

Research on the Model for Determining the Total Wage of Enterprises Based on the Theory of Incentive Leverage

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Abstract: The importance of incentives for enterprises has always been self-evident. Employees are the key factor in wealth creation and economic development, and are the main creators of enterprise wealth. How to reasonably distribute enterprise Distribution of wealth to organizations and employees after creating enterprise wealth is a problem that enterprises need to think about. This paper studies the total wage verification model of enterprises based on incentive leverage theory, The relationship between the incentive leverage coefficient and the company's Gross margin and labor cost ratio index will be studied to illustrate the rationality of the establishment of the incentive leverage coefficient, and lay the foundation for defining the reasonable interval of the incentive leverage coefficient. And provide corresponding opinions and suggestions on the management of the total amount of enterprise wages.

1. Introduction

Reasonable income distribution is extremely important for employees, enterprises, and the country. Firstly, the high proportion of employee allocation and the low proportion of organizational allocation are positive incentives for employees, which can enhance their production enthusiasm and enable the enterprise to achieve higher production efficiency. However, the increase in incentive intensity increases the cost of enterprise operation, leading to stagnation of enterprise development, diminishing returns, and is not conducive to sustainable development of the enterprise. Secondly, the proportion of employee allocation is too low, and the proportion of organizational allocation is too high. Although the enterprise has saved costs and increased profits, it has damaged the professional responsibility and work enthusiasm of employees, ultimately affecting the sustainable development of the enterprise itself^[1]. Finally, the unreasonable distribution will also have a negative impact on the national macro-economy, leading to the deterioration of the income distribution pattern, the low level of residents' consumption and the imbalance of the economic structure. In summary, the income distribution of enterprises must not only serve the needs of sustainable development of enterprise value appreciation, but also serve the incentive needs of employees, so that both employees and the organization can receive Pareto improvement. Therefore, as an intuitive manifestation of enterprise income distribution, it is extremely important to establish a scientific method for determining the total amount of wages, which can effectively promote the high-quality and sustainable development of the

enterprise, fully mobilize the enthusiasm of employees, and achieve a win-win value between the enterprise and employees.

2. Construction of a Model for Determining the Total Amount of Wages

2.1. Incentive Leverage Coefficient and Gross Margin, Labor Cost Indicators, and Overall Labor Productivity

The incentive leverage coefficient is an indicator that reflects the income or value that can be created by the unit incentive. The company's Gross margin reflects the profitability of the enterprise's commodity sales. Labor cost ratio indicators (personnel expense rate, labor cost profit rate) are indicators that judge the economic benefits of enterprises through labor costs. Total labor productivity is an indicator that measures the efficiency of labor input and output. By analyzing the relationship between the company's Gross margin and the incentive leverage coefficient, we can see the incentive effect, that is, whether the profitability of the enterprise will affect the incentive leverage coefficient; Analyze the relationship between labor cost ratio indicators and incentive leverage coefficient to determine whether the economic benefits of the enterprise will affect the coefficient; Analyzing the overall labor productivity and incentive leverage coefficient can determine whether the output efficiency of a company will affect the incentive leverage coefficient. Therefore, this paper will study the relationship between the incentive leverage coefficient and the company's Gross margin and labor cost ratio indicators to illustrate the rationality of the establishment of the incentive leverage coefficient, and lay the foundation for defining the reasonable range of the incentive leverage coefficient.

2.2. Reasonable Range of Incentive Leverage Coefficient

The high incentive leverage coefficient means that employees receive lower salaries, and the incentive effect of salary on employees is small or even negative. This will exacerbate the task burden on employees, increase their sense of deprivation and unfairness, reduce their sense of gain, and weaken the cohesion of the enterprise. Is the lower the incentive leverage coefficient, the better? The answer is no. The production efficiency of enterprise employees will have a positive impact on the incentive leverage coefficient, but the profitability level and personnel cost rate of the enterprise will have a negative impact on the incentive leverage coefficient. Therefore, for any enterprise, incentive leverage can only be maintained within the range that is in line with its own development requirements, in order to ensure that both the enterprise and employees are in a "win-win" equilibrium state.

2.3. Salary Total Verification Model

According to the definition formula of incentive leverage coefficient and the analysis of the reasonable range of incentive leverage coefficient in the above chapters, the determination of the total salary of enterprises can be expressed using the following model: Total salary=operating income/incentive leverage coefficient.

- (1) Among them, the range of incentive leverage coefficient values is:
- (2) When estimating the total salary from an overall perspective, the reasonable range of incentive leverage coefficient is: (3,9);
- (3) When estimating the total salary from different equity properties, the reasonable range of incentive leverage coefficient is: state-owned enterprises (3,11), private enterprises (3,9), foreign investment (3,9), and others (3,9);

(4) When estimating total wages from different industry categories, the reasonable range of incentive leverage coefficient is:

Manufacturing industry (3,11), construction industry (3,13), wholesale and retail industry (3,17), transportation, warehousing, and postal industry (3,15), information transmission, software, and information technology services industry (3,9), real estate industry (3,9), and other industries (3,9).

3. Case Analysis

Every enterprise has an incentive lever, and due to differences in industries and interests, there are certain differences in the incentive lever coefficients between different enterprises. However, for companies that can dominate the market, their incentive leverage coefficient follows a pattern of being stable within a reasonable range for a considerable period of time. This means that these companies have gained insight into the internal driving force behind the incentive leverage coefficient and have conducted a reasonable assessment of the total salary of their employees, entering the optimal state of balanced and sustainable development between the organization and employees in advance. On the contrary, companies with non-standard total salary verification and poor employee incentive performance exhibit another trend in their incentive leverage coefficient: significant fluctuations, significant annual differences, and leverage coefficient outside of a reasonable range. The fundamental reason for the huge gap is that they fail to grasp the optimal match between employees' psychological expectations and the creation of enterprise value, have unclear salary distribution quotas for enterprise employees, cannot find the fulcrum for incentive leverage to play its role, and cannot have a deep insight into the powerful utility of incentive leverage. In addition, they lack clear incentive plans and targeted incentive measures, and can only let the incentive leverage sway and fluctuate, Gradually losing the immense power hidden within it.

3.1. Introduction to the Selection of Excellent Enterprises

What are the criteria for judging an excellent enterprise? Peter Drucker defined that excellent enterprises should have five criteria: 1. effective output; 2. Time is mainly spent on creating value for customers externally; 3. Treat people as capital, not as costs; 4. Focus and focus; 5. Only make significant decisions ^[2]. Peters and Watman believe that excellent enterprises have eight characteristics, namely taking action, being close to customers, having a spirit of independent entrepreneurship, being people-oriented, value driven, adhering to their own business, having simple organizational personnel, and combining leniency and strictness. In 1993, British scholar John Kay proposed in "The Foundations of Enterprise Success" that the elements of an excellent enterprise include its innovation ability, reputation in the market, competitiveness of its core assets, and its composition. Collins and Pollers focused on how a company can develop in the long run and have more sustainable competitiveness in their book 'Eternal Foundations'. He studied how a company can operate sustainably by deciphering 12 myths.

Referring to previous research, the standard for excellent enterprises is to operate independently and continuously develop and advance; The operating status of the enterprise can be at the forefront of the industry in which it is located, and it belongs to the top of the industry; The products or services provided by enterprises to the market have strong competitiveness; The industry in which the enterprise is located does not have large enterprises engaged in oligopolistic monopolistic management; Enterprises focus on their future development and are constantly innovating. Finally, this article selects 5 companies as excellent enterprise case samples (see Table 1).

Table 1: Introduction to 5 Excellent Enterprise Case Samples

Serial Number	Name	Creation time	Industry	Corporate performance
1	Huawei	1987	Information transmission, software and information technology services	Leading global provider of ICT infrastructure and intelligent terminals
2	Wuliangye Yibin	/	Liquor, beverage, and refined tea manufacturing industry	Top 500 Global Brand Values and Top 100 Chinese Brand Values
3	BYD	1995	Automotive industry	Bloomberg's "Most Innovative Company" has won the championship of the most valuable Chinese brand in the automotive industry for 6 consecutive years
4	Hengrui Medicine	1970	Pharmaceutical industry	Ranked on the top 50 global pharmaceutical companies list published by the American Pharmaceutical Managers magazine for three consecutive years
5	Tencent	1998	Information transmission, software and information technology services	World leading internet technology company

3.2. Verification of the Method for Determining the Total Wage Amount of Enterprises

Table 2: Incentive leverage coefficient table for 5 excellent enterprise case samples

enterprise	index	2020	2019	2018	2017	2016
Huawei	Operating revenue (million yuan)	891368.00	858833.00	721202.00	603621.00	521574.00
	gross margin	36.70%	37.60%	38.60%	39.50%	40.30%
	Total salary (million yuan)	166061.00	168329.00	146584.00	140285.00	121872.00
	Incentive leverage coefficient	5.37	5.10	4.92	4.30	4.28
Wuliangye Yibin	Operating revenue (million yuan)	57321.06	50118.11	40030.19	30186.78	24543.79
	gross margin	74.16%	74.46%	73.80%	72.01%	70.20%
	Total salary (million yuan)	5740.86	5633.65	4824.01	3494.60	3198.75
	Incentive leverage coefficient	9.98	8.90	8.30	8.64	7.67
BYD	Operating revenue (million yuan)	156597.69	127738.52	130054.71	105914.70	103470.00
	gross margin	19.38%	16.29%	16.40%	19.01%	20.36%
	Total salary (million yuan)	22521.47	20316.16	18824.52	15482.85	14065.65
	Incentive leverage coefficient	6.95	6.29	6.91	6.84	7.36
Hengrui Medicine	Operating revenue (million yuan)	27734.60	23288.58	17417.90	13835.63	11093.72
	gross margin	87.93%	87.49%	86.60%	86.63%	87.07%
	Total salary (million yuan)	5628.43	3930.57	2678.07	1880.88	1404.05
	Incentive leverage coefficient	4.93	5.92	6.50	7.36	7.90
Tencent	Operating revenue (million yuan)	482064.00	377289.00	312694.00	237760.00	151938.00
	gross margin	45.95%	44.40%	45.45%	49.18%	55.61%
	Total salary (million yuan)	69638.00	53123.00	42153.00	34866.00	23433.00
	Incentive leverage coefficient	6.92	7.10	7.42	6.82	6.48

Table 2 shows the incentive leverage coefficients of 5 excellent enterprise case samples. From Table 2, it can be seen that Huawei's incentive leverage coefficient in the past 10 years is within the range of (3, 6), which is in line with the definition of a reasonable range for the overall incentive leverage coefficient of the enterprise in this paper, and also within the range of (3, 9) for its industry information transmission, software, and information technology services. The incentive leverage coefficient of Wuliangye Yibin has been stable at about 8 in the past five years. Its incentive leverage

coefficient basically conforms to the definition of the reasonable range of the overall incentive leverage coefficient of the enterprise in this paper, and its incentive leverage coefficient is within the reasonable range of (3, 11) for the manufacturing industry in which it belongs. BYD's incentive leverage coefficient has remained stable at around 6 in the past 10 years, which is consistent with the definition of the reasonable range for the overall incentive leverage coefficient of the enterprise in this paper, and also with the reasonable range for the manufacturing industry in which it belongs (3,11). The incentive leverage coefficient of Jiangsu Hengrui Medicine has been less than 9 in the past eight years. Within the reasonable range of the leverage coefficient, the overall incentive leverage coefficient of Jiangsu Hengrui Medicine in the past 10 years has gradually declined and finally entered the reasonable range, which is consistent with the development trend of Hengrui Pharmaceutical. The incentive leverage coefficient of Tencent in the past 10 years has been stable at about 6, which is consistent with the definition of the reasonable range of the overall incentive leverage coefficient of enterprises in this paper. The reasonable range for information transmission, software, and information technology services in the industry is (3,9).

Enterprises only need to combine the reasonable range of the overall incentive leverage coefficient and the corresponding incentive leverage coefficient range of the enterprise's equity nature and industry category to determine the level of incentive they want to be at, and can easily calculate their reasonable total salary. The fact that the incentive leverage coefficients of the five excellent enterprise case samples are within a reasonable range further demonstrates the correctness of the total wage calculation model.

The total salary verification model based on incentive leverage coefficient is effective, simple, and easy to operate, which is convenient for practical needs of enterprises. Enterprises only need to select an incentive leverage coefficient within a reasonable range based on their actual needs, combined with their own operating income, to conveniently calculate the total amount of salary that the enterprise applies to employee wages. This can be more convenient for startups to determine the total amount of salary distribution, and for mature enterprises to easily compare whether the existing level of salary is reasonable and whether the incentive effect on employees is in place ^[3].

3.3. Precautions for Determining the Total Amount of Enterprise Wages

The above is a case demonstration of an enterprise's total salary verification model based on the theory of incentive leverage. However, when establishing a total salary verification mechanism in practice, each enterprise should also pay attention to the following issues.

Firstly, enterprises should choose a reasonable incentive leverage coefficient that is suitable for their own enterprises. On the one hand, the incentive leverage coefficient should be suitable for the enterprise. The Gross margin of enterprises in different industries is different, which determines that the incentive leverage coefficient of enterprises in different industries is different ^[4]. Enterprises should choose the incentive leverage coefficient suitable for their own development according to the nature of the enterprise. On the other hand, the setting of incentive leverage coefficient should be reasonable. If the incentive leverage coefficient is too high, it means that employees receive lower salaries, and the incentive effect of salary on employees is small or even negative. On the contrary, if the incentive leverage coefficient is too high, the labor cost of the enterprise will increase, causing a burden on the development of the enterprise. Therefore, the setting of incentive leverage coefficient for each enterprise should be reasonable ^[5].

Secondly, the calculation of total wages cannot simply apply the model, and should be revised based on the actual situation of the enterprise. Although this article provides several excellent enterprise case samples, the nature, purpose, and future development direction of different enterprises are greatly different ^[6]. Therefore, the calculation model of total wages cannot be copied from other

enterprises. The calculation model of total wages should be revised based on the current situation and future development direction of the enterprise, Enable it to contribute to the development of our company.

Finally, there should be some room for adjustment in the approval of the total salary to avoid the gradual rigidity of the organization's salary approval model ^[3]. Most enterprises are in a market economy environment, and the ever-changing external environment requires enterprises to have a certain degree of flexibility ^[7]. The total salary and approval model should not be fixed, and adjustable space should be left based on the actual situation of the enterprise itself and the external environment, avoiding the rigid situation of the verification mechanism can actually affect the effectiveness of total wage management.

4. Systematic Management Measures for Total Wages

4.1. Establish a Performance Evaluation Management System

The total amount of enterprise wages is linked to the performance of the surplus enterprise. If the total amount of wages is capped regardless of the annual income generated by employees, it will greatly dampen their enthusiasm for work ^[8]. Therefore, enterprises should establish a performance evaluation mechanism that is linked to the performance evaluation results. And the indicators and weight ratios for enterprise performance evaluation should be reasonably set, and the proportions of the financial, customer, internal operations, learning and growth dimensions of enterprise performance evaluation should be determined based on the nature of the enterprise ^[9], and bonus and minus points items should be established. The personnel administrative department should obtain performance evaluation results based on the above performance evaluation index system. When determining the total salary, performance evaluation results should be taken as an important basis.

4.2. Dynamic Adjustment of Total Wage Management System

The total salary management system is not static. The salary level of the first enterprise will change with the changes in the talent structure of the enterprise. The promotion or resignation of an individual employee will not affect the salary level of the enterprise, but the change in personnel indicates a change in the talent structure of the enterprise, which will directly affect the total salary of the enterprise ^[10]. If the enterprise introduces a large number of professional and technical talents, it will lead to an increase in the proportion of senior employees within the enterprise, thereby raising the salary level of the enterprise; On the contrary, recruiting a large number of fresh graduates will lower the average salary level of the enterprise. Therefore, when determining the total amount of wages, enterprises should dynamically calculate the total amount of wages based on the specific changes in personnel structure and hierarchy of the enterprise ^[11].

5. Conclusion

Total wage management is an important component of wage management and has significant implications for the development of enterprises. Moreover, according to Maslow's demand theory, wages play an important role in ensuring that, in addition to meeting the basic survival needs of employees, they also need to meet their personal growth needs. Therefore, when determining the total amount of wages, enterprises should not only consider the needs of enterprise upgrading and development, but also consider maximizing the effectiveness of wage incentives. In addition, when determining the total salary amount, enterprises should fully consider the salary level of core departments in the market economy, ensuring that the salary benefits provided by the enterprise have

a certain advantage in competition with other enterprises, so that core technical personnel can always contribute their own strength to the development of the enterprise.

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