

# ***Study on the Impact of Employee Compensation and Benefits System on Employee Innovation and Optimization Strategy***

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**Abstract:** The most direct and practical of the many incentive programs is compensation incentive, particularly total compensation incentive, which also has a high operability. Nevertheless, it is also constrained by the enterprise's overall viability and the cost of its human resources. More remuneration satisfaction does not always translate into better business performance; further research is needed to understand how it works. On the basis of an analysis of local and foreign research data, this paper investigates the connection between employee innovation performance and remuneration satisfaction. It also introduces work engagement as a mediating variable along the path of compensation satisfaction - work engagement - innovation performance. It has been established via empirical study and data analysis that employees' contentment with their salary and related factors can positively impact the link between that relationship and their innovation performance. It demonstrates that following the introduction of the new work engagement perspective, compensation management satisfaction affects innovation performance indirectly through the influence of work engagement. Through the in-depth exploration of its influence mechanism, it offers some guidance for the related enterprises to design the compensation system scientifically to motivate the innovation ability of employees and complements and improves the related theory.

**Keywords:** employee innovation, optimization strategy, employee compensation

## **1. Introduction**

### **1.1. Research Background**

As a critical component of national innovation, enterprise plays an essential role in innovation. Continuous innovation and innovation are the foundation of a company's existence. Employee innovation, as a practical subject of enterprise innovation, is the source and primary driving force of enterprise innovation. Therefore, improving employee innovation performance is an important problem that enterprises face. However, most Chinese enterprises do not manage their staff in a standardized way, and the phenomenon of dispersion, disorder, and poverty is still present. Firstly, managers do not understand the innovation features of staff and innovation performance, which leads to their development and management being restricted to improving the working environment and treating them poorly. Secondly, they do not pay sufficient attention to the staff, and the motivation mechanism provided is inadequate and imperfect; thirdly, they do not understand the innovative

features of the team and the factors affecting innovation performance. Third, enterprises need to learn the internal and external needs of staff and often apply standard staff management methods to manage their innovative performance, which leads to bad performance.

According to Maslow's hierarchy of needs theory, when the needs at lower levels are satisfied, people's needs are often translated to higher levels. As for those at the forefront of technological innovation, their social, organizational, and professional development needs will become more prominent after satisfying their low level of material reward. Therefore, it is necessary to study how to enhance the innovation performance of staff.

Employees' innovative research activities not only enable firms to identify their weaknesses and gaps but also improve their capacity to apply external knowledge by accumulating and absorbing new knowledge, thereby increasing their core capacity for technological innovation by using and translating new knowledge into commercial value, and developing new products for improving performance and economic growth. Therefore, the motivation of employees is essential in this process. Compensation incentive is the most direct and effective one, and it is highly operational. However, it is restricted by the overall strength of the enterprise and other factors such as human resource cost. Higher compensation satisfaction may not improve firm performance, so the mechanism of their influence needs to be examined.

With a focus on firms in Wuhan, Hubei Province, this study covers domestic and international research achievements on pay management and innovation performance and investigates the link between wage satisfaction and the success of new ideas. Employee remuneration satisfaction and innovation performance are also examined, as is employee participation as a proxy. By exploring the impact mechanism, this paper can provide some reference for China's enterprises to promote innovation by adjusting the compensation system and complementing and perfecting the relevant theories.

## 1.2. Literature Review

### 1.2.1. Relevant Connotations of Innovation Performance

Most scholars have studied innovation performance from the organizational level, and the research objects are mainly focused on science and technology workers. Along with the development of the times, some researchers have begun to research the innovation performance of individual employees, which has broadened the scope of research. This article examines innovation performance to determine how wages affect employee happiness.

There is no unified standard in the academic mainstream about innovation performance; scholars have elaborated on it from different angles by their research interests. Qiao & Zhang divide innovation into product/technology innovation and impact factor. [1]. According to Yang, Qing & Yuan, innovation performance refers to improving organizational performance by innovating products, processes, services, or processes [2]. According to Chen, innovation performance is a process where knowledge is shared and transmitted to gain an advantageous position, continuously advancing and acquiring knowledge [3]. Generally speaking, innovation performance can be classified into three categories: process theory, outcome theory, and synthetic theory, with different emphases.

(1) Process Theory: Those who hold the Process Theory believe that innovation performance is a process that includes the entire process of innovation from its creation to its realization. Guo thinks that innovation performance is a dynamic process of "producing," - "promoting," - "realizing." [4]. Lina Liang and Guoqiang Zhang believe that innovation performance is when employees understand and grasp the meaning and content of innovation and acquire and apply innovative knowledge [5].

(2) Outcome Theory: Those with an outcome-based view think that the achievement of innovation is a result and that the process does not matter, but the result is the focus of attention [6]. Bowie

believes that innovation performance results from employees putting innovative ideas into practice to achieve innovation goals [7].

(3) Mumford argues that innovation performance encompasses both the outcome of innovation and the entire process by which it is produced [8]. Cao and Zhong argue that the final results obtained at each phase are valued from creating innovative ideas through changing working methods and processes to presenting creative outcomes [9].

Based on the literature review, this paper agrees with the Synthesis Theory, which defines employee innovation performance as achieving innovative outcomes by adopting creative behaviours and synthesizing the resulting products. It includes both the process and the result of innovation.

### **1.2.2. Factors Influencing Innovation Performance**

The following are the two primary foci of research into the factors that influence the success of innovations.

(1) Intrinsic individual factors: Prajogo & Ahmed found that positive and positive personal emotion can improve employees' innovation performance, suggesting that an individual employee's inner state and attitude can influence innovation performance [13]. Cordero found that staff's knowledge base and intelligence level influence innovation performance [14]. Laursen & Salter have combined these two perspectives and concluded that an employee's inner state, attitude, unique knowledge base, and intellectual level could influence innovation performance [15].

(2) Organizational context factors: Lundvall & Nielsen found that the management of scientific and technological talents should be changed from a controlling management model to a self-management model and that firms could create a free and relaxed innovation environment and adopt different incentives to encourage the self-improvement of science and technology talents, thereby stimulating their willingness to innovate and dedicate their energies to innovation. This will enable them to be innovative and committed to creative activities, significantly impacting staff innovation [16]. Inauen and Schenker-Wicki found that the promotion of innovation by the organization is conducive to better performance in innovation in all aspects of the individual and team [17]. Muller & Peres found that leadership style can also influence employee innovation performance and that transformational leadership positively affects employee innovation performance [18]. Gloet & Terziovski argue that the focus on creating an innovative environment can greatly motivate employees to innovate [19].

### **1.2.3. The Connotation of Compensation Satisfaction**

Compensation satisfaction is a subjective assessment of the employee's performance and work after they have finished their work and received the compensation. At present, there are three main theoretical models of pay satisfaction research:

(1) The Equity Model of Adams focuses on the fairness and reasonableness of the distribution of compensation for employees and the impact of distribution on employees [20]. His view is that two factors influence whether an employee works actively, one is how much pay an employee receives, and the other is whether the income that an employee gets is fair and equitable compared to other employees of the same status. Research shows that employees care about their pay and reach it to other people, and they feel that it's fair if they're paid the same amount as other workers in the same situation. When the pay is higher than other workers, they will be happy and willing to work harder. But when it's less than the pay of other workers, it's not fair, which gives rise to resentment and negative work. The theoretical equation is: the paid one gets/the input one does = the salary one gets compared to other objects/the input one does. When employees feel treated fairly, they will have negative feelings and lower their efficiency, causing the equation to appear unbalanced. (1) Reducing

their contributions and slacking off; (2) increasing the compensation they receive and demanding an increase in salary; (3) reducing their self-esteem and feeling worthless; (4) changing their assessment of other subjects and feeling that they are in a wrong position.

(2) The Discrepancy Model by Lawler and Locke believe that the satisfaction of employees' compensation depends on two perceived differences, one is how much the employees think they deserve (A), and the other is how many employees believe they are getting paid (B). If the difference between the two perceptions is zero, the employee will be satisfied with the salary ( $A = B$ ); if the difference between the two perceptions is not zero, they will be dissatisfied ( $A \neq B$ ); if  $A > B$ , they will not be satisfied with their salary and have negative feelings; if  $A < B$ , they will feel uneasy and guilty.

(3) The Modified Gap Model Theory of Heneman and Schwab, in which Heneman and Schwab argue that the study of employee satisfaction with pay tends to have little practical management value and only focuses on the single income dimension [21]. Compensation satisfaction should be an emulsifying concept consisting of four dimensions: wage level (direct wage income), compensatory benefits (immediate wage income, direct wage, and non-wage benefits, e.g., insurance, holidays, unconventional subsidies, etc.), wage growth (the amount and manner in which wages vary) and compensation management (wage structure and allocation, etc.), and the well-known PSQ compensation satisfaction questionnaire was designed based on its theme. This is also the form used in the survey questionnaire of this study.

#### 1.2.4. Dimensional Division of Salary Satisfaction

The development of the dimensional structure of salary satisfaction has generally gone through a process of change from unidimensional to multidimensional. Because of the differences in research angle and starting point, there is no uniform opinion about the division of dimensions, and there are still many disputes. Still, it is considered that compensation satisfaction is a multi-dimension structure.

In the early studies, compensation satisfaction was not independent. Still, it was only one dimension of job satisfaction, and Mirowsky included compensation satisfaction as one of the five dimensions [22].

Lawler argued that the difference between what employees expect to receive and what they receive determines employees' satisfaction with their pay. Tanveer & Lodhi suggested that salary satisfaction should include pride in salary level and the joy of employees with the salary management system [23]. In addition, Lamand Miceli, in their research, confirmed Dyer and Theriault's theory that compensation satisfaction is composed of two dimensions: the joy of the salary level and the happiness of the compensation system. In their earlier study, Lee & Wilbur argued that compensation satisfaction should be composed of five dimensions: compensation satisfaction, compensation benefit satisfaction, salary growth satisfaction, and structure wage satisfaction [24]. But in their research, they have finally combined the two dimensions of salary management and compensation in the five-dimension structure of compensation satisfaction, which is commonly used today. Since then, numerous studies have accepted and validated this view, such as Indrasari et al. have adopted it and confirmed the four-dimensional structure of compensation satisfaction in their studies [25].

#### 1.2.5. Factors Influencing Compensation Satisfaction

The Equity Model, put forward by Adams, is the key to the study of compensation satisfaction, which argues that employees' perception of compensation satisfaction is achieved by comparing themselves to other employees of the same type of work and by comparing them to their previous salary levels, including horizontal and vertical comparisons. The comparison shall be carried out horizontally and

vertically. Compare the principle: fair, as long as the employees believe it to be honest, they will be satisfied with their pay, whereas unfair satisfaction will be less.

Moreover, several academics have considered the influence of each worker's various characteristics. Still, the internal rules lead to different or even contradictory results depending on the study's place, sector, and time, and there are considerable disputes. Other personal characteristics, such as the sex of the employee, marital status, educational background, professional experience, and the workplace, can affect compensation satisfaction, and the patterns of impact do vary.

Researchers think that women are more likely to be pleased with their wages than males because they have lower income expectations due to their traditionally inferior status in the job. Regarding marital status, some researchers think married workers are more satisfied with their pay than single and divorced employees since they have a more stable and happy family life. Still, some academics have the opposite view that married workers need wages more due to higher family costs and more significant living pressure, making them more challenging to meet and generally less satisfied.

On the educational side, some scholars think that as the level of education of the workers increases, they will evaluate themselves and society more accurately, they will have higher demands on the return of their work, and they will have higher expectations and lower wage levels. But some scholars think that with the increase in educational level, employees will attach more importance to the pay structure and equity, and pay satisfaction will be improved as the academic level rises.

Regarding the length of service, some researchers believe that the more time an employee has been in a society, the greater their sense of belonging to a community, and therefore the greater their acceptance of the company's remuneration system. Furthermore, the longer they work, the higher their status; the higher their benefits and wages, the higher their satisfaction rate. Workers of all professions have several features that are harder to compare in the workplace. Still, it is generally considered that the simpler the job, the greater the level of satisfaction; the principle is that, at the same pay level, the simpler the job, the lower the employee's investment, and therefore, their pay satisfaction will be higher.

### 1.3. Research Gap

(1) This study can reveal the mechanism of the effect of compensation satisfaction on innovation performance through work engagement. Most of the current research literature studies the direct influence of compensation satisfaction on innovation performance. While previous research has focused on the direct effect of compensation satisfaction on innovation performance, the current study takes a different tack by introducing the mediating variable of work engagement on the basis of this direct relationship.

(2) Employees at corporations are the focus of this study. Findings from this paper's literature review on the topic of compensation satisfaction and innovation performance indicate that the vast majority of studies on the topic have focused on academic and research personnel in universities and publicly funded research facilities, while only a small number have examined the experiences of workers in private sector businesses. To a certain extent, the research on this topic has complemented and enriched the research field of pay satisfaction and innovation performance.

(3) The innovation efficiency of an individual worker is the subject of this investigation. While some studies on innovation performance have looked at organisational innovation as well, the vast majority have focused on individual job performance. There is a dearth of in-depth research on the topic of workers' innovative output. The research on individual innovation performance of employees in this topic also helps to enrich the research theory of innovation performance.

## **1.4. Research Framework**

Based on reviewing and summarizing the results of salary management and innovation performance, this thesis takes employees in Wuhan, Hubei Province, as the primary research object, makes a questionnaire survey on employees, and puts forward a theoretical model of compensation satisfaction and innovation performance with employee participation. The data was analyzed by SPSSAU statistical analysis tool. Examining the intermediate link between employee participation in compensation satisfaction and its dimensions and innovation performance, as well as identifying the factors that contribute to compensation satisfaction and its dimensions, can help us establish and verify the processes by which employees' compensation satisfaction is translated into innovation performance.

## **2. Methods**

### **2.1. Literature Study**

This paper collected, screened, organized, and researched the relevant literature on salary satisfaction, job participation, and innovation performance by accessing the China Journal Full Text Database, China Dissertation Library, China Science & Technology Journal Library, etc.

### **2.2. Survey Research**

In this paper, the questionnaire that satisfies the experiment needs is validated and selected using a review of the relevant questionnaires and interviews based on the literature's classification, summary, and integration. The samples are selected for data statistics, and relevant measurement indicators are collected.

### **2.3. Empirical Study**

Based on the questionnaire, the data were collected, and SPSSAU collected the data. Then, the theoretical data model was built and validated through statistical, correlation, regression, etc. analysis.

### **2.4. Data analysis and hypothesis testing**

#### **2.4.1. Questionnaire processing**

In order to ensure that the data obtained from the questionnaires met the requirements of the study, it was necessary to eliminate the invalid questionnaires from the 285 questionnaires before conducting the reliability and validity analysis of the questionnaires. According to the criterion that the selection of questions is identical more than 70%, it was set as an invalid sample for elimination. The questionnaires with obvious logical errors, such as those under 25 years of age, but with more than 10 years of relevant working experience, were manually screened out. Through strict screening, 206 valid questionnaires were retained.

#### **2.4.2. Descriptive statistical analysis**

(1) Descriptive statistical analysis of the sample



Table 1: Results of frequency analysis of the sample.

Name	Options	Frequency	Percentage (%)	Cumulative percentage (%)
Gender	Male	159	77.18	77.18
	Female	47	22.82	100.00
Marital status	Married	162	78.64	78.64
	Unmarried	34	16.50	95.15
	Divorced	10	4.85	100.00
Education	Specialized and below	89	43.20	43.20
	Bachelor's degree	78	37.86	81.07
	Graduate student	38	18.45	99.51
	PhD and above	1	0.49	100.00
Age	Under 25 years old	13	6.31	6.31
	25 - 35 years old	67	32.52	38.83
	35 years old-45 years old	58	28.16	66.99
	45 years old - 55 years old	60	29.13	96.12
	55 years old or above	8	3.88	100.00
Years of relevant work	Less than 1 year	11	5.34	5.34
	1 year - 3 years	27	13.11	18.45
	3 years - 5 years	20	9.71	28.16
	5 years-10 years	26	12.62	40.78
	10 years or more	122	59.22	100
Work field	Information Technology, Integrated Circuit	12	5.83	5.83
	Aerospace	11	5.34	11.17
	Materials, Energy	15	7.28	18.45
	Biomedical, Medical Devices	13	6.31	24.76
	Processing and manufacturing	91	44.17	68.93
	Other industries	64	31.07	100
Income status	Less than 100,000 yuan/year	121	58.74	58.74
	100,000 yuan-200,000 yuan/year	77	37.38	96.12
	200,000 yuan-300,000 yuan/year	6	2.91	99.03
	300,000 Yuan-400,000 Yuan/year	1	0.49	99.51
	More than 400,000 yuan/year	1	0.49	100
	Total	206	100	100

From the table, it can be seen that, in terms of gender, there are relatively more "men" in the sample, with a proportion of 77.18%. More than 70% of the sample chose "married" as their marital status. More than 40% of the sample chose "college or below" in terms of education. And the proportion of undergraduate samples is 37.86%. In terms of age, the highest percentage is 32.52% for "25-35 years old". More than 50% of the sample chose "more than 10 years" for the number of years of relevant work. 44.17% of the sample is "processing and manufacturing". The percentage of

samples from other industries is 31.07%. 58.74% of the sample chose "less than \$100,000/year". The proportion of the sample of 100,000 - 200,000 Yuan/year is 37.38%.

(2) Descriptive statistical analysis of innovation performance

From the table, we can see that the overall level of innovation performance of R&D personnel is 3.592, which is slightly higher than the general level. The mean value of innovation behavior reached 3.831, and the median value was 4, which was higher than the level of innovation results. This indicates that although employees have the awareness and behavior of active innovation, the enterprise's ability to transform such behavior into innovation results is still lacking.

(3) Descriptive statistical analysis of salary satisfaction

Table 2: Descriptive Statistics of Innovation Performance.

Name	Number of items	Sample size	Minimum value	Maximum value	Average value	Standard deviation	Median
Innovation Achievement	4	206	1.000	5.000	3.353	0.981	3.500
Innovative behavior	4	206	1.000	5.000	3.831	0.872	4.000
Avg	8	206	1.000	5.000	3.592	0.866	3.625

From the table, it can be seen that the overall satisfaction of the enterprise personnel with salary is not high, only 3.085, and the salary satisfaction of the sample is between general and satisfactory, very close to 3.000 (general). The mean value of compensation and benefit satisfaction is 3.124, which is the highest value among the four dimensions of compensation satisfaction, indicating that employees are more satisfied with corporate welfare than other aspects, but it is only the most basic expectation of employees, which is at an average level. Other dimensions such as satisfaction with salary level, satisfaction with salary increase and satisfaction with salary management are only slightly higher than 3.000 but lower than 3.100, which means that the company has not satisfied its employees in terms of salary satisfaction, but only met the basic expectation of employees' life needs.

Table 3: Descriptive statistical indicators of salary satisfaction.

Name	Number of items	Sample size	Minimum value	Maximum value	Average value	Standard deviation	Median
Compensation and benefits satisfaction	4	206	1.000	5.000	3.124	1.004	3.000
Satisfaction with Compensation Management	6	206	1.000	5.000	3.092	0.942	3.000
Satisfaction with salary growth	4	206	1.000	5.000	3.063	0.955	3.000
Satisfaction with salary level	4	206	1.000	5.000	3.056	1.026	3.000
Avg	18	206	1.000	5.000	3.085	0.915	3.000

### 3. Result

To improve employees' compensation satisfaction can effectively enhance their innovation performance, enterprise managers can focus on four aspects: compensation level, compensation benefits, compensation growth, and compensation management. However, improving compensation management satisfaction can be replaced by increasing the management cost. From the perspective



of the implementation process, it is a relatively low-cost alternative for the firm to increase employee pay satisfaction under the direction of compensation management. Compared with investing more money to improve employees' salary level, compensation benefits, and satisfaction with the salary increase, companies choose to invest more energy in compensation management and design a fairer and more reasonable compensation management system, which can improve employees' innovation performance more effectively by spending less money.

(1) Employee dynamism was not shown to have a statistically significant beneficial influence on innovation performance, contrary to the premise. The same issue was discovered via interviews with several workers and open lines of communication on vitality and creativity. Most workers agree that, depending on the type of innovation, a lively work environment does not inevitably contribute to better innovation performance. Innovation comes from creativity, and creativity comes from imagination. A person's imagination is partly determined by innate, genius ideas that are always different from others and partly comes from the accumulation of the latter; when the accumulation reaches a certain level, the quantity causes the quality change, and a chance inspiration can transform the accumulated things into innovative results. But vitality difficult to play a direct role in both aspects. Of course, the connection mechanism needs to be further studied, and this is only a preliminary inference.

(2) The hypotheses that job satisfaction mediates the relationships between compensation level satisfaction and innovation performance, compensation benefit satisfaction and innovation performance, and compensation growth satisfaction and innovation performance are all rejected. The author's curiosity was piqued by this finding, and the author's discussions with employees and some scholarly studies' tentative agreement with this conclusion lend credence to the possibility that, as times have changed and people's incomes have increased, pay equity has become the most important factor for employees at this stage. Human resource management in the business world may learn a lot from this as well. The design of enterprise compensation system should not simply consider monetary and non-monetary means, but should also focus on the improvement of compensation management and compensation structure, and more The design of the compensation system should not simply consider monetary and non-monetary means, but should also focus on the improvement of the compensation management and compensation structure, and pay more attention to fairness, so as to more effectively stimulate employees' passion and increase their work commitment.

#### 4. Discussion

This paper uses the SPSSAU statistical analysis tool to verify the relationship between four dimensions of compensation satisfaction, three dimensions of work engagement, and two dimensions of innovation performance, as well as the mediating role of work engagement in the relationship between compensation satisfaction and compensation. The study's findings are summed up based on the data analysis.

(1) The research of the relationship between remuneration satisfaction and innovation performance shows that there is a strong connection between the two concepts. In the regression results of compensation satisfaction and innovation performance, the regression coefficients of compensation level, compensation benefits, compensation growth, and compensation management satisfaction are all positive, with p-values less than 0.01. Therefore, compensation management satisfaction, growth satisfaction, benefits satisfaction, and level satisfaction all significantly affect innovation performance.

(2) Overall, it is evident from the findings of the correlation study between remuneration satisfaction and job engagement that there is a strong relationship between the two. In the regression results of compensation satisfaction and work engagement, the regression coefficients of compensation level, compensation benefits, compensation growth, and compensation management

satisfaction are all positive, with p-values less than 0.01. Therefore, compensation management satisfaction, growth satisfaction, benefits satisfaction, and level satisfaction significantly affect work engagement.

(3) The research of the relationship between employee enthusiasm at work and productivity in terms of new ideas shows a strong link between the two concepts. Dedication and focus are strong predictors of innovation success due to their positive standard regression coefficients.

## 5. Conclusion

Since it is the most nuanced part of HRM, enterprise pay management has always taken into account the unique needs of each employee. Workers see their salary as an indicator of not just their economic value to their company but also of how much their efforts are valued and whether or not they will be promoted in the future. Attracting top talent, motivating existing employees, and retaining critical personnel all benefit from well-managed pay plans. The relationship between employee compensation satisfaction and innovation performance is confirmed in this paper through research and data analysis. Work engagement is mediating in compensation satisfaction and innovation performance. Studying its intrinsic influence mechanism also provides us with some insights that can be used to design an enterprise compensation system. The author offers the following recommendations for establishing a fair compensation incentive system for firms in light of the findings of this article and some significant findings from the data analysis, intending to enhance workers' innovation performance:

(1) Boost employees' happiness with their pay at the company. The incentive impact of pay has not yet completely manifested itself, and employee wage satisfaction is now at a passing level, merely meeting the employees' fundamental requirements and expectations for their quality of life.

(2) Improve the standard of compensation management. Enterprise managers may concentrate on four aspects: pay level, compensation benefits, compensation growth, and compensation management to boost workers' compensation satisfaction, which can successfully improve their innovation performance. The increase in management costs, however, might replace the gain in compensation management satisfaction. Enhancing R&D staff happiness through pay management is a relatively low-cost option for businesses from the perspective of the realization process.

(3) Pay equity needs more significant consideration. For compensation management to achieve incentive utility, pay equality is a must. Employee motivation is influenced by both absolute and relative remuneration, in addition to both. Employees may only identify with the firm if the compensation structure is fair to enjoy the motivational impact of income. Assuming that direct and indirect compensation is mainly set, organizations that wish to boost employee innovation through better compensation management must pay close attention to the fairness of the compensation plan so that workers feel that their efforts and incentives are aligned. That past, present, and future contributions are proportional to the level of rewards and that employees' pay levels are competitive with those of comparable positions in the same industry, region, and scale when designing the compensation system. To accomplish the relative justice of the pay, the horizontal, vertical, and external are all necessary.

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