

Incentive Mechanisms and Corporate Overseas Compliance Behavior: An Analysis Based on Behavioral Economics Perspective

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Abstract. In the context of globalization, corporate overseas business activities are flourishing. Companies expand their international markets through exports, establishing overseas branches, and mergers and acquisitions. However, they face challenges such as legal and regulatory differences, policy environments, market cultural disparities, economic fluctuations, political risks, and cultural conflicts. To ensure compliance, companies need to establish effective compliance mechanisms, adhering to local laws and international business ethics. Behavioral economics provides a new perspective for understanding and designing incentive mechanisms by considering individual psychological traits, cognitive biases, and social influences. This allows companies to design more targeted incentive mechanisms to promote compliance behavior among employees. The combination of positive encouragement and negative constraints, along with the integration of theories such as fairness preference, mental accounting, and loss aversion, can enhance the effectiveness of incentive mechanisms. However, the design and implementation of incentive mechanisms still face challenges such as individual differences, the gap between cognition and reality, and the diversity and personalization of incentives. Companies need to leverage the theoretical tools of behavioral economics to optimize incentive mechanisms, reduce compliance risks, enhance market competitiveness and reputation, and support steady development in complex international environments.

1 Introduction

In the context of globalization, corporate overseas business activities are thriving. More and more companies are entering international markets through exports, establishing overseas branches, mergers, and acquisitions to seek greater market space and business opportunities. According to statistics from some international organizations, multinational corporations' investments and operations span most countries and regions, with intense competition in various fields such as high-tech, manufacturing, and consumer goods. For example, Counterpoint data shows that in 2024, Samsung held a 19% share of the global smartphone market, followed closely by Apple with a 17% share. According to a Gartner report, Samsung

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Electronics' total revenue in 2024 was \$66.5 billion, reclaiming the top spot in semiconductor manufacturer revenue from NVIDIA and expanding its lead. However, companies face numerous challenges in overseas operations. On one hand, significant differences in laws, regulations, policy environments, and market cultures across countries require companies to invest substantial resources to comply with legal requirements and adhere to business ethics and social responsibilities [1]. On the other hand, the uncertainty of overseas markets poses severe challenges, with economic fluctuations, political risks, and cultural conflicts potentially affecting business outcomes. How to flexibly address these challenges while ensuring compliance is a critical issue companies must resolve.

Corporate overseas compliance behavior refers to companies adhering to local laws and internationally recognized business ethics during overseas operations. Compliance behavior not only helps companies avoid legal risks and economic losses but also enhances their reputation and market competitiveness. Compliance has become a core component of corporate governance [2]. Reliable compliance mechanisms can strengthen trust among clients and partners, helping companies establish a solid brand image in complex international markets. Incentive mechanisms play a key role in corporate compliance behavior. Effective incentive mechanisms can encourage employees to follow compliance requirements and reduce violations. When employees' interests align with the company's compliance goals, they are more likely to actively participate in compliance training and voluntarily adhere to relevant regulations. This requires companies to design incentive mechanisms that not only focus on economic rewards but also consider how to internalize compliance behavior as part of corporate culture, making it a spontaneous choice for employees.

Behavioral economics, as a discipline studying human decision-making behavior, provides powerful tools for understanding individual and group behavior. In the analysis of incentive mechanisms and corporate overseas compliance behavior, behavioral economics can help identify non-rational factors in employees' decision-making processes, such as cognitive biases, emotional influences, and social identity. These factors affect employees' understanding and response to incentive mechanisms, thereby influencing their compliance behavior.

By leveraging behavioral economics theories, traditional incentive mechanisms can be re-examined to propose more targeted and effective solutions. Incorporating behavioral economics perspectives into compliance behavior can help companies establish more effective compliance cultures, reduce compliance risks, and improve operational efficiency. Therefore, this paper aims to explore the impact of incentive mechanisms on corporate overseas compliance behavior and analyze the underlying psychological mechanisms from a behavioral economics perspective. It hopes to provide useful guidance for companies in complex international competition, helping them effectively address compliance challenges in overseas operations while promoting the construction and innovation of compliance cultures and incentive mechanisms.

2 Research on incentive mechanisms and compliance behavior from a behavioral economics perspective

2.1 Foundations of behavioral economics

Traditional economics assumes that consumers are "rational economic agents," thereby studying various economic activities and behaviors. However, traditional economics cannot explain certain phenomena, such as why people are willing to self-sacrifice without expecting returns. In reality, humans are not the "rational economic agents" depicted by traditional

economics. Unlike the rational economic agent model assumed by traditional economics, behavioral economics posits that people's decisions are often driven by emotions, cognitive biases, and social influences. These factors cause individuals to react differently to incentives than expected, thereby affecting their behavior. Key theories in this field include prospect theory, framing effects, status quo bias, and mental accounting. Behavioral economics provides a more complex and realistic perspective on economic decision-making by integrating psychology and economics, revealing the diversity and complexity of human behavior. This theory not only enriches our knowledge of economics but also offers new approaches to solving practical problems [3]. By deeply understanding the basic concepts and theories of behavioral economics, incentive mechanisms and compliance strategies can be more effectively designed to optimize economic and social development. Under the framework of behavioral economics, the design of incentive mechanisms must consider people's psychological traits. For example, loss aversion is an important concept, referring to individuals' heightened sensitivity to losses compared to equivalent gains. This means that when designing incentive measures, appropriate penalties are often more effective than equivalent rewards in promoting compliance behavior. Additionally, the aforementioned theories provide new perspectives for designing incentive mechanisms.

2.2 The impact of incentive mechanisms on compliance behavior

Incentives include both positive encouragement and negative constraints, corresponding to people's "pursuit of benefits and avoidance of harm" behavior selection mechanism, and are inherently unified [4]. Positive encouragement typically refers to encouraging employees or teams to adopt specific behaviors through various means (such as economic rewards, honors, promotions, etc.). These mechanisms can be intrinsic (e.g., personal achievement, self-motivation) or extrinsic (e.g., monetary rewards, job promotions). Negative constraints, on the other hand, use these means to prevent employees or teams from taking certain actions. In compliance behavior, the design and implementation of incentive mechanisms are particularly crucial, as they can shape employee behavior patterns and promote corporate culture formation. For example, Zhong et al.'s research shows that internal incentives effectively curb corporate violations. Through appropriate incentive measures, companies can increase employees' motivation to comply with company policies and legal regulations [5].

Appropriate incentive mechanisms can enhance employees' awareness of and importance of compliance requirements. When companies recognize compliance behavior through economic rewards or commendations, employees pay more attention to legal and regulatory adherence. By encouraging employees to actively participate in compliance training, share compliance experiences, and propose compliance suggestions, organizations can foster a positive compliance culture. When employees feel their voices are heard and valued, they are more likely to voluntarily comply with requirements. When implementing incentive mechanisms, incorporating compliance behavior into evaluation standards helps attract and retain talent that values ethics and compliance. A company's reputation and values will attract employees who pursue professional ethics and compliance awareness, creating a virtuous cycle. However, the effectiveness of incentive mechanisms is also influenced by culture, social environment, and individual differences. For example, in collectivist countries or regions, employees may be more influenced by peer pressure, while in other regions, individual achievements may be more valued. For specific employees such as knowledge workers, fairness is more important than rationality, and they highly value the correlation between their knowledge and skills and the rewards they receive [6]. Therefore, when designing incentive mechanisms, companies need to fully consider internal and external cultural contexts to enhance the effectiveness of incentives.

2.3 Principles of incentive mechanism design from a behavioral economics perspective

Compared to traditional economics perspectives, incentive mechanisms from a behavioral economics perspective should consider the "social agent" hypothesis, incorporating emotional and cognitive factors into incentive mechanism design to promote corporate compliance. From a behavioral economics perspective, the following principles should be followed when designing incentive mechanisms.

First, understand the decision-making environment. When designing incentive mechanisms, it is essential to understand individuals' decision-making environments. The effectiveness of incentives often depends on individuals' psychological states and environmental factors. Reasonable feedback mechanisms can enhance individuals' attention to information, thereby influencing decision quality. Second, consider loss aversion. Losses are more concerning than gains, and people value losses more than equivalent gains [7]. When designing incentive mechanisms, the application of negative constraints should be emphasized, penalizing behaviors that easily lead to corporate violations. Third, introduce mental accounting. When designing incentive mechanisms, focusing on how individuals categorize and manage mental accounts can enhance incentive effectiveness. For example, bonuses can be divided into smaller portions and distributed at different times, allowing individuals to feel the "gains" at various points, thereby enhancing motivation. Fourth, incorporate fairness preferences. Integrating fairness preference theories can explain the non-rational behavior of "economic agents." Similarly, incorporating fairness preferences into incentive mechanisms can prevent employees from engaging in violations. In the income gap aversion model, fairness is defined as "income gap aversion," meaning people care not only about their income but also about the income gap between themselves and others, though not about gaps among others [8]. Incorporating measures to reduce wage gaps among employees of the same level or prevent them from knowing each other's wages into incentive mechanisms can effectively prevent violations.

2.1 Challenges in incentive mechanism design from a behavioral economics perspective

2.1.1 Diversity and personalization of incentives

Different individuals may react very differently to the same incentive measures. Factors such as individual values, goals, and psychological states influence the acceptance of incentive measures. As mentioned earlier, designing a universal incentive mechanism becomes difficult. Behavioral economics emphasizes the importance of individual differences, making personalized incentive design based on target group characteristics a significant challenge.

2.1.2 The gap between cognition and reality

Incentive mechanisms are typically designed based on expected outcomes, but individuals' actual reactions may differ significantly from expected cognitions. Behavioral economics suggests that subjective psychological perceptions and decision-making are significantly influenced by external environments. Successful business operations and good performance can easily induce personal cognitive biases in executives [9], and rewards in such contexts may even become incentives for corporate violations. Additionally, if incentive measures do not align with individuals' goals and sense of mission, the effectiveness of incentives may fall short of expectations.

2.1.3 Compliance issues due to status quo bias

Status quo bias manifests as people valuing what they currently possess more highly, leading to resistance to new policies and reforms [10]. Status quo bias can cause employees to resist constraints or oppose internal reforms, leading to a series of corporate violations.

3 Conclusion

In the context of globalization, the flourishing of corporate overseas business activities brings significant market opportunities along with complex challenges. In overseas operations, companies must not only face differences in laws, regulations, policy environments, and market cultures across countries but also cope with uncertainties such as economic fluctuations, political risks, and cultural conflicts. To establish a foothold in complex international markets, companies must establish effective compliance mechanisms to ensure their overseas operations comply with local laws and international business ethics.

Behavioral economics provides a new perspective for understanding and designing incentive mechanisms. By considering individual psychological traits, cognitive biases, and social influences, companies can design more targeted and effective incentive mechanisms to promote employee compliance behavior. The combination of positive encouragement and negative constraints can enhance employees' compliance awareness and reduce violation risks. Simultaneously, integrating behavioral economics theories such as fairness preference, mental accounting, and loss aversion into incentive mechanism design can improve the practical effectiveness of incentive measures.

However, the design and implementation of incentive mechanisms still face numerous challenges. Individual differences, the gap between cognition and reality, and the diversity and personalization of incentives require companies to fully consider target group characteristics and cultural contexts when designing incentive mechanisms. Additionally, the effectiveness of incentive mechanisms needs to be ensured through continuous feedback and adjustments to align with corporate compliance goals and employees' personal interests.

In summary, in overseas operations, companies should leverage the theoretical tools of behavioral economics to design scientific and reasonable incentive mechanisms, promoting employee compliance behavior, reducing compliance risks, and enhancing market competitiveness and reputation. By continuously optimizing incentive mechanisms, companies can not only achieve steady development in complex international environments but also contribute to the sustainable development of global markets.

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