

Literature Review on the Relationship Among Executive Compensation Structure Adjustment, Team Stability and Corporate Innovation

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Abstract

Under the new development pattern, innovation has injected inexhaustible power into social development. In addition to ensuring high-quality economic development, innovation has also become an important option for enterprises to break through the siege. However, as a major strategic decision of enterprises, innovation has the main characteristics of high cost, high risk and long return period, and the strategic decision is mainly in the hands of corporate executives, so enterprise innovation puts forward higher requirements for the top management team. As the key resource of innovation, talents are often poached by headhunters. Based on this, this paper analyzes the relationship of executive compensation structure adjustment, team stability and enterprise innovation..

Keywords

Executive Compensation Structure Adjustment; Team Stability; Enterprise Innovation.

1. Introduction

In today's world, with the continuous development of economy and the increasing degree of economic globalization, innovation, as a pillar to promote the healthy development and continuous progress of an enterprise and even a country, becomes more and more important. Today's international situation is unpredictable, and enterprises, as an important force in China's economic development, must take innovation as the top priority in the face of today's complex and changeable economic environment, so as to ensure their own healthy development, have a good ability of sustainable development, and avoid being eliminated in the market. While China has made these gratifying achievements.

The CPC and the state attach great importance to innovation, and have continuously introduced relevant policies to guide and promote enterprises to innovate and stimulate Chinese enterprises' enthusiasm for innovation. In 2015, the CPC Central Committee and The State Council of China put forward the strategy of accelerating innovation and development, improving the connection between innovation achievements and industries, increasing the salary level of R&D personnel, and improving intellectual property protection to stimulate the creative vitality of enterprises, so as to form a new pattern of sustainable development [1]; In 2016, it proposed to vigorously support the free exploration of basic research and create industrial agglomeration and flow centered on innovation elements. In 2021, China will deploy its national innovation strategy, which provided policy support for the innovation of Chinese enterprises, stimulate the atmosphere for innovation in China, and make China achieve sound and healthy development in innovation. In terms of the type of activities, the national funding for basic research was 146.07 billion yuan, an increase of 9.8%; 275.72 billion yuan for applied research, up by 10.4%; Therefore, it can be seen that the emphasis of R&D innovation in China is on experimental development, while the funding for basic and applied research is less. In terms of the categories of activities, the R&D expenditure of various enterprises reached

1867.38 billion yuan, up 10.4% over the previous year; Government research institutions spent 340.88 billion yuan, up 10.6 percent; It can be seen that China's main force in R&D innovation is still enterprises, which are an important part of the national economic development. In terms of regions, eight provinces (Guangdong, Jiangsu, Beijing, Zhejiang, Shandong, Shanghai, Sichuan and Hubei) invested more than 100 billion yuan in R&D in 2020. To sum up, although China's innovation level is in a period of continuous improvement, there are still many problems that need to be paid attention to, such as unbalanced distribution of R&D investment in various fields and inadequate distribution of R&D investment in various regions. In the future development, it is necessary to analyze the specific national conditions of China, fully mobilize the enthusiasm and creativity of enterprises, and contribute to China's R&D innovation.

In today's society, as the main organizational structure in China's economic development, enterprises are very important to promote China's economic development. According to the principal-agent theory, the ownership of a company is separated from the management right, so the agency problem will occur. Therefore, in order to reasonably alleviate the agency problem of enterprises, formulate reasonable incentive measures, and achieve efficient incentive effects, many related researches have emerged in the field of corporate governance. According to the incentive theory, corporate executives have their own needs and desires, and different compensation methods can have different attraction to corporate executives. A reasonable executive compensation structure is extremely important for enterprises, which enables enterprises to retain more talents. In recent years, senior executives leave frequently. According to the upper echelon theory, in the face of complex and changeable external environment, it is impossible for a single decision maker to pay attention to all aspects of the enterprise. Therefore, a good company operation should be a management team composed of several senior executives. Each member of the management team has their own skills and opinions, which can make up for each other and make the decision-making more scientific and reasonable [3]. Each top management team needs a certain running-in period to enhance mutual understanding and familiarity. In this way, the tacit understanding of the top management team can be improved, the work efficiency of the team can be improved, and it is easier to make reasonable and wise decisions and grasp the general direction of the company's development. With the change of The Times, today's senior executives are not only satisfied with monetary compensation, some people prefer high-quality equity compensation. Therefore, a reasonable executive compensation structure can better mobilize the enthusiasm and enthusiasm of corporate senior management.

To sum up, most of the existing research still focuses on the impact of executive compensation structure or the stability of the top management team on enterprise R&D innovation alone. However, there is no specific conclusion on the impact of different compensation structures on the R&D output of enterprises, which is a problem worth discussing. Therefore, this paper makes an overall analysis on the basis of the existing research literature, starts from the executive compensation structure, carries out analysis according to the mode of "compensation structure - executive behavior - enterprise performance".

2. Research Trends and Comments at Home and Abroad

2.1. Literature on Executive Compensation Structure Adjustment

It is determined by multiple behavioral factors [4]. Hambrick (1984) believed that the top management team is all the senior management personnel in the enterprise. Nowadays, the top management team mainly refers to the CEO, general manager and the senior managers who directly report to them [5]. The existing research on the top management team is mainly carried out from the perspective of demography, mainly from the characteristics of gender. In the competitive environment of market economy, decision-makers are often faced with a very

difficult situation when making strategic decisions. The teamwork of a team can often better understand the direction of the market, better grasp the formulation of strategic decisions, improve the efficiency and comprehensiveness of decision-making, and then drive the improvement of enterprise performance. Meanwhile, the heterogeneity of the top management team can better reflect the comprehensive communication and collaboration ability than the mean value itself by obtaining and filtering information and data from various aspects. Furthermore, the heterogeneity of the top management team can better reflect the comprehensive communication and collaboration ability than the average value itself, which can affect the strategic choice of enterprises and help the improvement of organizational performance [6]. In a broad sense, the compensation of the top management team includes not only monetized compensation but also non-monetized compensation such as equity. The most fundamental research on the compensation structure of the top management is originated from the principal-agent theory in the 1980s. Jensen and Meckling first put forward the principal-agent theory in 1976, and the theoretical research has been more and more productive in the following decades. However, most scholars' research on executive compensation structure shows that there is a significant correlation between executive compensation structure and enterprise innovation [7].

In terms of the research on compensation structure, foreign scholars started early. In the 1980s, a large number of excellent research results such as tournament theory and behavior theory emerged at the historic moment. In terms of empirical research, theories were linked to data and analytical methods were rich. At the same time, most of the domestic research is based on the excellent research results of the West, combined with the enterprise environment for research. Most of the samples studied by foreign scholars are enterprises in mature market environment, while the samples studied by domestic scholars mainly focus on enterprises listed on the main board, and there are relatively few studies on small and medium-sized enterprises listed on the board. Most scholars choose relatively few indicator variables, which are highly subjective, and there are many simple linear studies [8]. The citation of mediating variables and moderating variables is relatively small. The research of domestic and foreign scholars on salary structure basically focuses on the research of salary gap or equity incentive on corporate performance, while the literature on the research of combining cash and equity on corporate performance is relatively small. This comparative conclusion is related to the differences in the development environment and governance structure of domestic and foreign enterprises. At the same time, it is also related to the selection of samples, the construction of variables and the selection of research methods in the research process of domestic and foreign scholars. However, through the research, domestic and foreign scholars have reached a consistent conclusion that the compensation structure of the top management team of listed enterprises affects the innovation of enterprises.

2.2. Literature Related to the Stability of Top Management Team

As for the influencing factors of the stability of the top management team, most of the existing research analyzes the type of top management change, which can be divided into the succession method of top management (internal succession and external succession) and whether the main top management positions are changed [9]. Foreign scholars have studied the relationship between the way of top management change and team stability, and found that internal and external top management succession will have different effects on team stability. Liu Xinmin and Wang Lei found that after the external turnover of top management, due to the lack of coordination among the adjusted team members and the lack of internal promotion opportunities, the probability of the restructuring of the top management team will be increased, that is, the stability of the top management team will be reduced. It is conducive to the improvement of the stability of the top management team [10]. Lyu Rongjie, Zhang Wenwen

and Wu Chao believed that the external succession of senior executives will hit the work enthusiasm of team members. As one of the core members of the top management team, the change of the general manager is positively correlated with the turnover rate of other senior executives in the top management team. Xu Xiangyi and PangJinyong studied the relationship between the term of office of the departing key executives and the stability of the top management team.

The existing research on the stability of top management team is carried out on the basis of top management turnover. In addition, as the stability of the top management team is an important guarantee for the continuity of strategic decision-making and the reliability of strategy implementation, maintaining the stability of the team plays a vital role in the development of the enterprise. In order to reduce top management turnover and maintain team stability, more and more enterprises begin to rely on compensation policies to attract and retain top management. However, different forms of compensation will affect the behavior of top management, resulting in different degrees of top management turnover, and then affect team stability. This part mainly reviews the relevant literature on monetary compensation and team stability, equity compensation and team stability, and different compensation composition and team stability [13]. For monetary compensation, the formulation of compensation contract will be affected by industry compensation. For example, Jiang Wei found that the compensation set by the board of directors is usually equal to or greater than the industry compensation, so as to play a role in motivating senior executives, and thus achieve the purpose of retaining and utilizing the human capital of the management. If the salary is lower than the average of the industry salary, the senior executives will have negative psychology that their own interests will be eroded, and the probability of automatic dismissal will increase accordingly, which will destroy the stability of the team. In addition to comparing with external salary, senior executives will also compare their own salary with internal salary, such as comparing with the salary of other team members. If the salary gap is too large, senior executives will have unfair psychology, and the turnover rate will increase, indicating that senior executives at the same level care more about the fairness of the salary level, rather than the salary level. However, based on the tournament theory, some scholars have found that the larger the executive pay gap is, the more likely the senior executives will stay in the enterprise to participate in the competition, so as to obtain the salary appreciation after individual promotion, and the less likely they are to take the initiative to quit [14]. In addition, senior executives will also compare their efforts with their returns. As for equity compensation, Lyu Changjiang et al. believe that listed companies choose to implement equity incentive plans for different motives, including the demand for human capital. Therefore, equity incentive is gradually becoming an important compensation incentive mechanism for enterprises to attract and retain talents. Wang Shuxun et al. also supported this view, believing that the motivation of equity incentive is to retain senior management talents, to make the interests of option holders and shareholders converge, and to promote the innovation of the company. At present, some scholars have discussed the relationship between equity incentive and senior management turnover, and the results show that the implementation of equity incentive has the effect of retaining senior management. Further analysis shows that no matter the use of stock option or restricted stock, there is no significant difference in the senior management turnover, which proves that equity incentive plays a role of "stabilizing military mind" to a certain extent [15]. However, some scholars hold the opposite view, believing that the executive equity incentive can not only play the role of golden handcuffs to retain senior executives, but also increase the turnover rate of senior executives. Few scholars have studied the relationship between different compensation contract composition and team stability. Zhang Yong and Wu Chuanwen believe that different compensation forms have different incentive effects. In order to optimize the incentive effect, we should arrange the compensation composition form scientifically. Other scholars believe

that even a small change in the structure of managers' compensation will have a direct impact on the turnover of senior executives, which will destroy the stability of the team.

2.3. Relevant Literature on Executive Compensation Structure Adjustment, Team Stability and Corporate Innovation

In recent years, the research on innovation has gradually become popular in China. Scholars and enterprises have begun to carry out extensive research on innovation performance from different regions and industries. As a period of transforming from a manufacturing power to a creative power, it is crucial to drive talents. As the direct makers and decision-makers of corporate strategic decisions, senior executives have a very important impact on the development of enterprise innovation activities and the improvement of innovation performance [16]. Li Fei found that technological innovation positively affects enterprise performance, and the shareholding ratio of the largest shareholder negatively moderates the positive correlation between technological innovation and enterprise performance of listed companies on the small and medium-sized board [17]. Therefore, appropriate compensation incentive should be given to the top management team to promote the improvement of innovation performance of GEM listed new enterprises. Xu Yu et al. found that there is a significant positive correlation between the compensation incentive of the top management team and the innovation performance, and the internal effectiveness control can positively moderate the impact of the compensation incentive of the top management team and the innovation performance. Zhang Shanhu et al. proposed that employees' innovation performance is the basis of enterprises' innovation activities. Based on this, 1151 survey sample data were used as the research object to analyze the relationship between executives' total compensation, human capital investment and innovation performance. The research results show that there is a significant positive effect between the total compensation of enterprises and employees' innovation performance. Li Guodong et al. took the salary data of researchers in China's provinces in the ten years after 2006 as the research sample to study the relationship between the salary of researchers and regional innovation performance. After empirical analysis of the research data, it was found that there was a significant interaction between the salary of researchers and innovation performance in some regions, but there was no significant interaction in some regions. Based on the endogeneity perspective, Yin Meiqun et al. explored the relationship among top management team incentive, enterprise innovation investment and performance. Through the empirical analysis of the listed enterprises on the main board, it was concluded that executive compensation incentive significantly positively regulates the relationship between enterprise innovation investment and innovation performance [18].

The members of the top management team jointly make and implement the strategic decisions of the enterprise, and the stable top management team can complete the plan according to the established goals. At present, there are few studies on the impact of the stability of the top management team on enterprise innovation and no consensus has been reached. The only conclusions mainly focus on the following two aspects: some scholars believe that the stability of the top management team is positively correlated with enterprise innovation. Blair and Stout believed that the unique working style and tacit understanding formed by the members of the top management team in the long-term work are a special human capital. Although innovation activities are accompanied by high risks and returns lag, stable team members will maintain consensus on innovation decisions and promote the development of enterprise innovation activities in order to obtain long-term returns. Liu Yunguo and Liu Wen found that the longer the tenure of senior executives in the team, the greater the financial support of top management team members for R&D investment in order to obtain later benefits brought by innovation

activities, that is, a stable top management team can promote enterprises to improve the level of R&D investment.

However, some scholars hold the opposite attitude to the above views, and believe that the stability of the top management team is negatively correlated with corporate innovation. Bebchuk and Fried believe that in a stable top management team, executives will use the contacts accumulated in long-term work to seek personal benefits, and team members are content with the status quo. In order to avoid the high risks brought by innovation, team members will reduce R&D investment, so the stability of the top management team will inhibit enterprises' R&D investment activities [22], which is not conducive to the development of innovation activities. Zeng Jun, Dong Bo and Chen Hong added analyst following as a moderator variable to conduct research, and found that forced top management turnover is negatively correlated with corporate R&D investment, but analyst following can inhibit the negative correlation between the two.

3. Conclusion

Although there is much understanding of the role of executive compensation incentive in China's existing literature. Executive compensation incentive is an unavoidable problem for enterprises, and the rational use of compensation incentive is very important. Although there are many articles on corporate innovation at present, few of them analyze the whole route of "compensation structure-top management team-innovation", which provides a new perspective for the impact of corporate compensation incentive on innovation from the perspective of the stability of top management team. Through the research on the executive compensation structure, we can explore a reasonable compensation structure to attract top management talents and strengthen the stability of the top management team. In modern enterprises, talent is one of the most indispensable resources, and whether it can attract and retain relevant senior managers is the key to the healthy and stable development of enterprises. In today's society, the turnover of senior executives occurs frequently, and the most important reason is that the compensation structure is unreasonable, and the compensation structure of senior executives does not achieve the due incentive effect. Through the research on the executive compensation structure, through its impact on the stability of the top management team, and ultimately on the innovation output of enterprises, so as to standardize the compensation structure, stabilize the stability of the top management team, and promote the improvement of enterprise performance.

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