] conducted empirical analysis on enterprises in different industries, and concluded that executive compensation incentives have a promoting effect on corporate innovation. Judging from the incentive theory and the above research results, the promotion effect of executive compensation incentives on corporate innovation is basically recognized.

In summary, domestic and foreign scholars have basically recognized the promotion of executive compensation incentives for corporate innovation, but for companies with property rights, the promotion of executive compensation incentives is different.

2.2. Summary of the Impact of Executive Equity Incentives on Corporate Innovation

Wu and Tu [5] examined the relationship between executive incentives and listed company R&D expenditures from the perspective of agency theory. The results of the study found that equity incentives have a positive effect on innovation investment. Zhai Shengbao [6] selected listed manufacturing companies and classified welfare-based and incentive-type equity incentives, then concluded that incentive-type equity incentives have a significant positive effect on corporate innovation. Wang Li et al. [7] conducted a regression analysis on Chinese A-share high-tech listed companies from 2012 to 2017, and found that equity incentives have a promoting effect on enterprise innovation investment. Morck [8] based on the two hypotheses of trench effect and interest convergence, found that equity incentives have a range effect on corporate innovation. Lee et al. [9] found that the effects of executive stock ownership incentives and option incentives are different from those of small technology companies. Stock ownership incentives and corporate innovation are negatively correlated, while executive stock options and corporate innovation are positively correlated.

In summary, various scholars have different conclusions about the impact of executive equity incentives on corporate innovation. Investigating the reasons, the author believes that there are the following two points: firstly, because innovation input and innovation output are not completely positively related, therefore, to use R&D expenditure to measure enterprise innovation makes innovation income uncertain; secondly, due to the nature of property rights and owners Different levels of control produce different management defense strengths.

2.3. Summary of the Impact of Executive Promotion Incentives on Corporate Innovation

Fan Hejun et al. [10] used all A-share listed companies from 2007 to 2016 as a sample to empirically test the impact of executive promotion incentives on corporate innovation performance, and found that there is a positive impact under a single factor when it is used simultaneously with equity incentives Weaken this positive influence. Lu Xin et al. [11] based on the national economic transformation and upgrading policy and the SASAC performance evaluation standards for senior executives of state-owned enterprises, empirically tested that

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political promotion promotes innovation investment in state-owned enterprises. Li Li et al. [12] used the data of executive changes of state-owned listed companies from 2007 to 2015 to analyze the impact of different managerial powers on the political promotion and innovation investment of state-owned enterprises from the perspective of managerial power. It is concluded that political promotion has an inhibitory effect on innovation investment, and the greater the power of managers, the more obvious the inhibitory effect

In summary, various scholars have different conclusions about the impact of executive promotion incentives on corporate innovation. The author believes that the main reason lies in the different nature of enterprise property rights and the different promotion incentives implemented, which are mainly divided into political promotion and job promotion. In state-owned enterprises, due to institutional reasons, and enterprise managers need to accept the SASAC's inspection, executives are more inclined to conservative investment behaviors, so political promotion led executives to avoid corporate innovation in order to evade taking responsibility.

3. Reviews and Recommendations

This article summarizes the literature on the relationship between executive incentives and corporate innovation from multiple perspectives. From the above combing, we can see that: firstly, the impact of different incentive forms on corporate innovation is different, and there is conclusion that different forms of incentive interactions produce different effects; Secondly, the existing literature mainly studies promotion in politics, and lacks research on job promotion. Finally, due to the relatively short implementation time of equity incentives in China and China's special national conditions and systems, the general level of incentives is low. Therefore, it is impossible to fully compare the foreign research conclusions.

In view of the problem of insufficient existing research, this article suggests that the following aspects can be improved in the future:

Firstly, in-depth discussion of the interaction of the incentives of executives in Chinese listed company, objectively comment on their effects, and help companies reduce the problem of principal-agent theory in the process of formulating incentives.

Secondly, how can we effectively avoid the executive earnings management behavior caused by executive incentives, or reduce the adverse impact of such behavior on the company, is a problem worthy of consideration and research by Chinese scholars in the future.

Thirdly, research of China on executive incentives should not only learn the methods and ideas of Western scholars, but also not copy blindly. Instead, it must comprehensively consider the market environment and unique systems of Chinese enterprises, and combine the specific characteristics of China's listed companies. Explore the influencing factors of executive incentives of listed companies in China, and design executive incentive programs that are consistent with their own realities.

Lastly, the impact of promotion incentives on enterprise innovation can be subdivided according to ownership, and different ways of promotion incentives for different companies are different. In the future, scholars can conduct further research on the impact of different methods on enterprise innovation.

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