

# Research on the Theoretical Construction of Enterprise Innovation Culture and the Integration Model of Incentive Mechanism

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**Abstract.** The core driving force for sustainable development of enterprises stems from an innovative corporate culture, and the key to promoting the formation and development of this culture lies in effective incentive mechanisms. This paper aims to explore the theoretical construction of corporate innovation culture and its integration model with incentive mechanisms. At the beginning of the study, the concept, characteristics, and constituent elements of corporate innovation culture are sorted out through literature review to construct its theoretical framework, and the role and influence of incentive mechanisms in corporate innovation culture are analyzed, and various incentive methods such as material incentives, spiritual incentives, and institutional incentives are explored. Then an integrated model of corporate innovation culture and incentive mechanism is proposed, covering three dimensions: culture-oriented incentive design, incentive-driven cultural shaping, and culture-incentive synergy. The feasibility and effectiveness of this integrated model are verified through case studies and empirical research. The results show that the organic integration of innovation culture and incentive mechanism can significantly enhance the innovation ability and performance of enterprises. Finally, this paper puts forward specific suggestions for enterprises to build an innovation culture and design a matching incentive mechanism, providing theoretical guidance and implementation paths for enterprise practice.

**Keywords:** Enterprise innovation culture; Incentive mechanism; Theoretical construction; Integration mode; Innovation performance.

## 1. Introduction

In today's highly competitive business environment, corporate culture of innovation is an important driving force for sustainable development and plays a crucial role. Due to the rapid development of the global economy and the continuous advancement of technology, innovation has become a key element for enterprises to maintain a competitive advantage, according to data from the National Bureau of Statistics of China. In 2021, the intensity of research and development expenditure of industrial enterprises above designated size in China reached 1.54% (up 0.11 percentage points from the previous year), indicating that enterprises are increasingly attaching importance to innovation.

Just investing in innovation does not guarantee innovation results. Building an innovation culture within enterprises and implementing effective incentive mechanisms are crucial for stimulating the innovation potential of employees and enhancing the innovation efficiency of enterprises. The number of high-tech enterprises in China has been increasing in recent years, reaching 275,000 in 2020, nearly twice that of 2016, indicating that enterprises are increasingly valuing innovation culture and incentive mechanisms.

The theoretical construction of corporate innovation culture and its integration model with incentive mechanisms are what this study aims to explore. After an in-depth analysis of the concept, characteristics, and constituent elements of corporate innovation culture, a complete theoretical framework will be constructed, and this study focuses on the role and impact of incentive mechanisms on corporate innovation culture. Explore how to promote the formation of an innovation culture and development through various means such as material incentives, spiritual incentives, and institutional incentives.

The integrated model of corporate innovation culture and incentive mechanism will be proposed by this study, which covers three dimensions: culture-oriented incentive design, incentive-driven

cultural shaping, and culture-incentive synergy, and we will verify the feasibility and effectiveness of this integrated model through case analysis and empirical research. This will provide theoretical guidance and specific implementation paths for corporate practice.

## **2. The theoretical basis of corporate culture of innovation**

### **2.1 Concepts and Characteristics of corporate innovation culture**

Corporate innovation culture is the value orientation, code of conduct and organizational atmosphere formed within the enterprise that supports and encourages innovation. It is the result of the gradual accumulation and sedimentation of the enterprise's long-term innovation practice and reflects the enterprise's attitude and pursuit towards innovation. Its core is to cultivate the innovative consciousness of employees, stimulate the innovative potential and create a good environment and provide support [19] for innovation activities.

Corporate innovation culture has the following main characteristics:

**Openness:** It is necessary to encourage that new knowledge and ideas be widely absorbed by employees and that they remain sensitive to the external environment.

**Inclusiveness:** Allow for failure, tolerate mistakes, and provide a relaxed atmosphere for innovative attempts.

**Collaboration:** Teamwork needs to be emphasized to facilitate the exchange of knowledge and the collision of ideas across departments and fields.

**Autonomy:** Give employees a certain degree of decision-making power and resource control, and encourage independent innovation.

According to McKinsey's 2022 Global Innovation Survey report, 84% of executives believe that the key to a company's success lies in an innovation culture, which is sufficient to demonstrate the importance [20] of an innovation culture in the current business environment.

### **2.2 Elements of Corporate innovation Culture**

Corporate innovation culture is a multi-dimensional concept that mainly consists of the following components:

**Innovation concept:** The innovation mission, vision and values of an enterprise are the core of its innovation culture, so the innovation concept is centered around them!

**Innovation leadership:** Management supports and guides innovation and sets an example in the innovation process.

**Innovation system:** Rules and regulations and management mechanisms that support and regulate innovation activities.

**Innovation atmosphere:** An organizational environment that encourages innovation, tolerates failure, and values learning.

**Innovation resources:** Provide the necessary human, material and financial support for innovation activities.

**Innovation capacity:** The technological innovation capacity, management innovation capacity and market innovation capacity of the enterprise are all included.

The overall framework of an enterprise's innovation culture is composed of many elements that interact and influence each other. The China Enterprise Innovation Capacity Evaluation Report shows that enterprises with excellent innovation culture construction have mostly higher innovation performance than the industry average [12].

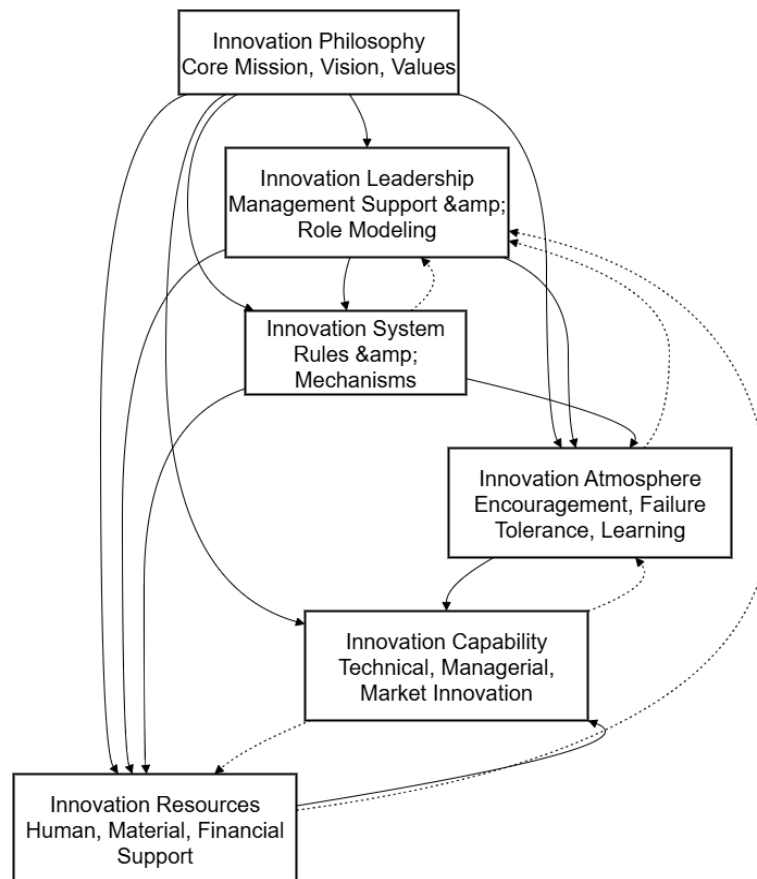


Figure 1. Constituent elements of Corporate innovation culture

### 2.3 The formation mechanism of corporate innovation culture

The process of the formation of an enterprise's innovation culture is long and complex, involving many levels and links. The main mechanisms of its formation are as follows:

Top-level design: The leadership of an enterprise formulates an innovation strategy, clarifying the goals and directions of innovation.

Institutional building: Establish an organizational structure, incentive mechanism, and evaluation system that supports innovation.

Cultural infiltration: Integrating innovative ideas into the day-to-day operations of the enterprise through training, publicity, etc.

Practice accumulation: Continuously summarize experiences in innovative practices to form innovative conventions and best practices.

Environmental adaptation: Adjust innovation strategies when the external environment changes to keep the culture dynamically adaptable.

According to PWC's 2023 Global Innovation 1000 survey, if companies continue to invest in building an innovation culture, their average revenue growth rate over five years will be 17% higher than the industry average. This indicates that companies need systematic planning and continuous efforts to form an innovation culture, which can bring significant long-term benefits[13].

## 3. Analysis of the Innovation Incentive Mechanism of Enterprises

### 3.1 Types and Characteristics of Innovation Incentive mechanisms

To promote the innovative behavior of employees, enterprises will adopt a series of measures and methods, namely the innovation incentive mechanism. According to the nature and form of the incentive, the innovation incentive mechanism can be classified as follows:

Material incentives include economic rewards such as salary bonuses and equity incentives.

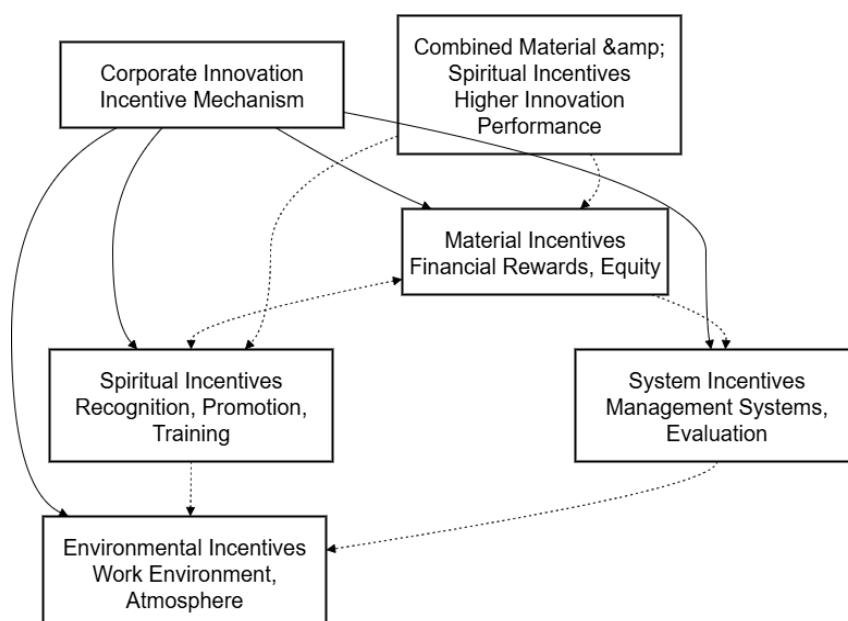
Spiritual incentives: non-material rewards such as recognition, promotion, training opportunities, etc.

Institutional incentives: Encouraging innovation through institutional arrangements such as innovative management systems and evaluation systems.

Environmental incentives: Creating a work environment and atmosphere conducive to innovation.

Each type of incentive has its own characteristics and scope of application. Just as material incentives are direct and effective but may trigger short-term behavior, spiritual incentives can stimulate intrinsic motivation but the effect varies among different people, institutional incentives are beneficial for long-term orientation but may not be flexible enough, environmental incentives can create an innovative atmosphere but the effect is difficult to quantify[4].

According to a 2022 survey by the China Society for Human Resources Development, 78% of enterprises have adopted diversified innovation incentive mechanisms, and the innovation performance of enterprises that combine material and spiritual incentives is significantly higher than that of enterprises that use only a single incentive method.



**Figure 2.** Types and Characteristics of Enterprise innovation Incentive mechanisms

### 3.2 Influencing Factors of Innovation Incentive Mechanism

The design and implementation of innovation incentive mechanisms are influenced by a variety of factors, mainly including:

Corporate strategy: Incentives need to align with the overall strategy and innovation goals of the enterprise.

Organizational culture: Employees' responses and expectations of incentives vary in different cultural contexts.

Industry characteristics: The innovation cycle and risk characteristics of different industries influence the choice of incentives.

Employee characteristics: Employees at different levels and in different positions have different needs for incentives.

External environment: External factors such as market competition and technological change influence the design of incentive mechanisms.

According to Deloitte's 2023 Global Human Capital Trends report, more than 60 percent of companies believe that to enhance the effectiveness of incentives, they need to tailor innovative incentive programs based on individual employee characteristics and organizational culture, and this also means that multiple factors need to be comprehensively considered when designing innovative incentive mechanisms to achieve the best results[21].

### 3.3 Implementation strategies for innovation incentives

To effectively implement the innovation incentive mechanism, enterprises can adopt the following strategies:

**Differentiated incentives:** Design different incentive schemes based on the characteristics and needs of different employee groups.

**Dynamic adjustment:** Adjust the incentive mechanism in a timely manner in accordance with the development stage of the enterprise and changes in the external environment.

**Multi-dimensional evaluation:** Establish a comprehensive innovation performance evaluation system to avoid a single indicator orientation.

**Combining short-term and long-term incentives:** Balancing short-term and long-term incentives to promote continuous innovation.

**Fairness and transparency:** Ensure the fairness and transparency of the incentive mechanism and enhance employee trust.

**Cultural integration:** When an enterprise's innovative culture and incentive mechanism are integrated, a mutually reinforcing virtuous cycle can be formed.

The 2023 McKinsey Innovation Management Survey shows that if enterprises adopt flexible and diverse incentive strategies, the success rate of innovation will be 35% higher than when they only use a single fixed incentive method. Therefore, to implement an innovation incentive mechanism, flexible and diverse strategies are needed to adapt to various situations and demands.

If companies can design and implement innovation incentives in a reasonable way, they can stimulate the innovation potential of their employees, promote the development of an innovation culture, and thereby enhance overall innovation capabilities and competitive advantages[7].

## 4. The integration model of corporate innovation culture and incentive mechanism

### 4.1 Analysis of the Relationship between Innovation culture and incentive Mechanism

Innovation culture and incentive mechanisms are closely and complexly related because innovation culture is a summary of corporate values and behavioral norms, providing spiritual support and direction for employees' innovation activities, while incentive mechanisms stimulate employees' enthusiasm and potential for innovation through material and non-material means, promoting the implementation of innovation culture in practice.

The China Enterprise Confederation's 2022 report on the Innovation Capacity of Chinese enterprises shows that over the past five years, Chinese enterprises have been increasing their investment in the construction of innovation culture, with an average annual growth rate of 15.7%, and the contribution rate of enterprise innovation performance to effective incentive mechanisms is more than 40%. These figures are sufficient to show the importance of innovation culture and incentive mechanisms, as well as the mutually reinforcing relationship between them.

Innovation culture provides value orientation and evaluation criteria for the design and implementation of incentive mechanisms, and incentive mechanisms rely on specific rewards and punishments to enhance the influence of innovation culture. The two complement each other and are core elements of the enterprise's innovation ecosystem. Therefore, when promoting innovation development, enterprises should organically integrate innovation culture construction with incentive mechanism design and build a good interactive integration form[18].

### 4.2 Principles for building the integration model

To build an integrated model of corporate innovation culture and incentive mechanisms, the following key principles must be followed:

The principle of strategic consistency, that is, the integration model should be in line with the overall development strategy of the enterprise, because the innovation culture and incentive

mechanism should be able to effectively support the long-term goals of the enterprise, and according to the McKinsey 2023 research report, more than 80% of high-innovation-performance enterprises have highly consistent innovation strategies with enterprise strategies.

The systematic principle is to consider all aspects of the innovation culture and incentive mechanism under the integration model, such as material incentives, spiritual incentives, institutional incentives, etc., in order to build a comprehensive and multi-level incentive system.

The principle of dynamic adaptation: since the internal and external environment of the enterprise is constantly changing, the integration model must be flexible enough to adjust in a timely manner to meet new demands and challenges.

The principle of operability. The integration model needs a clear implementation path and quantifiable evaluation metrics to be effectively implemented in practice, and PWC's 2022 Innovation survey shows that 63 percent of companies consider operability to be a key factor in judging the success or failure of innovation initiatives.

### **4.3 The framework design of the integration model**

Based on the principles mentioned earlier, this study proposes a model framework that integrates corporate innovation culture and incentive mechanisms, which generally includes the following three dimensions:

Culture-oriented incentive design: Design incentive mechanisms that match the innovation culture. For example, for an innovation culture that emphasizes open collaboration, measures such as team performance rewards and cross-departmental collaboration incentives can be designed.

Incentive-driven cultural shaping: The innovative culture of an enterprise can be strengthened and shaped through targeted incentive measures. For instance, establishing innovation competitions and innovation honorary titles can create an atmosphere that reveres innovation.

Co-development of culture and incentives: Build a dynamic feedback mechanism between the innovation culture and the incentive mechanism to achieve co-evolution of both, regularly assess the impact of the incentive measures on the innovation culture and adjust the incentive strategy in accordance with cultural changes.

According to Deloitte's 2023 Global Human Capital Trends report, if companies adopt this integration model, employee innovation engagement will increase by an average of 27% and innovation conversion rate will increase by 35%. This framework is designed to organically integrate innovation culture and incentive mechanisms to maximize their synergy.

### **4.4 Implementation Paths of the integration model**

This study proposes the following implementation path to effectively implement the integration model of corporate innovation culture and incentive mechanisms.

Culture diagnosis and incentive assessment: The existing innovation culture and incentive mechanism of the enterprise must first be comprehensively evaluated to identify strengths and weaknesses. Data can be collected[14] through methods such as employee questionnaires and in-depth interviews.

Goal setting and program development: Based on the assessment results, set specific goals for the construction of an innovative culture and the optimization of incentive mechanisms and design corresponding implementation plans.

Step-by-step implementation and continuous optimization: The integration model is implemented in a pilot-promotion manner gradually, and a regular feedback mechanism is established during the implementation period to adjust and optimize the program in a timely manner.

Effect evaluation and experience summary: After implementing the key Performance indicator (KPI) tracking integration model, the effect should be evaluated and the successful experiences and existing problems should be summarized to provide a basis for the next stage of optimization work.

According to a 2022 study by Boston Consulting Group, if companies adopt a similar implementation path, the success rate of innovation projects can increase by an average of 40 percent,

and the enthusiasm of employees to participate in innovation can increase by more than 50 percent, because companies operate according to this systematic and step-by-step implementation path. It can effectively promote the integration of an innovation culture and incentive mechanism and ultimately achieve the goal[11] of a comprehensive improvement in innovation capabilities.

## 5. Conclusions

The theoretical construction of enterprise innovation culture and its integration model with incentive mechanisms have been explored in this study, which provides new ideas and methods for enterprises in the practice of innovation management. The study shows that the interaction between the innovation culture and the incentive mechanism is very close, and the organic integration of the two is important for the improvement of the innovation ability and performance of enterprises.

If enterprises build an integrated model of innovation culture and incentive mechanism, they can achieve the goals of culture-oriented incentive design, shaping culture through incentives, and the coordinated development of culture and incentives. This model can not only fully exert the guiding function of innovation culture, but also awaken the innovative potential of employees through effective incentive mechanisms, thereby creating a benign innovation ecosystem.

The findings emphasize that it is important to follow the principles of strategic consistency, systematicness, dynamic adaptability and operability when implementing the integrated model, and the proposed step-by-step implementation path provides practical operational guidelines for enterprises, though it should be noted that each enterprise's specific circumstances are different. So when applying this integration model, it is necessary to make flexible adjustments and innovations based on one's own characteristics and actual needs.

The differences in the application of the integration model among enterprises of different industries and sizes can be further explored in future research, and it is also worth exploring how to optimize the strategy of integrating the innovation culture and incentive mechanism in the context of digital transformation. Overall, this study provides theoretical guidance and implementation paths for enterprise innovation management practices. This is helpful for enterprises to maintain continuous innovation drive and competitive advantage in the fierce market competition.

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