

# The Impact of Employee Incentives and Remuneration System on Company Performance

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**Abstract:** In the process of continuous economic development, corporate systems are constantly changing to adapt to the current economic environment. With the increasing pressure of corporate competition, companies need to use reforms to enhance their core competitiveness. Reforming the salary policy is a very important part of it, which affects the enthusiasm of employees and the performance of the company. At the same time, a good salary policy can help companies retain talent. This article analyzes the impact of salary on employee motivation and performance by analyzing the salary policies of different companies and studying different factors that affect company performance. The research results show that innovative compensation policies can make companies more stable and achieve better corporate performance, and such corporate performance often drives the motivation of employees. Moreover, when some instability in the world or society reduces the overall world economy, some companies with innovative compensation policies can often achieve stable or even better corporate performance than usual. In fact, the performance of a company can be affected by many external factors such as the world economic environment and the company's internal factors.

## 1. Introduction

### 1.1 Research Background and Motivation

After the early subprime housing credit crisis broke out, investors began to lose confidence in the value of mortgage securities, triggering a liquidity crisis. Even if the central banks of many countries have injected huge amounts of funds into the financial market many times, they will not be able to prevent the outbreak of this financial crisis. Until September 9, 2008, the financial crisis began to get out of control and caused many rather large financial institutions to close down or be taken over by the government. Since the capital account of China's balance of payments has not yet been fully opened, the scale of asset securitization is still in its infancy, and China has a large amount of foreign exchange reserves, these factors have protected China from the severe impact of the financial crisis. Although China has not suffered a severe financial crisis, the impact of the global financial crisis and economic recession has also severely tested China. Compared with other foreign companies, Chinese companies were extremely backward at the time. During the economic crisis, Chinese companies adjusted their strategic models and created many new private companies at the same time. This has allowed China's economy to develop rapidly.

### 1.2 Literature Review

By analyzing the impact of the executive compensation system of listed companies on company performance, Shi Pu provides a certain theoretical basis for my country's listed companies to establish and improve the executive compensation system, and provides empirical support to study the relationship between the executive compensation of listed companies and company performance. The study found that although the salary of executives is crucial in a company, the salary of executives has been lagging behind. This will be very detrimental to the development of the company, and will affect the company's performance [1]. This paper provides companies with solutions to problems and

mentions the benefits of solving problems on company performance. However, in addition to executive compensation, employees also play a very important role in the company. The employee's salary system not only affects the company's performance, but also affects the enthusiasm of employees. These are the things we haven't seen in these papers. This article plans to use data and theoretical analysis to study the compensation system of all employees, including executives.

In 2013, Wang Jun's "Research on the Relationship between Human Capital, Compensation System and Corporate Performance" proposed that many factors affecting corporate performance are based on human capital, and human capital has the most direct and decisive impact on corporate performance. He also stated that there are obvious differences between Chinese companies and multinational companies. The main reason for this thesis is that there are obvious problems in China's compensation system. It is hoped to improve the operating performance of Chinese enterprises strategically. To improving the compensation system, it is necessary to recognize the existence of human capital property rights. It proves that human capital and salary system have a decisive influence on corporate performance [2]. This paper is not limited to the decisiveness of manpower and salary in the thesis. And analyze what kind of compensation policy can enable the company to maintain relatively stable performance in different environments from factors such as the financial crisis and infectious virus. The results show that some Chinese companies and other multinational companies have adopted similar compensation policies and even show higher performance under special social conditions. In the end, an innovative compensation policy is more likely to ensure company performance and increase employee motivation at the same time.

### 1.3 Research Contents and Framework

Based on the affect company performance factors, this article compares and analyzes the operating policies of some well-known domestic private enterprises with those of other domestic small private enterprises. At the same time, the business strategies of foreign companies such as the United States were selected for overall situation assessment. The structure of this article is as follows: The second part is based on the theoretical basis, selecting data to specify for quantitative analysis, the third part is based on the second part of the data to summarize and discuss the results, and finally the conclusion.

## 2. Methodology

### 2.1 Data Resources

The source of the data in this article is the notice of 2021 annual meeting and Proxy Statement of Visa and Akamai Technology's 2020 annual report, Apple Goon's 2020 annual report, Huawei 2019 and 2020 annual report, ERKE 2016-2020 annual report.

### 2.2 Research and Discussion on Company's Salary System

This article compares and analyzes many large companies in the United States, and finds that the salary structure of their corporate executives has certain similarities. For example, companies such as Akamai, Visa and Twitter will have base salary, performance-based bonuses and long-term Equity Incentives (Time-vesting RSUs, PRSUs, Relative TSR-Based RSUs). The following two examples, Akamai and Visa, will demonstrate the compensation systems of these two large companies.

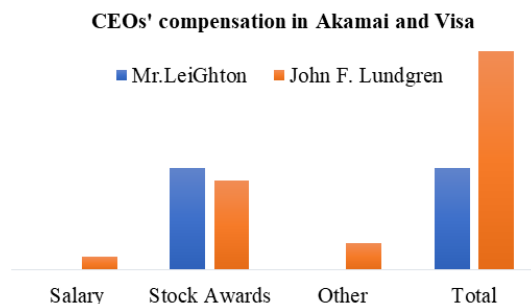


Fig. 1. CEOs' compensation in Akamai and Visa.

NEOs are an important factor in the company's core competitiveness. Therefore, whether the executive compensation policy is self-determined and reasonable directly determines whether the company's operations can be carried out smoothly. Dr. Leighton served as Akamai's chief scientist until 2013 and then became the company's CEO. In order to align the CEO's salary with the interests of long-term investors (to ensure that Dr. Leighton does his best for the company), the TL&C committee determined that his salary is mainly based on performance. First of all, this allows the CEO to work harder for the company, and encourages the CEO to create more sales plans and make more profits. In 2013, Dr. Layton's fixed salary was only \$1, which was much lower than the basic salary of ordinary employees. Since then, this figure has not changed. As for the bonus, the company set up an annual goal reward opportunity of 1 million U.S. dollars for him in 2018 and increased to 1.5 million U.S. dollars in 2019[3]. This bonus is unattainable by ordinary employees. Akamai used most of Dr. Leighton's compensation as a bonus to encourage him to try to join the company. These bonuses are issued to the CEO in the form of stocks to ensure that their own interests are aligned with the interests of long-term investors, while also retaining Dr. Layton for the company's long-term benefits. In 2019 and 2020, Dr. Layton's bonus will be paid to him in the form of company common stock, which means that his shares in the company will be further increased, and his own interests and interests will be more closely linked to the interests of the company and the long-term the interests of investors. When the goals of the CEO and investors are the same, conflicts will be reduced, and the company will have better room for development in the future.

The TL&C committee decides the compensation for every NEO and other senior executives. According to the board of directors' consideration of the company's long-term development, performance-based financial indicators have been devised, and performance evaluations will be conducted in a certain period in the future using this as a standard. Employees are the core motivation of a company, which determines the development of the company. An analysis of Visa's data, the Compensation Board approved an increase in annual cash retention payments from us \$10,000 to \$15,000 for each member of the Compensation Board, Finance Committee and Nominating and Corporate Governance Committee effective October 1, 2019[4]. Meanwhile, world economic growth continued to decline in 2019, and international trade and investment growth performed poorly [5]. Due to Visa's business is so focused on required documents, the company is unlikely to see much of a profit impact. At the same time, it can be seen from the chart that the total salary of employees of each company in Visa's salary policy is no more than 700 thousand. This creates a sense of equality among employees in the company, makes the job situation of employees more stable, and ensures that there will not be any method against business ethics to get a higher position in the company. This greatly improves the coordination and stability of employees across the company.

**2.3 Factors Affecting Performance**

The performance of most companies is closely related to the development of the global economy. The global economic downturn during the epidemic caused many companies to lose money. Apple initially estimated the revenue range of the first quarter of 2020 to be between \$63 billion and \$67 billion. However, as early as mid-February this year, Apple revealed to the market that its first quarter performance would be lower than expected. According to a Yahoo Finance report, its expected average revenue is \$56.4 billion. According to this estimate, Apple's revenue in the first quarter will decline by about 3% from the same period last year [6].

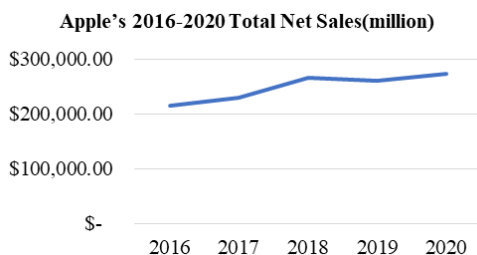


Fig. 2. Apple's 2016-2020 Total Net Sales (Units: million).

In Apple's annual report, the company's total net sales has been on the rise from 2016 to 2018, and it has maintained excellent corporate performance. In 2019, due to the decrease in sales caused by the high price of iPhone, Apple's total net sales showed a downward trend. By 2020, due to the impact of the new crown pneumonia epidemic, Apple's sales rebounded, but the growth rate continued to slow down [7-8]. Under certain circumstances, when the world economy experiences a downturn, certain industries will have higher returns than ever before. For example, under the Covid-19, the overall income of the mask manufacturing industry, such as medical equipment and medical products related to the epidemic, has risen rapidly[9]. In addition to the development of the market economy, the subjective initiative of the company's employees in market competition is also one of the factors, so that the company's management also affects the company's performance. Tencent has adopted the so-called "policy of letting employees work overtime proactively" in terms of employees working overtime. First of all, Tencent does not force employees to work overtime. According to company regulations, Tencent employees can leave work at 5:30. However, there is a benefit among employees-the company will provide a shuttle bus for overtime until 6:30 [10]. Assuming that the employee's off-duty time is 5:30, if the employee works overtime until 6:30, not only can he get overtime pay, but he can also take the bus home for one person. To put it simply, Tencent's system takes advantage of employees' desire to seek greater benefits to work overtime for the company so that the company can make more profits. In addition, market competition also has a significant impact on company performance. From 2007 to 2010, the sample of all listed manufacturing companies in Shanghai and Shenzhen shows that market competition is positively correlated with company performance[11].

Finally, there will be other external factors. During the epidemic, ERKE Company donated 5000w RMB when the company was facing bankruptcy. It has been strongly recognized by Chinese people, and even irrational consumption by Chinese people has appeared. For the company, ERKE earned the largest income in the company's history during the climax of national purchases, In just two days, the company's revenue reached 200 million, and it will be the top five in the industry in 20 years[12]. ERKE started to sell on a large scale since the company started in 2016, so its performance is high. However, the design concept was unable to keep up with the trend of the times, resulting in a rapid decline in performance. Due to the epidemic, donations have generated the highest company performance in history[13].

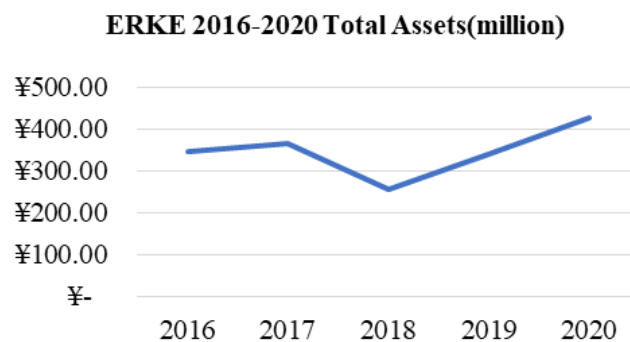


Fig. 3. ERKE 2016-2020 Total Assets (Units: million)

## 2.4 The incentive of Salary Policy to Company Performance

Remuneration policy drives employees' enthusiasm. Baobai Group, where is in Baoding, Hebei Province. Among all employees in different positions, uses the monthly task volume as the basis to ensure the company's normal income. The score represents the task volume. If the standard is not met or there is a violation of the company's system, points will be deducted. If the points are deducted to 0 for all employees in different positions, the monthly salary income will be 3000RMB. If the employee overfull fills the task, there will be a corresponding salary commission and there is no upper limit on the amount. Such a remuneration policy greatly increases the motivation of employees and improves company performance. The company will not maliciously affect the performance of other employees because of violations of the company's system, there will also be deductions.

Secondly, most of the world’s listed companies will issue company shares as part of their remuneration to improve company performance. This remuneration policy that binds employees to the company gives employees a sense of belonging, so that most of the company’s talents will not be drained and employees will be more willing to generate greater profits for the company. For example, NetEase will give employees different shares of the company according to their position, which greatly improves company performance. Final time unit plan and defined contribution retirement plan [14]. Huawei’s time unit plan can encourage employees to be more willing to work overtime for the company and earn year-end bonuses. This motivates Huawei employees to work better, thereby increasing the company’s total revenue. We can see from the data that Huawei’s total revenue from 2016 to 2020 has increased year by year. This has a lot to do with Huawei’s reasonable salary policy [14,15]. According to statistics, there is a significant positive correlation between the management performance of Chinese listed companies and the number of salary incentives available to their senior managers. At the same time, it is found through comparison that the annual salary system has the best incentive effect, while the effect of equity incentives is not very good. The fixed contribution retirement maximizes the retention of the company’s talents and thus obtains greater profits [16].

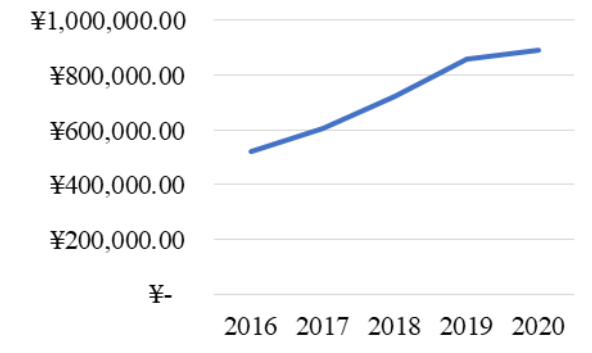


Fig. 4. Huawei 2016-2018 income (Units: million)

### 3. Results and Discussion

Innovative and effective management and marketing methods from the above is the key to whether a company can achieve substantive development. From the first and third questions, companies in the same country currently use the same salary system, and only a few companies use a special salary management system. In constant, this new type of compensation system gives these companies excellent development prospects. In most cases, small companies or other companies that do not perform well will not use innovative compensation and management systems, because the chances of success are also high. Only companies that are willing to take such risks will use special methods to manage the company. Often such a company with the strength and willingness to pay has achieved success. In the second point, the method of risk innovation is also proposed to ensure the company’s performance. For example, ERKE invests a large amount of capital donations at the moment of the epidemic. This is bound to be a big risk for a company that is about to go bankrupt, but in the end, ERKE achieved the highest sales record since the brand was founded in two days. In general, innovation is often risky for companies and also brings high profits to the company. In our survey, available from NetEase’s stock market, the company’s performance management is very good. In 2004, Changjiang Li published a paper on “Empirical Research on the Correlation between Compensation Incentives and Corporate Performance” and mentioned that the development of the stock incentive system was not very good [9]. The company’s stock incentive system is very promising. When NetEase’s compensation system in most markets in China is consistent, the only system that is not compatible with most companies is the stock incentive system, which to a large extent shows that this system has good incentives. This does not rule out the single compensation system in China is also regarded as a kind of innovative compensation system in China’s stock incentive system. After studying the analysis of ERKE, which has always been in debt, and even the

amount has been rising. However, we believe that ERKE rising debt status is largely due to the fact that ERKE is on the verge of bankruptcy. After the rapid growth of the performance of the new crown epidemic, ERKE hopes to expand the company's business scope and improve its product quality to develop innovative new technology products. So much money is invested in development, so as to avoid the situation that the company is on the verge of bankruptcy again after the purchase heat wave.

#### **4. Conclusion**

In this era of rapid economic development, all companies have carried out corporate reforms to adapt to the current economic environment. Formulating employee salaries is a question that every company should think deeply about. In order for companies to formulate appropriate remuneration policies to improve employee motivation and company performance, and to solve the turnover of most companies' traditional remuneration policies and the company's instability, we mainly compared different remuneration policies to this article. Under the influence of the company's performance, and at the same time demonstrated the incentives of the salary policy to employees. It turns out that innovative compensation policies bring great risks, but at the same time there are opportunities to bring high benefits to the company. For CEOs or senior executives in large companies or companies with good development prospects, they want to learn how to manage better, and those who are looking for jobs and operating companies should pay attention to the description of this paper. This study points out that the special salary policies implemented by various companies in the current era of economic development not only improve corporate performance but also enhance employee enthusiasm. The most important paper points out that the future development direction of enterprises may present innovative compensation policies to ensure company performance. Future research is mainly reflected in the risk of innovative compensation policies, focusing on the research of what type of innovative compensation policies can ensure company performance and improve employee motivation at the same time. Finally, this article will analyze some of the main reasons for the company's losses due to innovative compensation policies. This paper may still have some shortcomings. For example, the analysis of factors affecting performance is not very comprehensive, because there are so many possible factors, so this paper can only make a rough analysis and interpretation from a macro perspective.

#### **5. Conflict of Interest**

The authors declare no conflict of interest.

#### **6. Author Contributions**

In this article, the introduction is co-responsible by the authors Zhuoning Hu and Chang Yan. Zhuoning Hu is mainly responsible for the main content including the introduction of the paper, and Chang Yan is responsible for the comparison of the papers and the collation of the Reference. Methodology is jointly responsible by the authors Zhuoning Hu and Chang Yan. The main content is jointly completed by Chang Yan and Zhuoning Hu, including the company's survey, which explains the incentives of innovative compensation policies. Chang Yan is responsible for the compilation of the Reference. Result and Discussion was jointly completed by Zhuoning Hu and Chang Yan. Zhuoning Hu and Chang Yan mainly summarized the main content of Methodology and the relative conjecture conclusions drawn. The conclusion is mainly completed by Zhuoning Hu. It mainly completes the summary of the full text and the determination of the conclusion. In the end, References, Abstract, and the manuscript and format are all completed by Chang Yan, which mainly organizes the format of the whole paper, Reference and the language beautification and organization of the whole article.

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